



ENTREPRENEURS AND BUSINESS DEVELOPMENT AROUND THE WORLD

by Donald W. Hudspeth, Esq.

Introduction, Small Business and Southern Europe's Economic problems.

Because my Arizona business law firm represents businesses and startups, both locally and from around the world, I was curious about the role entrepreneurs, startups, and small and medium size businesses play in their national economies around the world. Surprisingly, one of the first articles that I found attributed the financial problems of Greece, Italy and Spain, in part, to the predominant role that small businesses play in their economic systems.¹ In this article Mr. Yglesias, writing for Slate.com, states that too many employees work for too many small firms. 58% work for firms with fewer than 10 employees and 75% work for firms with fewer than 50 employees. In contrast in the United States only 11% of employees are working for companies with fewer than 10 employees and only one-third work for firms with fewer than 50 employees.

¹ Yglesias, Mathew "Southern Europe's Small-Business Problem," *Slate.com*. 2012/07. Web. 09 July 2012.

Although not expressly stated, one problem seems to be that local regulations do more than foster small businesses; they protect and coddle them through restrictive licenses. Ironically, protecting local firms from globalization seems to have destroyed the national economy. Like it or not the economies of scale provided by larger global organizations appear to serve not only the public but also the country as a whole. This is not exactly what I wanted to hear when I set out to write this article. But, as small business – or starting one’s own business – is often spoken of reverentially, like motherhood, it is good to get the perspective. Still, as the Slate article makes clear, business smallness is not the only, or necessarily the major, cause of southern Europe’s economic problems; poorly functioning institutions which favor personal connections over finely drawn regulations, policies and procedures, contribute to the problem.

Europe.

The joke is that America is finally discovering Europe.² The question is what we will find when we get there. European countries have not been particularly entrepreneurial. While Germans excel at business development, they do so at the managerial (and perhaps engineering) level, not as entrepreneurs. Germany has fewer than one-half the entrepreneurs of the US. And, according to the Global Entrepreneurship Monitor, fewer European startups become big businesses. As quoted in *The Economist*, according to the EU commissioner for science and research Janez Potocnik, only 5% of European companies created from scratch since 1980 have made it to the list of the 1,000 biggest EU companies. Twenty-two percent of US firms have made that transition. This being said, a program and article online by National Public Radio states that “Europe is starting to make its mark on the startup scene. Paris and Berlin are starting to hold their own as more and more European startups look to compete on the global stage and attract investors.”³

Europe has the strength of cultural diversity. The French are good at social interface. Russia, if it is considered part of Europe, is known for its technology

² [The Economist, Europe’s Tech Entrepreneurs](#), June 10, 2010. Web July 7, 2012

³ [NPR, “The Next Silicon Valley? Berlin Startups Catching Up with the Hype,”](#) July 09, 2012. Web July 10, 2012.

colleges and software development. Skype is a Swedish company using Estonian computer programmers.

But, Europe has a mindset against business failure. In the US prior business failure is accepted, and is almost a precondition to venture capital financing for technology startups. In Europe a business failure cannot only hurt an entrepreneur with future bank loans and accounts, but can keep you from ever having a CEO position. In an environment where failure is not accepted, risk taking is discouraged, and entrepreneurial activity cannot flourish. There are likely to be fewer risk takers in a risk adverse society.

European law still makes it difficult to hire employees due to the cost of social benefits. It is also difficult to fire employees, and where employees cannot be fired, fewer will be hired. So, rigidities in the legal system discourage innovation. And, speaking of law, startups in Europe have the laws and social mores of 18 countries to deal with. This would be like doing business in America when we still had the confederate states. A major reason for the American Constitution was to form a national government so that we could have uniform and non-discriminatory laws among the states. Before the Constitution, economic activity was chaotic.

England and the United Kingdom.

England, in creating its international empire, created much of the global trade as we know it today. Because London has been a banking and financial center for many years, we may think of England and the United Kingdom as being highly entrepreneurial. In truth, not so much. According to Scott Scheper of Gaebler Ventures,⁴ Total Entrepreneurial Activity (“TEA”) in England is about 6%, of which 8% is male and 4% is female. And, in the UK entrepreneurship is primarily a youth phenomenon with 18-24 year olds comprising the largest age group. Still, in the United Kingdom the entrepreneurial trend is up which is not true of other European countries.

⁴ Gaebler.com/Entrepreneurship-in-England.htm

France.

While France may have invented the word “entrepreneur,” it does not seem to have many of them. Entrepreneurs in France are a scarce commodity. The French seem to lack the entrepreneurial spirit and instead want the stability of a salary from the government or a large company.⁵ Apparently, France’s egalitarianism mitigates entrepreneurship. And the French economy has strict regulations and high taxes, typically anathema to startups and small business growth. The government seems to be trying to provide statutory exemptions and lower tax rates for startups, but apparently without much success. Still, in spite of itself, France was third, behind the UK and Germany in venture capital firms in 2001. And, in 2010, the French company, vente-privee.com pioneered “private flash sales” which sparked interest around the globe.⁶

Germany.

What about Germany? It is an economic powerhouse. What role do entrepreneurs play in that economy? According to internationalentrepreneurship.com, a source of much of the basic information for this article, Germany has a relatively low TEA rate of 5.1 % -- 24th in the world - even though it is first in spending on entrepreneurs, and has government programs for entrepreneurial women. Reasons for the lack of stellar performance by German entrepreneurs include social disapproval of individual enterprise as well as high corporate and social security taxes.

