Prosperity, Companies and Courage

"In every success story, you will find someone who has made a courageous decision"
Peter Drucker

This week, I welcomed three new interns into my company. The company is three months old, the creation of my business partner and me. Our three interns are our first employees.

Their questions and interests were very normal: when do we need to be in the office? How do we keep track of work time? Will the company buy me a laptop? And there were the questions they didn't ask out loud, but that I knew we were answering minute by minute: can I be myself at work? What is my boss like? Is this tiny new startup going to succeed?

It is a thrill to be answering these questions for ourselves, without faceless corporate guidelines and imagined financial constraints. For the first time, I am completely responsible, with my co-founder, for the employees who have come into my team. But it is also terrifying – because I am the face of our new corporate guidelines, and because the company's financial constraints are mine and they are real.

When payroll wasn't ready on time, it was my fault. And when I found our first client, it was my triumph.

Starting my own business has been the ultimate experiment in the concept Drucker called 'managing oneself'. I am trying every day to build on strengths I have found in myself, and to spot and encourage strengths in my team. For me, having a team has always been a kind of 'calling' – a feeling I first remember from standing in front of a room of my peers when I was seventeen. Later, I have built or run teams in government and a non-profit, and I think I've done it well. But a team that is more deeply my responsibility makes leading harder. At a time when my business partners and I are building the structures of the organization around us – sometimes well, sometimes badly – I feel more self-doubt than I used to about my skills as a leader.

The joy I feel in creating jobs, and my fears in being responsible for them, got me thinking about much bigger questions. How important are new companies like mine to prosperity in a changing world? Why is it so much harder to start your own company than to work for someone else?

Why starting companies matters for future prosperity

The simplest solution to the challenges of starting a company is not to start one. The world is full of interesting and varied organisations in which to work. And many of its biggest companies are known to be great employers.

In a global economy rich with big, successful companies, new businesses remain a critical driver of productivity and of good workplace culture. Flicking my thumb over the homepage of my smartphone is a good place to find some of the dynamic new companies of this century. Airbnb, Uber, Instagram, Pinterest, Transferwise and Whatsapp are all creations of the past decade, and Facebook is not much older. Twenty years ago, Google (and the very many things that have come from it) was only an idea, and not yet a company.

Companies like these have helped to fuel growth and new forms of economic connections between people. But the success of well-known companies like these is hiding a bigger picture that might have concerned a pragmatic thinker like Drucker. Productivity growth is slow. In the UK for example, where I live, official government statistics show that productivity growth remains below where it was before 2007. Productivity growth has also fallen in the US, Japan, and in much of the European Union.

In a decade of disappointing economic performance, new companies – especially those that have enabled people to buy services from one another in new ways – have been rare good news stories, at least economically.

Their team cultures are rather more varied. For example, it is hard to imagine Drucker describing an organisation like Uber as the kind of great company that "could stand among humankind's greatest inventions", as the huge global group of drivers behind Uber's success is not treated as a team and not always looked after well.

Yet among the bro culture and workaholism that are markers of some tech startups, there are elements Drucker would have welcomed: other companies of Uber's generation are leaders in creating the kind of new value that Drucker worked to promote. New companies make three important contributions: new business cultures, innovation to drive productivity, and job creation.

Many modern employees are looking for meaning in their work. Drucker saw this as an essential role of the company. He wrote in *management* (1977), for example, that modern organisations "exist to make a contribution outside (the organization), to society and the community". Perhaps because millennials like knowing how their companies are making the world better, newer companies are often best at tapping into this. Airbnb, for example, stresses welcoming and belonging to its employees, its hundreds of thousands of hosts, and the customers who stay in those hosts' homes.

Second, new companies are driving innovation and productivity, because their existence is often predicated on new business models. Discussing the role of innovation, Drucker wrote:

The need for social and political innovation is now also becoming urgent. Modern cities need new governmental forms. The relationship between human beings and their environment has to be thought through and structured. No modern government governs effectively any more. The crisis of the world is, above all, an institutional crisis demanding institutional innovation… The

innovative growth companies of the last twenty-five years all started as small businesses. And by and large the small businesses have done better than the giants".

Drucker wrote this in 1977. Forty years later, the same comments would not look out of place in the Harvard Business Review or the Financial Times.

Third, new businesses are responsible for creating jobs. My three new interns are a micro-example, but they represent a much bigger trend. The Kauffman Foundation and the Institute for Competitiveness and Prosperity examined where new jobs come from in the USA and found that, over the last 25 years, more than half of new private sector jobs were created by businesses younger than five years old. Perhaps this is because new companies are those that adapt most easily and quickly to today's consumers, technology, and circumstances. And perhaps, like my business partner and me, they are eager to build their teams and do so quickly.

