

Entrepreneurs and the Recovery: Challenges and Opportunities

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“Every individual that we can inspire, that we can guide, that we can help to start a new company, is vital to the future of our economic welfare.”

— Ewing Kauffman

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Entrepreneurs Are Key To A Sustained Recovery

- What happens when the stimulus wears off? What will sustain the recovery? Especially rapid growth to absorb the unemployed?
- In the past (1980-2005), young firms (<5 yrs) accounted for *all* net new jobs
- By creating new jobs, new firms add to income, purchasing power
- By creating new products/services, new firms give consumers (here and abroad) reasons to buy
- Many firms have been founded in bad times
 - FedEx, Microsoft, Apple, Southwest
 - 50 percent of Fortune 500, Inc. 500
 - Key is formation/growth of *high-growth firms* (next slides)

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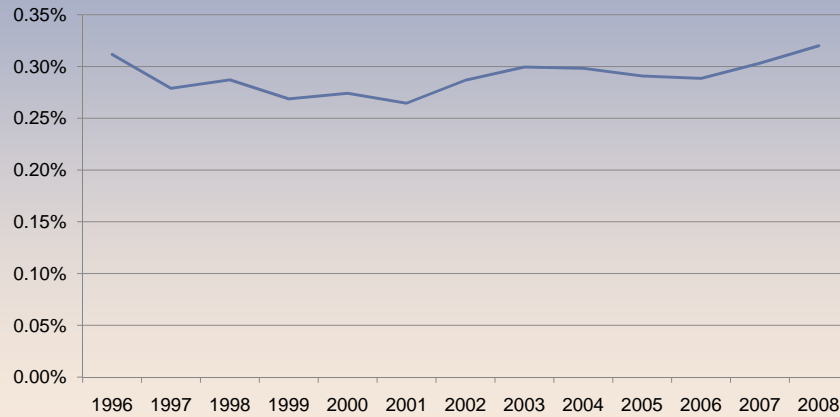
Key Challenges to Firm Formation/Growth Now

- Bank credit very tight
- VCs, angels risk averse
- Nonetheless, new firm formation so far has held up (see next chart)
- A question though is whether new firm growth will be stunted by capital access problems
- Administration has been trying to fix (later speakers to address):
 - Higher SBA guarantees
 - Fed has been purchasing securities backed by SBA-guaranteed loans (though this will wind down)

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Monthly Firm Formation Data (Kauffman Entrepreneurship Index, % of Working Age Pop Starting a Business Each Month)



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Minority Entrepreneurship Trends (Robb and Fairlie)

- AA/Latinos (5/7%) much less likely to own a business than Whites/Asians (11%)
- AA business much smaller scale than Whites (avg. sales of \$440K vs. \$74K, 2002 SBO)
 - Asian firms do better, but still below White average
- No improvement in minority (AA/Latino) business outcomes relative to Whites for two decades
- Black wealth on average far lower than White, and this is the largest factor explaining disparity
- Half of all business owners had a self-employed family member (but lack of *experience* in family business negatively affects AA outcomes)
- Differences in educational attainment play some role (18% of AA's with college degree vs. 28% of whites).
- Asian success due to their education, not family business background (less frequent than whites)

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Key Facts About Women High-Tech Entrepreneurs (From KFS, Robb)

- More likely to be sole proprietorships, home-based than men-owned firms
- Less likely to have IP
- Lag behind in performance: revenues, employees, profits, assets, first 4 years
- Unable/unwilling to develop external sources of capital (relying more on their own funds)

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Policy Ideas for Promoting E-ship

- Financing
 - SEC and states need to devise a more entrepreneur-friendly approach for third party securities backed by peer-to-peer loans (e.g. on platforms such as Kiva, Prosper, MicroPlace, and Lending Club) [If not ratings agencies, then perhaps standards for disclosure, buyers beware]
 - Allow shareholders to choose SOX compliance (narrowly on 404 or perhaps more broadly)
- Don't forget networks (probably the most important success factor); will hear more ideas later
 - MIT Venture Mentors (St. Louis copying); IC-squared at Texas
- High-skilled immigration: green cards, job creators' visas
- Health care reform (to level out small business costs and address "eship lock")
- University TLO competition

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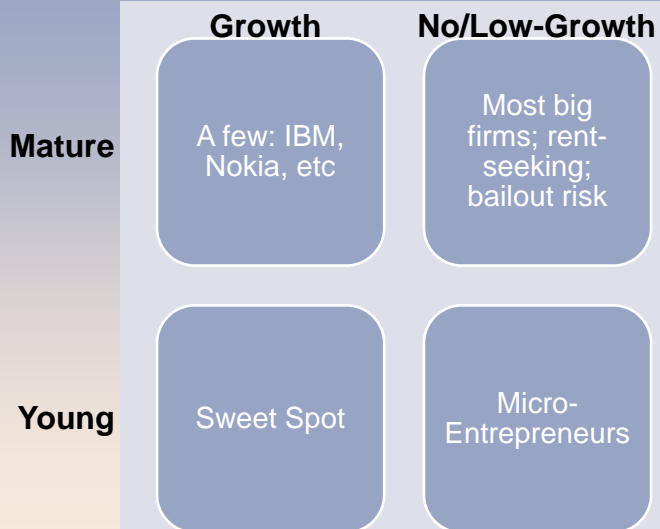
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Data Gaps

- Small business financing (especially with ending of the SBO?)
- Longitudinal firm performance (KFS)

