Letters

American Business Needs More Risk Takers

To the Editor:

Your front-page look at the Silicon Valley ideal of American entrepreneurship (June 14) describes disenchantment expressed by certain academics and public policy experts.

This disenchantment appears largely based on the temporary setbacks of a number of small companies in Silicon Valley. The Valley's entrepreneurs, it is held, are mutinously leaving big companies to make a killing on their own. Worse, their fortunes often result from joint ventures with shrewd — i.e., Japanese — companies. Once the foreigners have appropriated American technological know-how, they use what they have learned to bury their former American partners. By implication, entrepreneurship bears at least part of the blame for this country's failure to be more internationally competitive.

I believe there are serious problems with this argument. First, no critique of entrepreneurship can be drawn only from the fortunes of a few Silicon Valley companies. Throughout the country, we are seeing courageous people building businesses, creating jobs and penetrating foreign markets in the manufacturing and service sectors. Almost all the job growth in this country comes from growth companies, not the giants. No one should cast doubts on entrepreneurship until examining the phenomenon in all its variety.

Second, as a recent study by McKinsey & Company for the American Business Conference suggests, because entrepreneurs are individualistic, they are usually allergic to sharing power with foreign business partners. To be sure, they will do so to enter otherwise closed foreign markets or gain needed capital not readily available domestically. However, entrepreneurs, because they are close to the process of innovation, are typically wary of squandering their technological or marketing advantages.

Third, the most important finding of the American Business Council-McKinsey study is that, contrary to general patterns and perceptions, America's growth companies are competing abroad with great success — better than 20 percent a year annual sales growth — precisely because they are entrepreneurial. Their success is based on the qualities of innovation, quickness and closeness to customers that some of the academic critics find lacking in large companies.

Fourth, the most fundamental flaw is to equate entrepreneurship with size alone. I.B.M. came to dominate its field. General Motors and United States Steel did not. The Japanese are not successful because they are big but because they are efficient, quick to market and fanatically dedicated to quality and customers.

Central to entrepreneurship is willingness to take risks in anticipation of reward. Intelligent risk taking is a precondition for capital formation and economic growth. Little wonder, then, that the more alert of this country's largest companies encourage the entrepreneurial impulses of their employees. These companies know what some observers apparently do not: for American business to be competitive in a world economy, it must become more, not less, entrepreneurial.

I suspect that the heart of this debate is really the proper role of government. Fine. Let us debate that. Perhaps our Government should be more aggressive. Certainly, it should be more fiscally responsible so that our investment losses do not wipe out our hard-won export gains. But let us not attack the very qualities of innovative, risk-taking entrepreneurship, which American business needs more than ever.

ARTHUR LEVITT JR.
Chmn., American Stock Exchange
New York, June 16, 1988

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Not Perfect, of Course

To the Editor:

Your excellent look at entrepreneurs (front page, June 14) was read with keen interest in our venture capital shop and, I suspect, many



others. The tone of shock and betrayal that seems to characterize some portion of entrepreneurship's new critics seems to reveal an earlier naïve faith that somehow entrepreneurship had been sold by some conspirator as an economic panacea. It wasn't, it isn't and never was.

Entrepreneurship at best is one of the successful enterprise models that coexist in our pluralistic economy. High-tech entrepreneurs, and the venture capital industry that supports them, will never represent more than a tiny fraction of the people who start new companies in our country annually, nor is the total venture capital pool more than a tiny fraction of the total industrial capital invested annually. Nonetheless, the results, in technology growth, jobs, gross national product increases and new tax revenues are so remarkable that Silicon Valley and Route 128 are often the only things businessmen from abroad wish to see — certainly not our steel mills and auto plants.

There is doubtless some truth to the argument that small companies and venture capitalists steal away the best talent of older companies. But the solution is not to lobby for higher capital-gains taxes to help discourage voracious venture investors (not to mention every other type of long-term investor!). We are competing in the world against hungry rival nations with no tax on capital gains, and whose new-plant-investment rate far exceeds ours. Rather, the aggrieved companies must begin to offer employees rewards for achievement that keep them competitive in the labor marketplace.

In many organizations (e.g., basketball), the star performer makes many times more than the manager. Even in many benighted industrial organizations, the star salesman can pull down far more than his boss. Why then are not star technologists offered the performance incentives in their jobs that they must leave to find in the entrepreneurial setting? Large companies that continue to treat technologists as second-class citizens may expect to lose the best to entrepreneurship and retain the second stringers. I suggest that this is one place to look for the key to lost competitiveness among many of our mature companies.

No, entrepreneurship, like democracy, may not be perfect, nor is it even very efficient. But it's a lot better than the alternatives available. As one economist has put it, entrepreneurship may be the only excuse for capitalism.

GORDON B. BATY
General Partner, Zero Stage Capital
Cambridge, Mass., June 14, 1988

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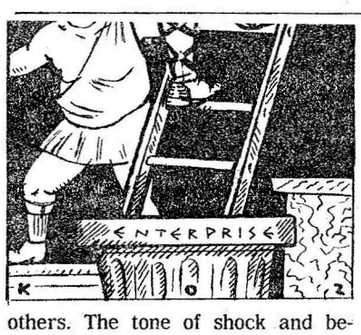

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Paroles Aren't Denied To AIDS Inmates

No Liability Amnesty for Pharmaceuticals

To the Editor:

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