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Where Do the United States and Canada Stand Vis-A-Vis other Countries Regarding Entrepreneurship - Discussion Following the Remarks of Dr. Robert Hisrich

Discussion

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particularly interesting in the poem are the last two stanzas. You look down the road and you come to a fork. This is how Frost sets the stage in New England, one of my favorite parts of the world. Frost concludes: I looked at the fork – I knew I had a choice to take one branch or the other.⁵⁸

We have all had what I call fork-in-the-road experiences. Look at your life. There may be five, six fork decisions that radically affected your life from then on. One of mine was going to Ireland in 1984. I spent eight months living in a country helping impact its economy – an incredibly life-changing experience.

Frost ends that poem saying: “I took the one (the fork) less traveled by, and that has made all the difference.”⁵⁹ That’s what entrepreneurs do. It is the passion we have.

It is crazy, you know, to go through this process and finally make something of it and think, “Why would I do that again?” Yet you go back and do it again, again, and again. That’s how entrepreneurs are.

Thank you very much. You have been very attentive. I will be glad to answer any questions.

DISCUSSION FOLLOWING THE REMARKS OF DR. ROBERT HISRICH

MR. McILROY: We are into our Q and A session now, and we have 22 minutes. The floor is open. Who is first on deck?

DR. HISRICH: I was either very stimulating or very boring, one of the two.

DR. BARBER: So far in our discussions here, we have been worrying most about helping entrepreneurs, and you have ended up with a line, which says our governments really need some help. How do you do that?

DR. HISRICH: That’s very hard. Starting companies is relatively easy compared to that. I think there are several ways that we can assist government in doing that. At least, I am trying to do that in Slovenia, Hungary, and Russia.

It was said very nicely today before lunch, who contributes the net employment? Who contributes the number of new products to the marketplace? It is mostly the small business/entrepreneurial sector. I think one thing we can do is help the government understand this sector’s economic development.

What can you do to change the government and the rules and laws to make people more interested in forming those companies? That is a long-

⁵⁸ See ROBERT FROST, MOUNTAIN INTERVAL 75 (NEW YORK HENRY HOLD AND COMPANY 1999) (1920), <http://www.bartleby.com/119/1.html>.

⁵⁹ *Id.*

term process, which I am working on in Slovenia and Hungary where there is a lot of wealth to do this.⁶⁰

How do I get wealth to invest, and how do I get the government to relax some of the rules? One thing I came up with is forming a venture fund with the government, matching each individual's investment dollar for dollar, and is giving 100 percent tax benefit for every dollar invested in this particular fund, established to invest in entrepreneurs.⁶¹ Also, I am training people how to evaluate businesses in which to invest; they are feeling more security because they have other monies investing with them and they get a tax benefit. It is important to make the laws more positive for investing and entrepreneurial activity.

MR. McILROY: Daniel?

MR. SANDLER: One of the real difficulties in Canada and the United States is that we live in federal jurisdictions, and there is competition between states and provinces in Canada. And from a federal level, from a country level, do you just have to live with the fact there are going to be areas because we know entrepreneurs go into pockets, and that's just the way it will be, or is there enough to go around in all of the provinces and all of the states to have some piece of the body?

DR. HISRICH: That's a great question. I was asked that in Ireland in 1984 because they wanted to have a universal entrepreneurial society. I have never seen a universal entrepreneurial society. I would like to tell you we can do that but I have never seen it occur. I think what will happen is that there will be these pockets of predominance in Canada as in the United States, Ireland, Germany, and Austria. Austria will have one – Vienna.

And what do you do with any surplus money? We help these other areas develop through other mechanisms. I just don't think you are going to see entrepreneurship throughout any country.

MR. McILROY: Dr. King has a question.

DR. KING: What do we have to worry about from the developing world? In other words, who is catching up, and how can we protect our flanks?

DR. HISRICH: That's a great question, Henry. I thought you said the questions would be easy.

⁶⁰ See The World Factbook: Hungary, CIA, <http://www.cia.gov/library/publications/the-world-factbook/geos/hu.html> (last visited Sept. 26, 2007) (complete profile of Hungary including an economic overview); The World Factbook: Slovenia, CIA, <http://www.cia.gov/library/publications/the-world-factbook/geos/si.html> (last visited Sept. 26, 2007) (complete profile of Slovenia including an economic overview).

⁶¹ See generally Raphael Amit, James Brander & Christoph Zott, *Venture-Capital Financing of Entrepreneurship: Theory, Empirical Evidence, and a Research Agenda* (Draft: Feb. 1, 1999), available at <http://www-management.wharton.upenn.edu/amitresearch/docs/VCfeb1.pdf> (discusses venture funds financing entrepreneurial activity).

