

Start-ups and slow-downs

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What impact will recession have on entrepreneurship?

One of the great, and probably apocryphal, George W. Bushisms is that “the problem with the French is they don’t have a word for entrepreneur”. The president’s grasp of language may have been characteristically weak, but his underlying sense that France is one of many countries which could do with a more entrepreneurial business culture is widely shared by his fellow Americans. More importantly, it is also shared by many business people and policymakers around the world, who are actively trying to create such a culture, there and everywhere.

November 17th marked the start of Global Entrepreneurship Week, which is being celebrated in 75 countries. Through numerous events, competitions and websites, including a blog, unleashingideas.org, its goal is to encourage young workers and college students to become more innovative and entrepreneurial.

The entrepreneur behind the week is Carl Schramm, the head of the charitable Ewing Marion Kauffman Foundation in Kansas City. A few years ago, The Economist christened Mr Schramm “the evangelist of entrepreneurship”. In his six years in charge of the foundation, it has become probably the largest private benefactor of academic research into entrepreneurship.

The Kauffman Foundation has been working with the OECD to develop new indicators of entrepreneurship around the world. Its first fresh set of statistics has been released to mark global entrepreneurship week. Until now, such data as was collected was so inconsistent as to be practically useless.

It is clear from the data collected that if big is not necessarily beautiful, neither is small. In terms of employment in small companies, or indeed the proportion of the total value created in an economy by them, countries such as Greece and Italy score high, while America has far greater employment and value in its large companies. The key to the American entrepreneurial culture is not that it has so many small companies, but that it does a good job of producing start-ups that rapidly grow from small firms into big ones.

There is an important distinction to be made between people who are entrepreneurs because they have no alternative—due to the lack of big firms that would employ them—and those who happen to have brilliant business ideas and the talent to execute them. That is why, for example, Endeavor, a non-profit dedicated to creating entrepreneurial cultures in developing countries, focuses on what it calls “high-impact entrepreneurs”. These are entrepreneurs who have already proven they have a working business model but are grappling with the challenge of achieving the sort of scale that makes a real difference. What they tend to need to achieve this is access to experienced business mentors and powerful networks, which Endeavor helps them get.

One set of OECD data that sheds some light on this is the share of all enterprises (with at least ten staff) that have increased their employment by at least 20% a year for the previous three years. In this ranking of high-growth companies, only a handful of economies that used to be in the Soviet Union (Bulgaria, Estonia, Latvia, Lithuania) top America’s rate, which stands at a healthy 5%. On the other hand, America scores less well by the indicator of “gazelle companies”—that is, relatively young high-growth companies.

Although it does very well on the share of total jobs created by new firms, America scores highest of all in terms of the percentage of its lost jobs that are destroyed by enterprises’ going out of business. Perhaps, in the spirit of Joseph Schumpeter’s theory of creative destruction, it is the ability for firms to fail—and for the entrepreneurs involved to escape without stigma—that provides the overlooked but crucial part of the American entrepreneurial culture.

Speaking of job destruction, will the current downturn hurt or encourage entrepreneurship? There will certainly be more people forced to work for themselves because they lose their jobs and can’t find other employers. But a downturn can also be a good time to start a business. Established firms tend to cut back on their growth investments during a downturn, to focus on defending their established core activities. In a recent speech, Steve Vassallo, of Foundation Capital, a venture capital firm, listed an impressive group of companies that were founded in downturns, including Disney, Microsoft, Hewlett-Packard, Oracle and Cisco. It will be no surprise if some of the talented people now unable to find work in an investment bank or other big company are to direct their energies towards creating a new generation of successful start-ups. Nor will it be a surprise if many of them are outside America—even in France, peut-être?