Portugal.

Portugal has a low TEA rate of 3.95% and entrepreneurship seems to be a relatively new concept there. Still, during better times Portugal had a growth rate higher than the European Union average. And, as one reviewer remarked, it is a beautiful country with ocean views and cheap beer. Life has its compensations.

⁵ Internationalentrepreneurship.com (a great source for information of virtually every country. Much of the information for this article came from this site, supplemented by The Economist, Gaebler.com and the other sources cited.

⁶ The Economist, Europe's tech entrepreneurs, Blooming, June 10, 2010 from the print edition. Web. July 09, 2012

Croatia.

In addition to Portugal, Croatia is another one of my favorite countries to visit. And, while teaching business law at Arizona State University, I had students from there who I much admired. There is an entire doctoral dissertation by Nikoline Fuduric online about entrepreneurial conditions of Croatia, if you really want to study the subject, but otherwise the available information on Croatia is that entrepreneurial activity is expected to rise.

Russia.

According to internationalentrepreneurship.com Russia has a TEA of only 2.5%. Barriers to entry include high taxes, regulation, registration, and corruption, not to mention Mafiosi and protection payments. What entrepreneurship and individual business ownership exists in Russia seems to come from the takeover of government enterprise, not from starting and building a business from scratch. Still, individual entrepreneurship was up 25% from 1998 to 2001. Women seem to be a little more entrepreneurial in Russia due to discrimination in pay and job opportunity.

Israel.

According to the prominent Kaufman Foundation Policy Forum Blog, Israel is one of the most innovative countries in the world. As stated in a recent article in the New York Times, if the name ends in “man,” then the person is Jewish and that includes Superman.⁷ Many employees in Israel are employed by smaller firms, many of which are in the forefront of technology.

Australia.

Australia’s TEA is up from its 2002 score of 8.7. According to Internationalentrepreneurship.com, in 1996, 97% of the business in Australia was conducted by small businesses! The Swinburne University of Technology has its

⁷ [Parker, James. “Man of Action.” New York Times Book Review](#), July 8, 2012 writing about the book Superman by Larry Tye. (the creators of Superman, Jerry Siegel, writer, and Joe Shuster, drawings, were geeky before geeky was cool.)

Graduate School of Entrepreneurship. The country recognizes top women entrepreneurs and has programs to foster them. In short, Australia seems to be a paradise for entrepreneurs and collectively an economic powerhouse comprised on entrepreneurs.

Japan.

According to *The Economist*,⁸ “Something must give” in Japan. “Japanese entrepreneurs are pressing for change. The old guard resists.” Japan has one of the lower TEA rates in the world – not even mentioned. Japanese culture has been built on lifetime employment and seniority. Young bucks who challenge the system are viewed with strict scrutiny and may find themselves under legal as well as social pressure.

Canada.

According to a presentation by BDC, prepared by the Fondation de l’entrepreneurship in July 2010 about 10.1% of the businesses in Canada are individually owned. Its TEA rate is 8.9 with 11.2 % of the population saying they want to start a new business and 4.6 actively engaged in doing so. Overall, Canada has had a decline in new ventures.

China.

Entrepreneurship in China is an interesting case study of “flying under the radar” in order to succeed. 90% of the businesses in China have fewer than eight people and small business ownership increased by 30% per year between 2000 and 2009.⁹ Business owners work without bank financing and do not want to be known and identified. While they may buy luxury goods, not only the workers in the plant, but the owners and office workers may work without heat to save money. The Chinese – and Asians in general - seem to be experts at deferred gratification, which studies show is one of the major factors indicative of future success.

⁸ [Entrepreneurs in Japan, Something must give, The Economist](#) June 23rd 2001 from the print edition. Web. July 9, 2012.

⁹ [The Economist, Let a million flowers grow](#), March 10, 2001.

The United States.

According to The Economist¹⁰ between 1996 and 2005 the United States added 550,000 small businesses a *month*. The TEA for the United States is 11.3%. America is the first country to ditch managerial capitalism – of the sort found in Germany, or Japan and France – for entrepreneurial enterprise. After all, the country was founded by innovators and risk takers.¹¹ Here, one way to be a “rock star” is to own a start up.

America has several advantages contributing to its entrepreneurial success:

1. mature venture capital industry
2. the symbiotic relationship between the university and industry,
3. open immigration policy (many successful US companies, e.g. in Silicon Valley, are owned by immigrants)
4. “venturesome consumers,” as defined by Amar Bhide of Columbia University. We are willing to try new products. In fact it seems that the “new thing” is in our cultural DNA.¹²



¹⁰ [The United States of Entrepreneurs, America still leads the world, The Economist](#), March 12 2009 from the print edition. Web. July 07, 2012.

¹¹ Id.

¹² Id.

Conclusion.

But, before we get too proud of ourselves: I thought of my client from Uganda. According to internationalentrepreneurship.com, in 2004, Uganda had the highest TEA index in the world: 31.6. And, according to FastCompany.com 29.3% of the business activity in Uganda was conducted by entrepreneurs or managers of a new enterprise. Many of the entrepreneurs in Uganda are women, including my client, who owns and manages a company which makes composite blocks for construction.

So, what have we learned? Well, as the song goes. "God bless the USA." We have a common culture which is accepting of the entrepreneurial spirit, individual business ownership, risk-taking and failure. We have mostly uniform and non-oppressive laws that make national business success possible. The United States is still the place to be for startups, and immigrants -- if we let them -- will bring their money here to invest it in business enterprises.

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