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Study finds NY entrepreneurship lagging nation

A new Baruch College report points to the need to encourage the creation of new small businesses that show long-term viability and can hire more employees.

By Kira Bindrim
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Although New York is a one-stop shop for media and finance firms, the state is a slow starter when it comes to entrepreneurship, according to a new study.

Just over 15% of people in New York state are involved in some kind of entrepreneurial activity, compared with a national average of 18.8%, according to "The Global Entrepreneurship Monitor 2009: New York State Report," to be released Friday. The report, which surveyed nearly 1,000 people statewide, was conducted by the City University of New York's Baruch College, along with Babson College, Rep. Carolyn Maloney (D-NY) and the Global Entrepreneurship Research Association. It found that in addition to lower rates of entrepreneurship, new businesses in New York tend to be smaller, create fewer jobs and fold more quickly.

The report draws specific attention to "necessity entrepreneurs," or individuals pursuing business ownership because of a lack of other employment options. Although city officials have touted start-ups' potential to help New York get out of the recession, the report noted that necessity entrepreneurs tend to be less experienced and less ambitious, and will be the first to return to large companies once the economy improves.

"All the positive news about entrepreneurship right now is how it will lead to 'the next big thing,'" said Ed Rogoff, a professor of management at Baruch and one of the authors of the report. "But these are not the formulas for creating the next big thing."

Nearly 7% of those surveyed were early-stage entrepreneurs. Of those, 40% were entrepreneurs by necessity. That's 2.6% of the overall New York sample, compared with just 1% nationwide. The state also suffered with respect to longevity: just 1.1% of New Yorkers own a business that is less than 3.5 years old, compared with 4% nationally, and 5.7% own a business that is older than 3.5 years, compared with 7.7% nationally. Meanwhile, nearly 3% of New Yorkers have shuttered a business in the last 12 months, compared with 2.4% nationally.

Demographically, the report found that men in New York are 10 times as likely as men nationally to engage in early-stage, necessity-based entrepreneurial activity (5%, compared with 0.5% nationally). Minority business owners are also becoming common: more than a third of the state's entrepreneurs are non-Caucasian, and 16.7% are immigrants. Still, immigrant entrepreneurs are less likely to own an older business, and more likely to have shut down a business in the last year.

New York's entrepreneurs are also a more pessimistic bunch, compared to the rest of the U.S. Just 9.2% of entrepreneurs in the state expect their business to gain jobs over the next five years, compared with 14% nationally. Only 2.6% expect to add 20 or more jobs in that time period, compared with 5.5% nationally.

At fault for the state's lagging entrepreneurship are high tax rates and the generally exorbitant cost of doing business here, according to the report. New York state ranks 45th or lower—with 1 being the most favorable rating—for business taxes, personal income taxes, capital gains taxes, property taxes, gasoline and diesel taxes and Social Security wage caps, according to the report.

The allegations echo findings from a September report conducted by the Center for an Urban Future, a Manhattan-based think tank. That report argued that the city produces far fewer entrepreneurial ventures than tech hubs like Silicon Valley and Washington, D.C., despite having access to at least as many educational institutions and research dollars.

“I think for a long time some city officials have viewed small businesses as cash cows more than engines of growth,” said Jonathan Bowles, director of the center. In addition to taxes and higher utility and real estate costs, he says local small businesses are also fined more than their larger counterparts.

Indeed, the Baruch report charges state officials with encouraging large slow-growing companies to do business here, while neglecting their smaller peers. It also argues that would-be entrepreneurs are hindered by a lack of communication between the city and state's various small business agencies.

"While we believe there is no better location in which to start and grow a new business than New York City, we recognize there are significant challenges," a spokesman for the city's Economic Develop Corp. said in an e-mailed statement. "That is why in the last year we have launched dozens of initiatives that aim to provide entrepreneurs greater access to affordable workspace, capital, and training and networking opportunities. Between starting a network of incubators for start-up businesses and launching an Angel Fund that will increase the amount of early-stage seed funding here by 25%, New York City is focusing on cultivating our strong and growing entrepreneurial sector."

In addition to making New York more financially friendly to small business, Baruch's report proposes creating a “holistic approach” to supporting entrepreneurship, including industry-based resources and added services for people in more advanced stages of business ownership.

“People are trying to build businesses in different industries, with different skill levels,” Mr. Rogoff said. “The state and city's strategy is by and large ‘one size fits all.'”