



Law and the Entrepreneur: Innovation Through Legal Strategy

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“The young man knows the rules, but the old man knows the exceptions.”

Oliver Wendell Holmes, Sr.

Cheat Sheet:

- **Challenging existing regulations.** Legacy regulations often create built-in advantages for entrenched enterprises. Entrepreneurs often operate at the edges of these frameworks.
- **The value of risk-taking.** Calculated risk can yield significant rewards, as entrepreneurs uncover untapped opportunities and drive policy changes.
- **A personal case study.** Like Uber, Spotify, and Airbnb, ScripNet disrupted a traditional system by demonstrating the inadequacy of existing frameworks and proving that innovation could coexist with compliance.

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- **Responsible entrepreneurship.** Pushing legal boundaries does not mean ignoring laws entirely, but rather engaging with stakeholders to create a dialogue about the need for change.

What do the CEOs of Oracle, Merck, Bank of America and Warner Brothers all have in common? How about Charlie Munger and Herb Kelleher? Attorneys all. Entrepreneurs know that the next unicorn is not going to come from thinking the same way as everyone else, and a legal background can accelerate creative ideas in business.

Entrepreneurship has long been a driving force behind economic innovation, creating new industries, challenging the status quo, and transforming society. However, innovation often outpaces regulation, leaving entrepreneurs operating in gray areas of the law. This dynamic interplay between entrepreneurship and regulation can foster transformative growth when done responsibly.

This article explores how pushing the boundaries of the law can aid entrepreneurship, highlighting examples like Uber, Spotify, Airbnb, and others that have navigated these uncharted waters to redefine industries. Closer to home, we look at our own company, ScripNet, and how it redefined what a pharmacy benefit manager can be.

The necessity of challenging existing regulations

Regulatory frameworks are often reactive rather than proactive. Designed for existing industries, they can stifle innovation by imposing constraints that don't account for emerging business models. In addition, legacy regulations are often implemented with the input of rent-seeking legacy players, resulting in built-in advantages for the entrenched enterprises.

Entrepreneurs frequently operate at the edges of these frameworks, exposing inefficiencies or redundancies that necessitate legal reform. This is where creative, business-minded legal counsel can be invaluable.

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The value of risk-taking in entrepreneurship

Pushing legal boundaries involves risks, including regulatory crackdowns, lawsuits, and public backlash. However, calculated risks can yield significant rewards.

Entrepreneurs who take risks often uncover untapped opportunities, generate substantial market value, and drive policy changes. For example, ScripNet brought group health best practices to the workers' compensation market when many traditional players thought it impossible. Small- and medium-sized growth companies are wise to invest in competent legal guidance early on.

Case Study: ScripNet and the birth of workers' compensation pharmacy benefit management

ScripNet's founding

In 1997, my wife and I co-founded ScripNet to provide pharmacy benefit management (PBM) services to workers' compensation payers — a concept that was not only unprecedented but considered by some in the industry to be proscribed by existing regulations. At the time, pharmacy benefit management was a well-established practice in other areas of healthcare, but its application in the workers' compensation space faced significant skepticism. Despite the doubts and legal uncertainties, our vision ultimately reshaped how pharmacy benefits could be delivered in the workers' compensation realm.

Challenging the status quo

The prevailing sentiment in the late 1990s was that pharmacy benefit management in workers' compensation was incompatible with existing laws and regulations. Industry stakeholders believed that applying PBM practices to workers' compensation claims would violate legal frameworks designed for workplace injury treatment. This resistance stemmed from a rigid interpretation of the laws governing workers' compensation, which had not anticipated the integration of modern PBM systems.

We recognized the inefficiencies in the system and the cost savings that could be realized by payers in the space. Workers' compensation payers often faced high prescription costs because of overly generous fee schedules, fragmented oversight, and a lack of streamlined processes. We believed that PBM services could introduce much-needed cost controls and enhanced efficiencies.



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The graphic features a portrait of Nicole Lynn, a Black woman with long dark hair, smiling. The background is a mix of teal, pink, and green geometric shapes.

Overcoming legal and industry hurdles

One pivotal moment in ScripNet's journey came when I met with Claire Bow, then the director of the Texas State Office of Risk Management (SORM). Bow, an attorney well-versed in the regulatory complexities of workers' compensation, immediately recognized the benefits available to the state through the use of a pharmacy benefit manager. Together, we analyzed the legal landscape, concluding that nothing in the statutes explicitly prohibited the application of PBM services in workers' compensation. This conversation not only validated the concept but also set the foundation for ScripNet's business model.

"ScripNet brought a new focus to pharmacy benefit management in the highly regulated environment of Texas Worker's Compensation System," Bow said. "It would likely have been unsuccessful but for their unflagging enthusiasm for innovation and their willingness to adapt to regulatory hurdles."

ScripNet's ability to collaborate with legal and regulatory authorities demonstrated a key aspect of responsible legal boundary-pushing: seeking clarity from stakeholders before launching a disruptive innovation. By working with SORM, ScripNet ensured its operations were compliant while challenging entrenched industry assumptions.