MR. McILROY: That's a love ball. That's about as soft a question you will get from Dr. King.

DR. HISRICH: Thank you, Henry.

Two of my books are in the Chinese language. My *Entrepreneurship*⁶² book sold over 200,000 copies in the Chinese language. A friend of mine tells me that means it really sold 300,000. It still is not as bad as Iran where this professor e-mailed me and said, "We love your book. We are not part of the international copyright community. We are going to translate it. Would you write a letter?"

I thought, "Let me see what you are asking me. Write a letter for you to rip off my book, as I receive no royalty." I waited a few days, wrote him back saying, "I can't write the letter, but I would love a couple copies of the book when you publish it." Six months later two copies of the Iranian edition arrived.

Anyway, I am fortunate because that book and my *Thirteen Biggest Problems*⁶³ book are in Chinese. This has allowed me the opportunity to meet top government officials. I will never forget, I was in Beijing a few years ago with the president of one of the premier universities and we were at this wonderful table he hosted; he has absolute impeccable English. For every 500,000 Chinese studying English, one American is studying Chinese. I asked, "If you let people like myself into this country you are never going to be the same."

I had just lectured to thousands of students and entrepreneurs. My book is being sold. I had been interviewed by 150 people from the media, print, radio and television. He responded, "We know that. We also know we can't compete with the West with the economic situation the way it is; and we are going to compete."

So if I look around the world and ask who, ten years from today, are going to be the economic powerhouses? China is going to be one. They are powerful today and they will continue to be powerful in the future.

So if you look at a competitive threat, Henry, it is going to be China. Some people say India but I just haven't seen that. I have tried to do things in India. India just has its ups and downs. Theoretically, they should be ahead of China, but again, it's the government, the infrastructure, and the attitudes they have there.

⁶² See generally ROBERT D. HISRICH, MICHAEL P. PETERS, & DEAN A. SHEPARD, *ENTREPRENEURSHIP: Starting, Developing, and Managing a New Enterprise* (McGraw-Hill 2007) (1989).

⁶³ See generally ROBERT D. HISRICH, *SMALL BUSINESS SOLUTIONS: HOW TO FIX AND PREVENT THE THIRTEEN BIGGEST PROBLEMS THAT DERAILED BUSINESS* (McGraw-Hill 2004).

I don't see India becoming significant in the next few years. So it is going to be from China. As Mal said he is competing with Chinese products that are probably his design. China is here to stay.

MR. McILROY: We have a question at the back there, and then we have a question at the right.

MR. KERESTER: Is there an optimum tax rate that would not discourage entrepreneurship and still raise enough money for a business?

DR. HISRICH: Of course, zero.

MR. KERESTER: You really think that would contribute to it?

DR. HISRICH: No, not really. I am satisfied with the U.S. tax rate – but will not quoted be on that.

I think entrepreneurs are literally fair-minded people, and we need to pay to play. The problem is with a tax system that is unwieldy, when the government gets more than you get, or gets above 50 percent, that is close to the maximum.

While it bothers us to write tax checks, by the same token, we understand the needs and infrastructure, and most entrepreneurs, interestingly enough, give back. It is this giving back mentality they have, particularly in our two countries where you make money and give it back.

Look at all the foundations in the U.S. that now take care of some of the costs of the government, the museums, the art institutes, and things like what Mal is doing here in Cleveland. Entrepreneurs give back. That reminds me, in terms of Henry's question, Chinese entrepreneurs know how to give back.

That's very significant because that means they truly understand the entire entrepreneurial model, making money, giving it back; their entrepreneurs already have named buildings at Chinese universities.⁶⁴ Nowhere in Europe do you see that.⁶⁵ You don't see that in Japan.⁶⁶ You don't see that in Australia.⁶⁷

China is a force to be reckoned with. Does that help? I don't know if the right tax amount is 15 percent or 20 percent, but it has to be below 50, and the lower it is the better. But a zero tax rate, I don't think that would be that beneficial.

MR. McILROY: Morris, we are just going to go to Brad Cherniak, and then you are next.

⁶⁴ See generally Alan Hunter, Centre for Peace and Reconciliation Studies, Coventry University, China: Soft Power and Cultural Influence, <http://www.ipra2006.com/papers/CRPBC/ChinaSoftPowerAndCulturalInfluence.doc> (discussing the growing influence of Chinese entrepreneurs throughout China and the world).

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

MR. CHERNIAK: With all that is going on in the world and in China and the emerging opportunities, is it becoming harder or easier to become an entrepreneur in America, say, ten years ago or 20 years ago than now?

