

David Birch's Prize Lecture: What Have We Learned?

*1996 Award Winner**

ABSTRACT

One of the more interesting aspects of the FSF-NUTEK Award is the regular convening of the award winners – usually twice a year. This has been going on for 10 years now; at our last meeting (in the Fall of 2004) it seemed to me that we pulled together a great deal of the collective learning that has occurred. My purposes in this brief paper are: (1) to summarize what I think we are agreed upon, (2) to think a bit about its implications for what countries might do about it, and (3) to reflect on what research priorities for the future might be.

What We Know

We say it in many ways, but our most important conclusion, in my mind, is that all of our economies are going through a profound transformation of the kind that occurs every 150 or 200 years. Karl-Henrik Pettersson described it as the decline of, first factories, and then Big Old Companies during the 1960's and 1970's, and the emergence of a whole new set of very entrepreneurial firms to replace them. Much the same thing occurred during the Industrial Revolution in the early 1800's, which created the factories and the Big Old Companies. History suggests that the current revolution (which Taichi Sakaiya of Japan aptly calls the Knowledge-Value Revolution) will extend for many decades into the future, and that nations that choose to ignore it will suffer badly.

What have we learned about this Revolution?

(1) It is dominated by great turbulence. Company formation and closing rates are increasing rapidly. Product lifecycles are getting shorter and shorter (Intel must now replace its entire product line every 18 months).

* David Birch is President at Cognetics Inc.

It was not until 2003 that the Award Winners were formally requested to give a Prize Lecture. Therefore, in cases where the lectures were missing the Award Winners were invited in 2008 to deliver a belated Prize Lecture in the form of a manuscript. This essay by Professor David Birch is from January 5, 2005.

(2) The phenomenon is occurring in all sectors. Contrary to some public perception, we have had several reports which put the percent of innovative companies that produce new technology ("high-tech" companies) in the 1 percent to 3 percent range. The other 97 percent to 99 percent of innovative companies are applicators of new technologies in virtually every sector of the economy – carpenters, fish wholesalers, shoe manufacturers, dentists, retailers, etc.

(3) Picking winners in this chaotic world is virtually impossible. We have listened to account after account in which private or public attempts to select and fortify winners have failed. The only winning strategy is to let 1,000 flowers bloom.

(4) Smaller is dominant. Most successful companies start small, and many stay small. Said another way, the maximum size an average successful company reaches before fading away is getting smaller, the time between startup and fading is getting shorter, and the average annual turnover rate in lists of the largest companies (like the Fortune 500 in the US) is accelerating rapidly. It used to take 15–20 years for a third of the Fortune 500 to be replaced on the list; it now takes only 3 years.

(5) Much of the inability of larger and successful companies to sustain their success can be traced to rigidity in behavior. Howard Aldrich has reminded us on several occasions that habits are very strong and change very slowly. In a rapidly changing economic environment, slow-to-change habits prove fatal.

(6) Different places are responding very differently to this Transformation. This is equally true across countries, and across regions within countries. Paul Reynolds has dramatically documented great variation between countries. Others, including ourselves, the Canadians, the Swedes, and those from Great Britain observe great variation across regions within countries.

(7) Responses to this transformational challenge are deeply cultural. Each of us is just beginning to realize, I think, that different societies view, and value, entrepreneurship in very different ways,

and that no one view is better or correct. We are coming to understand that transformation means, almost by definition, instability. Instability, in turn, forces a society to think hard about the value it places on equality (vs. inequality), on aggressive (vs. courteous) behavior, on the social status of different occupations (doctor, lawyer, government worker, banker, merchant, etc.), and on the role of women in the workplace (to name a few). These value choices a society makes have an enormous bearing on how it will respond to the Transformation. Each society must, therefore, work out its own version of a response, and it would be a serious mistake for any society to try to adopt another society's model for its own.

What Should We Do?

One way or another, we are constantly addressing the question: What should we do? "We" is sometimes a country, sometimes a group of countries (e.g. the EU), and sometimes a region within a country.

The first, and most obvious implication of what we have learned is not to simply adopt some other country's or region's approach. Each country must have its own version, which fits the culture and values of that country. There seem to be a few generalizations that emerge, however:

(1) Increase turbulence, up to, and including, increase failure rates of firms. It seems to be a mistake to try to preserve companies that are not adapting well. We are better off letting them die, and re-locating the people and capital to other, more successful ventures.

(2) Don't try to guess who will succeed. Venture capitalists do this only marginally well, and governments have a pathetic track record when doing it. Let the marketplace decide who will succeed.

(3) Create a supportive environment. There is much that governments can do to improve education (at the elementary, secondary, and university levels), improve air transportation (the Knowledge-Value Economy travels by air), make the tax codes less punitive to risk takers, etc.

(4) Work on the culture. This is a delicate issue, because we believe that each nation has its own culture, and that each must have its own version of Knowledge Value. On the other hand, there are certain basics that must be addressed. Sooner or later entrepreneurs must emerge to bring about the necessary changes. There is much a society can do to recognize and encourage the best and the brightest young people to follow this path, without necessarily dictating how they behave doing it. Recognition alone is worth quite a bit. I received an email from a Swedish journalist in December informing me that Crown Princess Victoria presented the 2004 Gazelle of the Year award to a successful entrepreneur in Sweden. That sends a strong signal to much of Sweden.

(5) Be ready with a plan. Many times a country is doing reasonably well, and is not particularly responsive to a call for change and innovation -- particularly when it means changing the culture in some discernable way. But the time will come when things get worse, when the levels of pain are higher, and when people are looking for answers. Spend your time during good times preparing a plan to be offered in the bad times that will surely follow.

What to Study

All of the award winners study things; superficially it looks as though each of us studies quite different things. From my perspective, ho-

wever, we are each looking at the same thing from different angles. That said, we do have different kinds of expertise, and we need to reflect a bit on which angles are needed the most.

My angle is to count. It is to try to document the role that entrepreneurs play in economies, particularly as they relate to growth and job creation. I think we continue to need some of that in order to have some bases for informing the rest of society about the important role that small and growing companies play in most countries. If they aren't important, then everything else is pretty much a waste of time.

Counting them up, however, tells you very little about what makes them tick. Understanding what makes them tick would be my top research priority for the future. Most of the discussion I hear about how to encourage entrepreneurs and entrepreneurship reflects very little understanding about what goes on inside the head of an entrepreneur. What kind of a person is likely to be good at it? How are those who wish to grow a company different from those who wish merely to have one? How can we use this knowledge to help people judge for themselves whether or not they ought to try it? How can we use this knowledge to guide our education system to be more relevant? For example, in my view (with my entrepreneur hat on) the least useful, and most often taught, business skill is accounting. Any successful entrepreneur can quickly hire someone to keep score (i.e. do accounting). Yet many educational systems use accounting as a litmus test to decide whether a student will get more business education-- much as biochemistry is used as a filter for future potential doctors. We ought to be able to do better than that -- much better.

In Sum

It's been a very interesting 10 years. What's been remarkable about them, from my perspective, is how differently the participants viewed the world entering the process, and how much we seem to have converged on the common understandings which I have attempted to summarize herein. Said another way, we each seem to have learned a lot. I am sure that not everyone will agree with everything I have said. But I think most would agree with most of what I have said, and, given where we all started -- coming from very different cultures and skill sets -- that's quite remarkable, and worthy of note.