The impact of ScripNet

ScripNet's success proved that pharmacy benefit management could be adapted to the workers' compensation market, generating significant benefits for all parties involved:

- **Cost savings.** By negotiating drug prices and managing utilization, ScripNet helped workers' compensation payers reduce their pharmacy-related expenses.
- **Streamlined processes.** ScripNet introduced systems that simplified prescription approvals and claims processing, saving time for both payers and injured workers.
- **Industry transformation.** ScripNet's pioneering approach not only validated the concept but also paved the way for other PBM providers to enter the workers' compensation space, creating a new segment of the industry.

Lessons from ScripNet

ScripNet's story highlights the entrepreneurial spirit of identifying opportunities where others see obstacles. Our willingness to challenge industry norms and legal misconceptions demonstrates the importance of:

- **Collaboration with regulators.** By engaging with regulatory authorities early in the process, we ensured that ScripNet operated within legal bounds while reshaping perceptions of what was possible.
- **Visionary thinking.** Our foresight in identifying inefficiencies and envisioning a solution underscored the transformative power of entrepreneurship.
- **Driving industry evolution.** By breaking through perceived legal barriers, ScripNet not only built a successful business but also inspired broader acceptance of PBM services in workers'

compensation.

Broader implications

ScripNet exemplifies how pushing the boundaries of the law can lead to significant industry advancements. Like Uber, Spotify, and Airbnb, ScripNet disrupted a traditional system by demonstrating the inadequacy of existing frameworks and proving that innovation could coexist with compliance. This case study underscores the importance of persistence, collaboration, and strategic risk-taking in driving entrepreneurial success and reshaping entire industries.

More examples of legal boundary-pushing in entrepreneurship

Airbnb: Redefining hospitality



History: Airbnb was founded in 2008 by Brian Chesky, Joe Gebbia, and later joined by Nathan Blecharczyk. The idea emerged from a practical and immediate need: Chesky and Gebbia, both designers living in San Francisco, struggled to afford their rent. Around the same time, a design conference in the city had caused hotels to be fully booked. To generate extra income, the two decided to rent out space in their apartment, offering air mattresses on the floor and homemade breakfast to attendees. They called their venture “AirBed & Breakfast,” reflecting the air mattress accommodations. Their initial listing attracted three guests, who paid US\$80 each, marking the company’s first revenue.

Chesky and Gebbia saw potential in their experiment as a scalable business. They enlisted their former roommate, Nathan Blecharczyk, an engineer, to help build the platform. Together, they launched the first version of Airbedandbreakfast.com in 2008. The platform allowed users to list and book short-term accommodations in private homes, focusing on affordability and a unique, personal travel experience.

Analysis: Airbnb revolutionized the hospitality industry by enabling homeowners to rent out their properties to travelers. This model bypassed traditional hotel regulations, leading to conflicts with city zoning laws, tax codes, and safety standards. Critics argued that Airbnb disrupted housing markets and allowed unlicensed rentals to flourish. Despite initial resistance, Airbnb leveraged its economic impact — boosting tourism and local economies — to lobby for change.

Outcome: Many cities now regulate short-term rentals with specific rules around registration, taxes, and safety compliance. While Airbnb has faced fines and bans in some areas, its success has normalized home-sharing and reshaped global travel.

Uber: Revolutionizing transportation

Uber

History: Uber was founded in March 2009 by Travis Kalanick and Garrett Camp in San Francisco. The idea for Uber originated from a common frustration: the difficulty of hailing a cab. After attending a tech conference in Paris in 2008, Camp and Kalanick struggled to find a taxi, sparking the idea of a mobile app that would let users book rides with a tap on their phones.

The original vision for Uber was simple: create a platform where luxury black cars could be summoned on-demand via a smartphone app, providing a convenient, reliable alternative to traditional taxis.

Analysis: When Uber launched in 2009, most cities had stringent regulations governing taxi services, such as medallion systems, licensing fees, and zoning restrictions. These regulations were not designed to accommodate ride-sharing platforms, which use mobile technology to connect drivers and passengers. By challenging these laws, Uber highlighted the inadequacy of existing taxi regulations in addressing consumer demand for affordable, convenient transportation.

Uber's entry into the market disrupted traditional taxi services globally. The company initially operated without adhering to local taxi regulations, arguing that its app-based model was fundamentally different from traditional cab services. Despite facing lawsuits and bans in cities like London and Berlin, Uber's persistence catalyzed a shift in how regulators viewed transportation networks.

Outcome: In many cities, regulatory reforms now distinguish between traditional taxis and ride-sharing services, creating a hybrid framework that accommodates innovation while ensuring public safety. Many consumers now say that they could not imagine a world without companies like Uber and Lyft.

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Spotify: Challenging music licensing norms



History: Spotify was founded in 2006 in Stockholm, Sweden, by Daniel Ek and Martin Lorentzon.

The idea for the platform was born from a frustration with the existing state of the music industry. Illegal music downloads through platforms like Napster and torrent sites had reached unprecedented levels, causing significant losses for artists and record labels. At the same time, legal music-buying options, such as iTunes, required users to purchase individual tracks or albums, making them less accessible and more expensive for consumers.