DR. HISRICH: Do you take the hard questions?

MR. McILROY: No. I am just the moderator.

DR. HISRICH: You set me up for this, Henry. That's a very interesting question.

I don't think it is any more difficult today than it was; it is a very hypercompetitive world, but generally entrepreneurs are very competitive creatures anyway, so that doesn't bother us. In fact, I like it because that means I have to be smarter, better, and faster than anybody else. I would much rather have a competitive environment than a noncompetitive one.

When it really gets difficult for us is when there is not money available, so the era of 2000 to 2004 was tough. I mean, entrepreneurs just couldn't find money and we need money. And, banks aren't responsible for that because they are asset based lenders.

The trouble is, as somebody said, we have no assets except for intellectual property. Some ventures had no protection. So if money is available, then we are fine; I don't think it is any harder today. Today there is more money available than ever in the history of the world. Today it is sort of fun to be an entrepreneur.

I have had less trouble raising capital, and large public equity funds have significant monies. Some people worry about them but I like them. My companies are always up for sale. As long as we agree on valuation, you can buy any of them. I think it is the same in Canada. I have never done business in Canada except for my Boston Lens business and that was 20 years ago when I was an MIT professor.

MR. McILROY: Morris?

MR. SHANKER: I want to follow up on Henry's question. You suggested ten years from now China will be a big player to be worried about, words to that effect. Are you then suggesting the general prosperity of this country will then be diminished if China becomes the big player or any other country becomes the big player?

DR. HISRICH: I am sorry I didn't respond succinctly enough because I didn't mean that. No, I think China is a dominant economic power that is going to be here for the next decade.

The United States and Canada are fine. I don't worry about China. In fact, I think it is better to have another economic power. I don't think our two economies can carry the world any more. I think the world is too big and too complicated.

So I find what they are doing – low cost manufacturing – is very beneficial. I am a manufacturer, and I don't consider that a threat. I consider that a reality that they are going to be here as an economic power. I think our

prosperity is going to stay the same as long as we innovate and be entrepreneurial. Our countries are in an entirely different product/market space.

With about 80 percent of the economy of the U.S. in service-based business, low cost manufacturing is not a threat.⁶⁸ I would love to say manufacturing is coming back, but I just don't think it will at least, as we now know manufacturing today. China is also a big market, too. Wait till the people start making money over there.

MR. McILROY: We have another question I think from Daniel Sandler.

MR. SANDLER: I would like to come back to the angels, and they are the key both in Canada and the United States. A number of things, there has been a huge push in both countries to introduce a federal tax credit. It was deferred by the SBA and seems to have died in committee or is dying in committee.

Do you think, first of all, that is a good thing, an income tax credit at the federal level, and why do you think the governments are so adverse for that if you think it is a good thing?

DR. HISRICH: That's a great question. I never thought about that before. I think people, entrepreneurs, some of them angels now, have accumulated wealth through some means. I think some are going to be angels regardless of the tax credit.

Even if you raise the tax a bit, I would still be an entrepreneur. I am not sure it is going to stimulate any more investment. Maybe it would in Canada – I don't know your culture well enough. I don't think it significantly would in the United States.

Why do I think the governments of the two countries are not doing it? It is the same in every government. I am trying to convince Slovenia they should give 100 percent tax credit for these people to invest. The government doesn't like that. They want instantaneous money, not futuristic money. This money won't pay back anything until cash-out time, which may be seven to ten years.

I don't think governments in general are futuristic thinkers. Today it is better to have today's gratification rather than future gratification. However, I am not a politician. Ireland was interesting. When I was there in 1984, the Irish government tried to attract companies to manufacture there, feeling that would be the salvation of country. That was the policy for years and there are companies manufacturing there.⁶⁹ The Irish government gave huge tax

⁶⁸ Douglas G. Duncan, *Jobs in a Changing American Economy*, MORTGAGE BANKING, June 1, 2004, at 2, available at <http://www.allbusiness.com/personal-finance/real-estate-mortgage-loans/170082-1.html>.

⁶⁹ See John Bradley & Jonathan Wright, *Two Regional Economies in Ireland*, 26 J. OF THE STAT. & SOC. INQUIRY SOC'Y OF IRELAND 211, 218 (1993) (graph displays Ireland's manufacturing output on a steady rise throughout the 1980s), available at http://www.tara.tcd.ie/bitstream/2262/2741/1/jssisiVolXXVI211_276.pdf.

incentives,⁷⁰ and that didn't really stimulate the economy.⁷¹ I am not sure taxes are ever the main issue.