Startup creation is decreasing

The role of new companies in building new business cultures, driving innovation and creating new jobs see an economy's newest companies as among its most useful. The successes of new technology companies that have fast become household names has also seen a new cultural phenomenon emerging: the cool startup guy (or girl). Joining a startup has become almost as appealing for new graduates as the more traditional high-status options of investment banking, consulting and law.

But despite their cultural cachet and the strong evidence of their economic value, the number of new companies is actually decreasing in the west, and it has been for decades. The Brookings Institution, for example, found that the share of new businesses in the US economy has been in decline for thirty years and that, since the global recession, businesses had been closing at a faster rate than new businesses had been created to 'replace' them.

Many of the reasons suggested for this decline are structural ones. Some suggest existing businesses are now so large (even in parts of the technology sector) that it is difficult for others to find opportunities. While interest rates have been very low for many years, it has been easier for established businesses to borrow than for new ones, especially as banks have tried to minimize risks on their balance sheets in the wake of the global financial crisis. And even though the amount of money in venture capital has increased in recent years, more of that money is going to the 'teenagers' of the startup world (in C, D, and E startup funding rounds) than in seed funding for the youngest companies.

These are all challenges that require new thinking (and another essay). Instead, why is it that starting a business requires not just capital and an idea but, as Drucker put it, courage?

The courage to start a company

Starting a company is not something that I am very proud of yet. This is partly, I think, because I do not come from a family of entrepreneurs. I am the first person in my family to employ anyone in my own right. And I think it is partly because starting a company feels like an arrogant thing to do. It is a very public way to say that I think I can do something better, or differently. As a woman, trained as a civil servant, I was taught to defer to others (because they were better, or more experienced, or sometimes just because they were more senior). Civil service training doesn't prepare you very well to start a company.

But when I think about it, a lot of my education and training has prepared me far better to follow instructions than to lead. And I have had some wonderful leadership training, but it usually started with the assumption that a vision was set, and not that I would have to start from scratch. William Deresiewicz, in his book *Excellent Sheep*, gives a scathing critique of the world of elite education and the way it prepares today's students for followership and mediocrity. By spending their years of schooling competing over every grade and amassing CVs full of worthy extra-curricular activities, Deresiewicz argues that students find themselves, even as adults, looking for the next hoop to jump through.

There are generational trends in the numbers of new companies being created. One of them is that my generation - known for its desire for flexibility, growth, novelty and meaning – is less likely to start a company than the generation that preceded it. This is counter-intuitive for me, as I often find myself meeting young entrepreneurs my age, who inspire and intimate me in equal measure.

But there is some logic in a fall in company founders among millennials. Beyond the hoop-jumping culture of our education system, the timing of the financial crisis left us with a very different approach to economic risk-taking. Although we like working in other people's small companies, starting our own may be a risk too far. And earning lower wages than the generation before us over the past decade also leaves us without the kind of savings that helps to cushion the early months and years of a new company.

All of these pressures are very familiar to me. The financial one is a threshold one: without a savings buffer, I could not be doing what I am doing. Beyond that, the cultural challenges can be just as powerful. Deresiewicz' description rang true for me as I have often felt the same way, working out whom I needed to please next and what they might be expecting from me. I think this is why, in quieter moments, I find running my own business so terrifying. And it is why I am so grateful to the women and men who helped me find courage I had not seen in myself, to try to build something from the very beginning, and to own every bit of failure as well as success.

I don't think this is an exercise that anyone can do alone. We probably all have potential entrepreneurs among our friends and our family members who could do with the little push that might make them start something.

This kind of encouragement is critical. But so is the conversation that takes place in our own heads. This brings me back to Drucker, and 'Managing Oneself'. There is someone left to please, after all, and she has serious expectations: it is me, searching within myself for the leader I want to be for my new team. If much of our future prosperity will rest on the energy and innovation of new companies, this means many thousands of people asking themselves similar questions, finding strengths within themselves, and trying something.

The questions that Drucker uses to structure *Managing Oneself* are useful here: not only in deciding to start a business, but in reminding oneself why one did in the months that follow. Three feel particularly important: what are my strengths? What are my values? And how can I contribute? I love building supportive teams that help institutions work better. Perhaps the best thing of all about having my own company is building something I love: because this is exactly what my company needs from me.

Word count: 2132