



A Delphi White Paper on the Economic Crisis



Stop Bailing and Get into the Lifeboats

Why the Next Decade may be the most Innovative in History



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Whatever your opinion about the billions being spent by the US government to bail out CITI, AIG, GM, Chrysler, et al, one thing is clear, large corporates have failed us. Yet we continue to dole out bonuses to the architects of the failure. At times it feels as though we are praising the builders of the Titanic as it slips under the surface, with many of us still on board.

When the smartest people in the world (if that can be measured by MBAs and PhDs) bring down our largest financial institutions, and just about trigger a collapse of the global economy in the process, you have to wonder how far off course this ship really is and whether we can ever steer it back in the right direction.

So how can I even begin to talk about innovation? Easy, without the shadow cast by the corporate canopy of greed and the stale lackluster innovation of huge organizations some sorely needed light may finally find its way to ground level, where entrepreneurs, small business, and ultimately innovation thrives.



Don't get me wrong, I'm not against large corporations. They are a cornerstone of the economy. Large companies are needed to scale a good idea. But the future of our economy and the future of innovation is not about large corporates, it's about growing new ideas.

All too often we mistake what makes a great headline with what makes America great. The real story of growth and innovation in America rarely makes the front page. Americans are scrappy, we work best in small teams. We love to fail and we fail fast and get on with the next good idea. Our history and our culture is not one of monoliths. It is not a history of great corporations - that is an effect not a cause. Ours' is a history of people with great ideas who changed the world with small committed teams and ultimately built corporations to bring their ideas to the masses. Notice the sequence of things in that last sentence. Somewhere along the way we seem to have reversed that order.

The fact is that innovation happens best in the trenches, in second bedrooms and garages, in

the nooks and crannies of an economy where capital is tight and ideas are limitless. Funny, but that's also where risk is best understood and managed.

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The notion of managing risk is not abstract to entrepreneurs and small business owners. It's a reality that goes to bed with them at night and wakes up with them in the morning. If only the same could have been said about so many of the analysts and bankers who simply passed risk on to the next one in line, and then slept soundly believing that it was someone else's problem.

What's that? You say that it's the large corporates who are laying off thousands and that they need

to rehire in order to get our economy back in gear. Perhaps, but that's the short view, a way to jump start things. But it's not the long view and it's not the way to build long term prosperity. Here is the long view. 70% of the jobs created in the US over the past decade were jobs created in small businesses. That's where the ideas originate, that's where acquisitions fuel large corporates, and that's simply the greatest source of return for investment capital in any part of the economy. If the small business engine doesn't

restart you can kiss innovation, and the future health of the US economy, goodbye; it just won't matter, long term, how much money we pour into bailing out corporate America. As my dear friend

Peter Drucker used to say, "Nothing is harder than keeping a corpse from rotting."

Now here's the good news. Small business is historically the most innovative part of an economy in a downturn. And it



The Way Forward

makes perfect sense that the great ideas that drive us out of a crisis are not the ideas that got us into it. With few exceptions, large companies are conserving capital and writing innovation off. But if you're running a small business in a climate of economic despair innovation is a 24/7 obsession, it's not an optional investment to cut out of the budget until things get better. If you're unemployed in a climate where the chances of being quickly re-employed are dim you will try like hell to make due somehow. In the process you will innovate out of necessity in ways you could never have imagined on a full wallet with a day job.

Add to that the unprecedented benefit of living in an age of rampant social networking, which makes it easier than ever to connect and build a business, and you have an incredible chemistry for the future that portends of an era which may rival even the most innovative periods of the last 100 years.

So what stands in the way of this? One small impediment, we need to be at least as committed to helping small business in America as we are to bailing out corporate America.

Small business is efficient, small business is fast, small business is innovative, but at some point small business needs capital in order to get from concept to commercialization. With credit being ridiculously tight, home equity (a standard funding mechanism for entrepreneurs) continuing to drop, we need to refocus our recovery investment on helping small business. Amazingly TARP did virtually

nothing to directly help small business, and the ARRA (The American Recovery and Reinvestment Act of 2009) does little more to incentivize new small businesses. Although it does provide some incremental relief for existing small business, but nowhere near enough. We need more.

We can begin by creating a National Innovation Zone, a set of



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incentives and funding mechanisms for small business. The key will be to provide incentives for greater risk taking among small business owners, especially new startups. This could include greater access to guaranteed small business loans from the federal government, substantial tax incentives for small business investment and small business employment. Some of that is already being proposed by the current administration in the form of higher rates of loan guarantees for small businesses.

Yet, naysayers claim that banks will make too many bad loans to small business if the government stands behind them

with guarantees. Yes, let's just plow more money into treating the symptoms of a crisis rather than the cure. We could also provide greater tax incentives for small business owners we use their own credit to fund a new business. For example, why not provide a outright tax credit for home equity or other forms of debt used to start a new business, rather than limit home equity used for startups to a 28% deduction ceiling. I know of few small business owners who have not relied on home equity to bootstrap their business at some point.

It's time to get back to what makes us innovative and what makes us great, and always has, the spirit of the entrepreneur and the ability to build new businesses. The bottom line is that the passengers of this ocean-liner don't need a bucket to bail out the ship, they need lifeboats to find their own way to safety!

TK - 4/24/09