MR. McILROY: Maybe I could just follow on that topic. One figure that really struck me, Bob, in your numbers was the number of firms that were formed in 2005 in comparison between Canada and the United States. Usually in Canada, there is the ten times rule.⁷² Our population has been generally one tenth of yours, so we usually expect to see a number in the U.S. to be ten times what it is in Canada.

But in 2005, 30,000 new firms in Canada roughly;⁷³ the United States, 672,000.⁷⁴ So in other words, it was 20 times instead of ten times, and I see that as twice as high per capita, which is a significant difference. That sort of flies in the face, I think, of the World Bank numbers where they sort of seem to say we were the same.

I, as a Canadian, think that there are far fewer entrepreneurial firms formed in Canada, and your numbers seem to hold that out.⁷⁵ The World Bank numbers, I am not so sure, and I was wondering if you could comment on that, why you see more firms formed in the United States and more of an entrepreneurial spirit?

DR. HISRICH: Good question. These numbers came right from the government numbers. Remember these numbers reflect people that form a company and have at least one employee, not a single employee firm. That would really change these numbers if we add single employee firm formations. I think it will probably change the numbers equally in both countries.

The numbers would at least double. The U.S. has always had a culture (and I don't know Canada well enough except my experience in Canada with

⁷⁰ See Kevin H. O'Rourke, *Industrial Policy, Employment Policy and the Non-Traded Sector*, 27 J. OF THE STAT. & SOC. INQUIRY SOC'Y OF IRELAND 61, 67 (1994) ("[W]hile manufacturing and traded-sector service companies pay 10 per cent corporation tax, firms in the non-traded services sector pay a 38 per cent rate."), available at http://www.tara.tcd.ie/bitstream/2262/2104/1/jssisiVolXXVII_6192.pdf.

⁷¹ See Bradley & Wright, *supra* note 69, at 228 (graph displays an increase in Ireland's unemployment numbers throughout the 1980s).

⁷² See Lukin Robinson, *Book Note*, MONTHLY REV., April 1999 at 1 (reviewing JOSEPH K. ROBERTS, *IN THE SHADOW OF EMPIRE: CANADA FOR AMERICANS* (1998)) ("In population, income and wealth, Canada is about one-tenth the size of the United States."), available at http://findarticles.com/p/articles/mi_m1132/is_11_50/ai_54517447.

⁷³ See generally Geoff Lewis, *Who in the World is Entrepreneurial*, CNN Money, June 1, 2007, http://money.cnn.com/magazines/fsb/fsb_archive/2007/06/01/100049637/index.htm (discusses the ease of starting a new business in various countries including the United States and Canada).

⁷⁴ *Id.*

⁷⁵ *Id.*

my Boston lens) forming things, being creative, and being our own boss. And we have this angel environment that makes money available.⁷⁶

We have taught entrepreneurship in our schools a lot longer than Canada. Remember, teachers do have an impact.⁷⁷ This started in Canada at the university level about six years later than the U.S.⁷⁸ It started rigorously in the U.S. in about 1980.⁷⁹ Germany just started teaching entrepreneurship in their schools two years ago.⁸⁰

So educationally, we have been more prone to create entrepreneurs, and our society is probably more open and supportive of entrepreneurs. It is just the culture that the U.S. has had throughout, which perhaps hasn't been quite as strong in Canada.

By the same token, the World Bank is talking about their overall measurement, so these are their rankings. The numbers in the United States and Canada versus other countries make relative sense to me.

MR. McILROY: I understand we are down to two minutes, but Henry has just given me the you-are-out-of-time sign. So I think we are going to call this to a close.

I would like to very much thank Dr. Hisrich for traveling from Arizona to join us. I think we can all agree that he brings a unique perspective to the topic of this Conference, and I would like you to join me in thanking him for his presentation.

⁷⁶ See generally THE NATIONAL ASSOCIATION OF SEED AND VENTURE FUNDS ET AL., SEED AND VENTURE CAPITAL: STATE EXPERIENCE AND OPTIONS MAY 2006 1-4 (2006), [http://www.nasvf.org/web/nasvfinf.nsf/pages/svcp.html/\\$file/Seed%20and%20Venture%20Capital%20Report%20-%20Final.pdf](http://www.nasvf.org/web/nasvfinf.nsf/pages/svcp.html/$file/Seed%20and%20Venture%20Capital%20Report%20-%20Final.pdf) (discusses history and current state of the venture capital market).

⁷⁷ See generally Lena Lee, *Entrepreneurship Education – A Compendium of Related Issues* (NUS Entrepreneurship Centre, Working Paper No. WP2005-14, 2005), available at <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN023986.pdf> (discussing the recent trend of entrepreneurship being taught in universities worldwide).

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.*