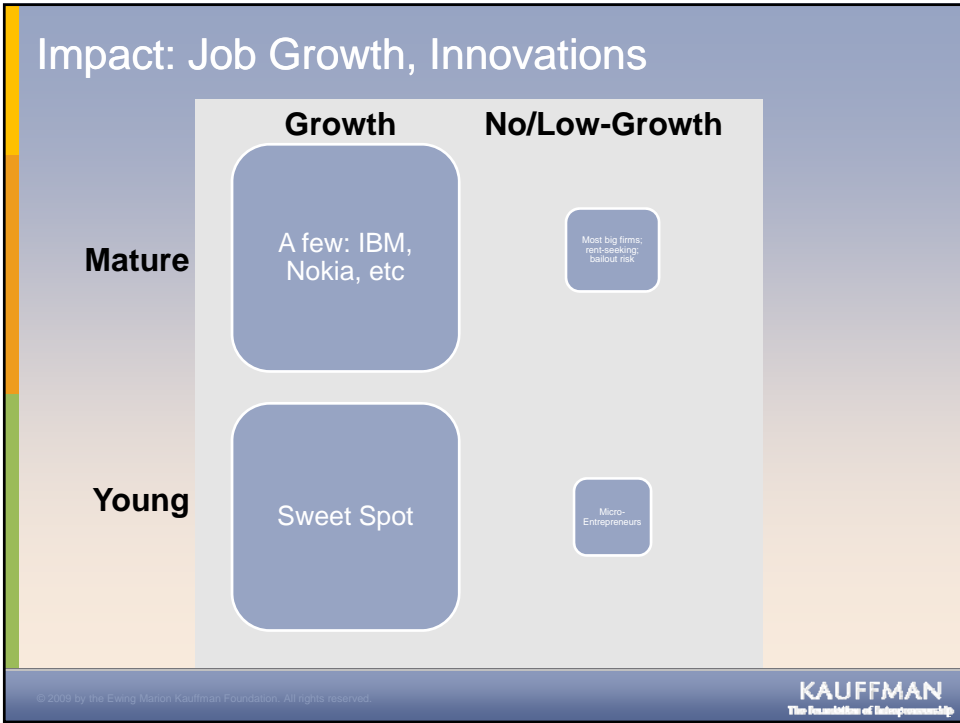
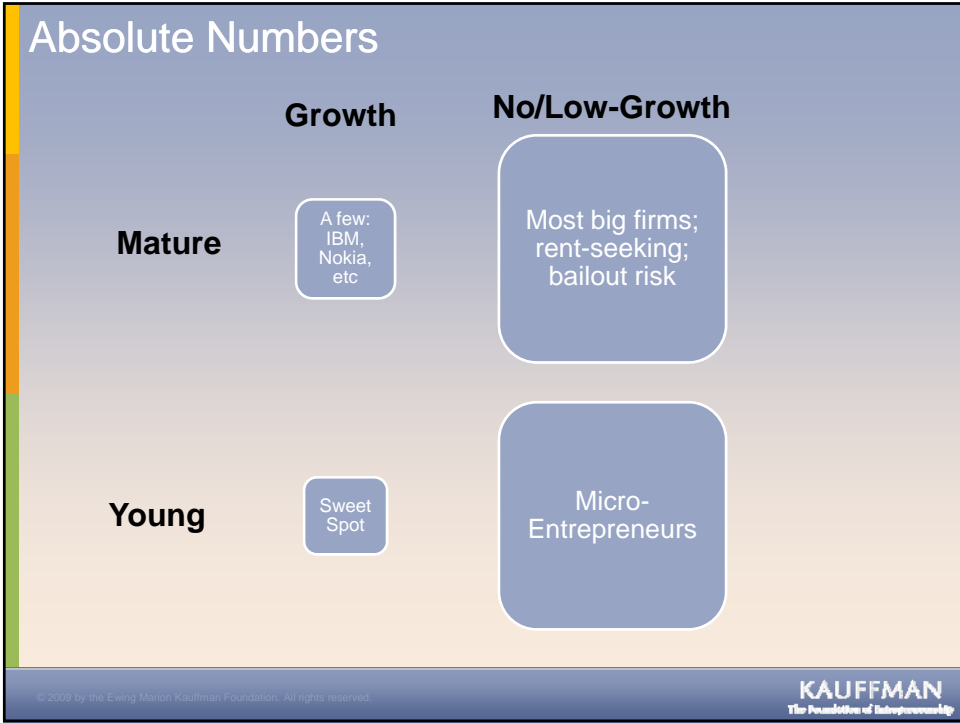
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www.kauffman.org

The screenshot shows the homepage of the Ewing Marion Kauffman Foundation. At the top left, the logo reads "Ewing Marion KAUFFMAN Foundation". To the right is a navigation menu with links for "Home", "About The Foundation", "Entrepreneurship", "Advancing Innovation", "Education", and "Research & Policy". A search bar is also present. The main banner features a photograph of a modern building at night with the text "KAUFFMAN The Foundation of Entrepreneurship" and the tagline "Growing economies, expanding human welfare". Below the banner, there are three main sections: "Speak up! New entrepreneurs' movement needs your voice" with a sticky note graphic; "Latest News" listing several articles with dates; and "Highlights" featuring a quote from Secretary Locke and a section on economic bloggers. A "Stay Connected" section offers a newsletter subscription. At the bottom, there is a "Keep Posted: Latest from Our Blogs" section with a link to a blog post by Mary Anderson.

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