

# Why do small firms produce entrepreneurs?

**It's not so much what small firms do, says Ivey Professor Simon Parker, but the kind of employees that they attract.**

In a recent episode of *Dragon's Den*, the popular CBC show in which budding entrepreneurs pitch their business ideas to wealthy Canadian financiers, Darrell Bachmann and his wife Colleen walked away with a deal for \$1 million. Darrell came up with the idea of golf shoes with retractable metal spikes, giving traction on the fairway while protecting the greens.

A former golf course superintendent in Chilliwack, B.C., Darrell fits the profile of those who start their own ventures, says Ivey Professor Simon Parker (see *Q&A* on page 4). One of Parker's recent studies, published in the *Journal of Socio-Economics*, shows that the great majority of entrepreneurs come from small businesses. "My study shows very convincingly that small firms are much better hothouses for new venture creation than large firms," he says.

Researchers throughout the developed world have come to the same conclusion: small firms produce a disproportionate number of entrepreneurs. Why is this so?

In Parker's study, he advanced three theories: "transmission," "self-selection," and "blocked mobility." To test his theories, he used the British Household Panel Survey (BHPS) to collect data about those who had quit their jobs to start up on their own. BHPS is a large and unique study that began in 1991 and follows a representative sample of more than 10,000 individuals.

The transmission theory suggests that small firms do a better job than large firms in equipping and preparing their employees to be entrepreneurs, by offering them greater flexibility, autonomy and access to clients. Surprisingly, perhaps, Parker found little support for this theory from the data. "One would expect that access to customers and seeing at close hand how a business fits together would make employees more inclined to start up on their own," he says. "While these conditions may help explain the success of these start-ups, they do not explain why they actually occur in the first place."

The blocked mobility theory rests on an old but persistent notion that large firms offer the really good jobs, with great opportunities for upward mobility, perks, fringe benefits, and security. In comparison, jobs with small firms are

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## Institute Buzz

**By Stewart Thornhill, Executive Director,  
Pierre L. Morrisette Institute for  
Entrepreneurship**



As I write this column, the US election has just ended one aspect of uncertainty – who will be in the White House next year – but a great deal of uncertainty about other matters, particularly economic, remains. With the freezing of the credit markets and massive de-leveraging of businesses around the world, what are the implications for entrepreneurs?

I've tried to answer this question to various media outlets over the past few weeks and, while I don't claim to have a crystal ball, I think there are a few solid trends beginning to emerge. The first is a return to leaner operating models. Businesses that depend on debt are, and will be, in trouble. Debt remains cheap, but it is no longer plentiful, so basic skills of cash management and sustainable growth will be critical. As over-leveraged firms exit the economy, there will be gaps. And these gaps are the stuff of opportunities for entrepreneurs. The nature of the opportunities may change, but they will still be there for the insightful and the bold.

The relative absence of institutional credit may also be of less concern to start-ups than to existing businesses. Entrepreneurs have always had difficulty accessing traditional debt financing, relying instead on their personal networks and angel investors to provide early liquidity. Paradoxically, new ventures may now be perceived as relatively less risky (for the expected rate of return), given the incredible volatility in public equity markets.

So, in the spirit of seeing half-full glasses, I remain hopeful that entrepreneurs – including Ivey entrepreneurs – will continue to provide the economic horsepower that they are known for.

In this issue of *Ivey Entrepreneur*, our newest Entrepreneurship faculty member, Professor Simon Parker, writes about the switch from salary employment to self-employment and Dave Simpson updates us on the recent National Family Business Day and Leading Family Firms events.

Please contact us with your comments and feedback on this issue of *Ivey Entrepreneur*. For more information about the Institute's goals, programs and initiatives, send your email to [entrepreneurship@ivey.uwo.ca](mailto:entrepreneurship@ivey.uwo.ca).

less secure and remunerative. Employees in small firms become frustrated, and because they are excluded or “blocked” from employment in large firms, they set up their own businesses. Parker found no evidence to support this theory.

Parker found strong evidence, on the other hand, to support self-selection. This theory is based on the idea that entrepreneurs share certain characteristics, and individuals with these characteristics are prone to choose employment in small firms. These individuals tend to prefer the greater flexibility, autonomy and flatter structures offered by small firms, and are not put off by lower wages and a greater chance of losing their jobs. “It’s not surprising that people who don’t like hierarchy and are not afraid of risk like to work in small firm environments before they go off on their own,” says Parker. “Small businesses are riskier than large ones, but these people are comfortable with that.”

In his research Parker also found that people who start their own firms and subsequently leave them tend to move into the small business sector. This fact further supports the self-selection theory. “There is a very strong sorting back to small firms, and this is a very compelling finding,” he says. “There’s no reason to expect entrepreneurs to sort at all when they leave entrepreneurship, because their experience is valuable to any firm. But they clearly do.”

