

Making Business Startups More Difficult

Business startups need to be made harder not easier, with entry conditional on acquired 'human capital' such as the achievement of a substantial vocational qualification. That's because the real factors behind new business survival are human not financial: the quality of business management. And viable businesses are rarely short of financial capital. That was the message from Robert Cressy of Warwick Business School's Centre for Small and Medium Enterprises in a paper presented to the Royal Economic Society's Annual Conference in Swansea on Wednesday 3 April.

Cressy observed that business startups are commonly assumed to be restricted by financial markets, so failing to obtain adequate funding for their operations, given their 'true' market value. This 'debt-rationing' view is widespread in Europe, with many governments firmly committed to removing perceived financial market deficiencies through such dedicated initiatives as subsidies, soft loans and tax breaks.

In fact, the opposite is true: startups have abundant financial capital, conditional on the 'human capital' embodied in the business. The real factors behind new business survival are human not financial: the quality of business management. And it is the viable businesses that demand, and in turn get, funding.

The policy implications of this research are significant, Cressy argued. Huge sums are lost in loan write-offs to prematurely defaulting businesses, money that is diverted from profitable alternative uses. This jaded 1980s solution of 'throwing money at the problem' of immature firms will no longer do, a fact that has begun to be recognised in government circles.

But Cressy's research goes further, suggesting:

- The need to target specific individual characteristics, improving individuals' skills relevant for business.
- The need to ensure adequate team size and composition, forming a better balanced set of skills in a potential management team.
- The need to identify specific business types (adult entrepreneurs rather than youngsters, for example) if the problem of early failure is to be seriously addressed.
- The need to make startups 'more difficult' by conditioning entry on acquired human capital, such as the achievement of a substantial vocational qualification.

A policy initiative to make startups more difficult would reverse the trend of more than a decade.

But it would also harmonize UK policy with some of the more economically advanced European countries, such as Germany, and enhance business longevity. It could not be expected to buy politicians votes today by promising to shorten the dole queue overnight. But in the long run, it would yield social dividends by preventing more would-be entrepreneurs from returning to unemployment; by improving the allocation of financial resources to business; and by dissuading under-skilled youngsters from taking an ill-advised leap into an entrepreneurial unknown

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Notes for Editors:

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