Ek and Lorentzon envisioned a service that would make music easily accessible, affordable, and legal by leveraging streaming technology. Their goal was to create a platform that could compete with piracy by offering a better user experience while compensating rights holders fairly.

Analysis: Spotify disrupted the music industry by launching a streaming service that offered on-demand access to millions of songs. However, entering the market required navigating complex music licensing frameworks that were historically geared toward physical and digital downloads rather than real-time streaming. The company initially launched in several countries with incomplete licensing agreements, leveraging its rapid user growth to negotiate deals with record labels and publishers.

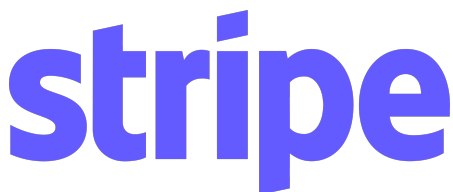
Spotify's model forced the music industry to adapt to the streaming era. By challenging the traditional licensing structure, the company created new revenue streams for artists and labels, though debates over fair compensation persist.

Outcome: Today, Spotify is a leader in the global music industry, influencing how music is consumed and monetized.

Robinhood and Stripe: Fintech companies and financial regulations



History: Robinhood was founded in 2013 by Vlad Tenev and Baiju Bhatt, with a mission to democratize finance and make investing accessible to everyone. The founders noticed that traditional brokerages charged significant commission fees on trades, making investing cost-prohibitive for many individuals, particularly younger and less wealthy demographics. Stripe was founded in 2010 by Patrick and John Collison, two Irish brothers who identified inefficiencies in the online payment processing space. At the time, setting up payment systems for websites or apps was cumbersome, requiring complex integrations with banks and credit card processors.



Analysis: Companies like Robinhood and Stripe tested regulatory boundaries in the financial sector, a traditionally staid industry. Robinhood disrupted traditional brokerage models by offering commission-free trading, prompting scrutiny from regulators concerned about risks to novice investors. Meanwhile, Stripe's innovations in payment processing have pushed the boundaries of financial compliance requirements.

Outcome: These companies not only succeeded in reshaping their respective industries but also spurred conversations about modernizing financial regulations to balance innovation with consumer protection.

The role of responsible entrepreneurship

Pushing legal boundaries does not mean ignoring laws entirely. Responsible entrepreneurship involves engaging with stakeholders — regulators, policymakers, and the public — to create a dialogue about the need for change. Integral to this process is the engagement of business-minded attorneys that understand the competing goals of regulatory compliance and the unique needs of an entrepreneurial enterprise. Competent legal counsel can minimize backlash, foster mutual understanding and help grow the business.

When entrepreneurs challenge outdated regulations, society often benefits. These efforts can reduce inefficiencies, lower costs, and improve access to services. However, unchecked legal boundary-pushing can lead to unintended consequences, such as exploitation or market monopolization. Balancing innovation with ethical considerations is crucial.

Pushing the boundaries of the law is an often overlooked but integral part of entrepreneurship, driving innovation and prompting necessary regulatory reforms. From Uber's disruption of transportation to Airbnb's redefinition of the short-term rental market, these examples illustrate how challenging outdated frameworks can lead to industry transformation. Even on a smaller scale, ScripNet was able to push the boundaries of what a pharmacy benefit manager could do by offering its services in a previously untapped market.

Balancing innovation with ethical considerations is crucial.

Entrepreneurs must walk a fine line between risk and reward, leveraging their ability to identify gaps in the market while working toward solutions that align with the greater good. By embracing this dynamic interplay between entrepreneurship and regulation, founders can foster an environment that supports innovation, growth, and progress. A business-minded legal counselor can assist at all stages of a startup's growth journey.

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references for the busy in-house practitioner and other readers.

[Dennis M. Sponer](#)



Principal

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Dennis Sponer is a thought leader in the legal, health-tech, biotech, pharmaceutical, and startup worlds. Sponer co-founded ScripNet, a uniquely designed Pharmacy Benefit Management (PBM) company, in 1997. After serving as in-house counsel for one of Las Vegas' largest healthcare conglomerates, he devised ScripNet as a payor-based technological solution to the pharmaceutical payment and remittance challenge. His latest venture, HSARx, was a consumer-facing pharmacy benefit manager focused on the owners of health savings accounts. He sold HSARx to SwiftScript in October of 2023.

Sponer obtained his Juris Doctorate from Brigham Young University and his Master of Laws in Taxation (L.L.M.) from the University of San Diego. After selling ScripNet, he returned to school to earn his TRIUM MBA, the program jointly administered by New York University's Stern School of Business, the London School of Economics, and HEC Paris.

Sponer is licensed as an attorney in California and Nevada and a senior advisor to Connected-Capital, a London-based UK FCA-regulated advisory firm. Through his consultancy, SRX Advisors, he advises and provides legal counsel to various investors, venture capital firms, startups, biotech, healthcare technology, and artificial intelligence firms.