Another interesting finding is that employees often move to a completely different business sector when they start up their own ventures. Again, this supports self-selection: less risk-averse individuals are not only more likely to become self-employed but also more willing to tolerate the uncertainty associated with changing occupations or industries.

Parker was hoping that his study might find greater support for the idea that small businesses played an active role in shaping entrepreneurs. If so, it could argue for new directions in entrepreneurial training or education. “The policy implications

of my study are relatively modest,” says Parker, “although more entrepreneurship education could perhaps help influence attitudes towards risk.”

The evidence that entrepreneurs are self-selecting does have important implications, though, for small and entrepreneurial firms. Many small business owners are concerned that too much autonomy and client access might make employees more likely to leave and start a rival firm. This concern is not borne out by Parker’s research. “My results suggest that you needn’t worry about training your workers and equipping them with the skills to set up another venture. If small firms are worried about their employees becoming future competitors, they should be more concerned about the risk-taking characteristics of the people they hire.”

Parker’s study also underlines the importance of a vibrant small business sector. “Small firms have a useful role as placeholders where these budding entrepreneurs often work for a while before making the transition,” says Parker. “Although my study does not prove that the transmitting of experience or expertise creates entrepreneurs, my feeling is that the evidence probably understates the productive role of small firms.”

**Simon C. Parker, PhD**

Director of the Driving Growth Through Entrepreneurship & Innovation Cross-Enterprise Leadership Research Centre

Professor Parker is an Associate Professor of Entrepreneurship at the Richard Ivey School of Business. He is a Research Professor at the Max Planck Institute in Jena, Germany; a Research Fellow at the Institute for the Study of Labour, IZA, in Bonn, Germany; and a Fellow of the Amsterdam Center for Entrepreneurship in the Netherlands. He is an Associate Editor of the journal *Small Business Economics*, a Co-editor of the *Journal of Economics & Management Strategy*, and is a member of the editorial boards of the *International Small Business Journal* and *Foundations & Trends in Entrepreneurship*.



# AlumniSpotlight

## ENTREPRENEURIAL IVEY ALUMNI... IN THE NEWS

Ivey Entrepreneur is delighted to pay tribute to the Ivey alumni and friends who were recently recognized for their entrepreneurial leadership, innovation and success by some of North America’s most prestigious business publications. We salute these Ivey entrepreneurs:

**Top 30 Under 30 (Inc.com):** #29 - **Rahim Fazal**, MBA '06, CEO and Co-Founder of Involver.

**Canada’s Top Women Entrepreneurs (Profit Magazine):** #3 – **Madeline Paquin**, HBA '84, President and CEO, Logistec Corporation; #5 – **Robin Todd**, Quantum Shift '05, President, Marks Supply Inc; #8 – **Jacqueline Shan**, Quantum Shift '06, President, CEO and Chief Scientific Officer, CV Technologies; #21 – **Connie Clerici**, Quantum Shift '08, President and CEO, Closing the Gap Healthcare Group; #27 – **Eveline Charles**, Quantum Shift '07, President

and CEO, EvelineCharles Salons; and #52 – **Gloria Dona**, Quantum Shift '05, President, Underlines Inc O/A Optionelle.

**Ernst & Young Entrepreneur Of The Year 2008®:**

Congratulations to Dr. Piyush Patel, Quantum Shift '06, who was awarded top honours as Ernst & Young Entrepreneur Of The Year 2008® for Ontario. Ivey Entrepreneur also congratulates 2008 nominees: **Kyle MacDonald**, HBA '82; **Ted Rogers**, Friend; **Earle O’Borne**, Ivey Executive Program '75; **Cam Heaps**, Quantum Shift '04; and **Aldo Cundari**, Quantum Shift '06.



# Business Families

# 2008

The mandate of the Business Families Centre (BFC) at the Richard Ivey School of Business has always included a three pronged approach to Business Families: study, support and celebrate.

by David Simpson, MBA '88, Executive Director, Business Families Centre



National Family Business Day is host by Ivey's Business Families Centre in partnership with the Canadian Association of Family Enterprise (CAFE), Southwestern Ontario Chapter

On October 22, the BFC and the Canadian Association of Family Enterprise (CAFE) Southwestern Ontario Chapter co-hosted the 5<sup>th</sup> annual **National Family Business Day** celebrations. Hartley Richardson, the seventh President to lead James Richardson & Sons Limited, and Carolyn Richardson Hursh, Chairman of the Board, presented "The Balancing Act: The Family and Business in Co-Existence." Together they shared the history and legacy of their

five generation family enterprise – the largest privately owned network of grain facilities in Canada – that has flourished for over 150 years under the leadership of the Richardson family. James Richardson & Sons Limited is a prime example of the strength of the family business structure, the oldest and most enduring form of commercial enterprise worldwide.

The event also included a family business panel. Peter Channer of Channer's, a London-based men's and women's clothing store, and John Nash of Nash Jewellers in London, shared their experiences launching, leading and growing their respective family businesses.

"It was a day to celebrate family businesses and there's much to celebrate because family businesses are a great source of wealth for the Canadian economy," says David Simpson, Executive Director of the Business Families Centre. "Family businesses provide the vast majority of employment in Canada and they outperform and outlast traditional businesses on all metrics." According to Simpson, Canadian family businesses control about 45 per cent of the gross domestic product, create 70 percent of new jobs and employ 50 percent of the workforce. Those statistics are even higher in many Asian and Latin American countries.

Over three days in October, 25 participants from 7 different families participated in the second **Leading Family Firms program** at the Spencer Conference & Leadership Centre. Together they shared experiences, anecdotes and challenged



John Nash of Nash Jewellers and Peter Channer of Channer's with Ivey's Dave Simpson

each other to improve communications between family members. Facilitator David Simpson from the Ivey Business Families Centre led the group through the Roadmap course, a video case series developed by the Business Families Foundation and endowed to Ivey for utilization. Together with Ivey cases written specifically for this program and the Ivey HBA/MBA program of the same name, this fast paced program is beginning to develop a reputation of tremendous value for entrepreneurial business families. The families were also treated to a fireside chat with the Sifton family, whose third generation leadership shared governance and leadership insights with both the participants and the Sifton's fourth generation family members in attendance. The Business Families Centre hopes to continue to expand this valuable component of the Pierre L Morrissette Institute for Entrepreneurship.



Dave Simpson with Carolyn Richardson Hursh, Hartley Richardson and Ivey's Acting Dean Larry Wynant



# Meet Simon Parker



Simon Parker is the new Director of the Driving Growth Through

## Entrepreneurship & Innovation Cross-Enterprise Leadership Research Centre

Simon Parker comes to Ivey from Durham Business School in England, where he was Head of the Department of Economics and Finance and a prolific researcher. Parker began his career as an academic economist with a specialty in labour markets, an interest which led to a growing focus on the self-employed. The more he met entrepreneurs and explored entrepreneurship, the more his passion for the area grew.

Entrepreneurship also runs in Parker's family. His brother, a PhD in physics, left a research institute in Norway to start up a business in the Alexander Technique, a method of alleviating back pain through natural movement. His step-brother owns a niche business in England building custom guitars. We talked to Parker about his interest in entrepreneurship and why he's excited to be Director of Ivey's new Research Centre.

### Why do you feel entrepreneurship is such an important area?

Entrepreneurship is the engine of new job generation and corporate growth, and it's typically where new innovations and wealth creation comes from. Our modern economies depend on encouraging people to take risks, start businesses, and grow them.

### Describe the nature of your research?

I take an economics approach, looking at large samples of data to draw solutions and distil lessons that apply generally to entrepreneurs (*see feature article Why*

*do small firms produce entrepreneurs?*). I'm particularly interested in the contribution of entrepreneurs to the economy and how they respond to incentives. This helps public policy-makers build more attractive and appealing environments in which entrepreneurs can operate.

### What attracted you to Ivey?

Ivey is a great business school, with very talented people and high calibre students. I like the case method approach to teaching, which is a huge strength of Ivey. I feel this is a particularly good opportunity to broaden my knowledge and learn more about the nuts and bolts of entrepreneurial companies and how they work.

### What are looking forward to as Director?

My interest in the Centre is to make it a showcase for thought leadership. I want to continue to engage in outreach activities and push our thoughts and ideas out into the external community. I'd also like to bring a more coherent research-driven perspective to our work.

## Student Watch

### Ivey Entrepreneur would like to introduce you to an entrepreneurial student who's definitely one to watch.

**Eric Janssen**, HBA2009 is the founder of Garage Entrepreneurs, an online social networking community where entrepreneurs can develop ideas, find potential business partners, connect with investors and receive advice from business experts around the world. Garage Entrepreneurs provides access to the resources that entrepreneurs need to jump-start their new venture and take it "from garage to growth".

"Garage Entrepreneurs Beta is an online space just for entrepreneurs. It's a project that has been in development for the past two years, and is a product of continuous improvement. We have taken the feedback of hundreds of entrepreneurs and built a community around their interests. But, in the end it's not about *stuff*. It's about building a community around the existing ones and providing tools to facilitate the discussion."

Garage Entrepreneurs will be ready for full public launch in March of 2009.

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This newsletter is published for individuals in business and academic life who have a particular interest in entrepreneurship. If you have any comments or questions please contact us. If you or your organization would like to obtain a copy of this newsletter, free-of-charge, please contact:

**The Pierre L. Morrissette Institute for Entrepreneurship** Richard Ivey School of Business,  
The University of Western Ontario, 1151 Richmond Street North, London, Ontario, Canada N6A 3K7  
E: entrepreneurship@ivey.uwo.ca W: www.ivey.uwo.ca/entrepreneurship

Richard Ivey School of Business  
The University of Western Ontario

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