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A Small Opportunity: Time for Entrepreneurship to Thrive in NYC

Start-ups can't stand in for fleeing financial giants. But they could help put the city back in business.

by Jonathan Bowles

Tens of thousands of top-notch employees out of work. Major companies moving out of town. Investors turned gun-shy after the burst of the dot-com bubble.

Doesn’t sound like good news for small businesses? Well, with a little push, it could be.

The time is ripe for a wave of start-ups to emerge in New York City. Thanks to the layoffs of thousands of software programmers, web designers, bankers, lawyers, writers and even some engineers, a pool of highly skilled, creative New Yorkers is on hand. Many of those now out of work were involved with successful (and unsuccessful) start-ups in the mid-1990s, during the city’s first high-tech surge. Many of them know a thing or two about how to finance and run small businesses—and most have learned quite a bit about how not to.

With the economy in decline and large employers continuing to cut costs, some of these people will look to create their own job opportunities. Not all of these new businesses will make it. But even in tough economic times, the best ones historically have. And although venture capitalists are not likely to jump in with both feet the way they did in the go-go 1990s, investors will nonetheless be watching and waiting for solid bets to emerge.

“New York’s creative juices are definitely running,” says Sara Garretson, executive director of the Industrial Technology Assistance Corporation (ITAC), which provides technical assistance to small businesses. “People are willing to take a risk when they lose their jobs.”

The city should seize this opportunity. Not only would a start-up boom help jump-start the economy, but it would also beginto prepare us for a future in which small and medium-sized businesses will increasingly be the real job engines.

Smaller businesses—particularly technology-related firms—are the most likely candidates to pick up the slack left by the financial-industry giants, which have begun dispersing their operations throughout the region. Even some of those corporations that have recommitted to being in Manhattan have transferred some of their employees to offices in New Jersey and Connecticut. By mid-December, the Federal Reserve Bank of New York estimated that 18,000 jobs at stock brokerages, banks and insurance companies had permanently moved from lower Manhattan to Jersey City and elsewhere in New Jersey since the September 11 terror attacks.

“The big financial firms will probably keep important corporate presences in Manhattan, but there will be a continuousleakage of jobs to Connecticut, New Jersey and elsewhere,” says Neil Barsky, managing partner of Midtown Capital Partners, an investment management firm. Even before September 11, the financial industry was no longer the jobs powerhouse it once was. Although investment banks still contribute a disproportionately high amount of revenue to the city, even during the incredible boom times of the 1990s they generated just 45,000 of the roughly 430,000 jobs created—and about half as many jobs as the industry generated during the 1980s upturn.

Overall, from 1993 to 1996—as the city was coming out of the last recession—large businesses created just 22,000 new jobs, while small businesses created almost 100,000, according to the city comptroller’s office. Before September 11, 98 percent of the city’s businesses had fewer than 100 employees—and 89 percent had fewer than 20. Says Barsky: “In the absence of big-company growth, it is reasonable for the city to fuel the creation of new businesses.”

Fostering small businesses is a role tailor-made for Mayor Michael Bloomberg, who started his own company after being booted from Salomon Brothers in 1981. His $10 million severance package certainly helped. But the point is that today, Bloomberg LLP employs thousands. By embracing and encouraging entrepreneurship, Bloomberg could do much to reverse the errors and omissions of past administrations. Though Silicon Alley emerged in the mid-1990s, the Giuliani administration had virtually no role in its development. And, at least until late in his second term, Giuliani did little to nurture small businesses or grasp the opportunity for growth in emerging sectors such as software and biotech. Instead, his economic development agenda consisted primarily of providing tax breaks to large finance and media companies, and trying to build sports stadiums.

The Giuliani administration even managed to bungle the city’s only plan to provide early-stage equity investments in emerging businesses with high growth potential. The Emerging Industries Fund, created by the City Council in 1997, was supposed to allocate up to $25 million in small equity investments. But the city’s Economic Development Corporation sat on the program for years, named political fund-raisers such as Georgette Mosbacher to its advisory board and ultimately handed management of the program over to a venture capital firm that had no intention of investing in the early-stage companies that were initially targeted by the City Council. To date, the fund has made just one investment—a $600,000 pledge to a Manhattan biotech firm.

Not surprisingly given the high costs of doing business here, entrepreneurs and venture capitalists don’t consider New Yorka particularly friendly place for emerging businesses. Dun & Bradstreet’s annual list of the most entrepreneurial big cities in America came to the same conclusion; New York logged in at a dismal 21st place. This is all going to have to change if New York expects to grow its economy in the years ahead—and it will have to change quickly. The city has the human capital needed to fuel a small-business renaissance, but if the new administration doesn’t make the city a more attractive place for entrepreneurship, New York risks losing many of its software programmers, scientists and other highly skilled people to cities that are more friendly to start-ups.

In responding to the September 11 tragedy, city officials have rightly made a priority of retaining businesses and convincing large employers forced out of the city by the attacks to return to New York. But there's no reason why the Bloomberg administration shouldn't also pursue a parallel strategy of nurturing emerging businesses, particularly those that have potential for growth.

Though the city isn't in a position to be spending money on ambitious new projects, Mayor Bloomberg can lay the groundwork for such a strategy without breaking the bank. There are a number of things he can do to signal to potential entrepreneurs and investors that his administration is going to make a break from the past—and make a priority of promoting and supporting new businesses.

For starters, he can make sure New York remains a place where people want to live and work. Among other things, this means continuing to make quality-of-life issues such as safety a priority, and forging a realistic plan to create more affordable housing.

He could also send a strong message by restructuring EDC—an agency that essentially reacts to the needs of a handful of large companies—into an organization with a more forward-looking, sector-based strategy of economic development that addresses the needs of businesses both large and small within several key industries.

Bloomberg could personally call on New York-based venture-capital firms to make investments in local companies—something they haven't always done. He could urge local academic leaders to push for greater cross-collaboration between technology research programs and business schools—a marriage that could lead to the creation of more businesses. And, in coordination with industry associations, his administration could sponsor a series of business workshops that would bring together potential entrepreneurs, people who have succeeded in starting businesses, venture capitalists, university technology program officials and groups that provide technical assistance to new businesses. For more ideas, and for assistance, the mayor could easily tap existing resources, including the Industrial Technology Assistance Corporation, the Borough of Manhattan Community College's high-tech incubator in lower Manhattan and R&D programs at local universities.

Of course, a more nurturing environment alone will not suffice. "What entrepreneurs really need is money," says Syl Tang, founder and CEO of HipGuide, a multimedia city and lifestyle guide. "Whenever I've been asked what would make the difference, that's what I tell government agencies and pretty much any organization that I think really wants a truthful answer—but somehow we still get offered everything but." More than anything else, entrepreneurs need early-stage capital—seed money to cover the cost of protecting intellectual property, writing business plans, refining technology and keeping founders afloat until they reach the point where they can access funding from venture capitalists and other investors.

"For the first-time entrepreneur, it is difficult to get the seed funding," says venture capitalist Jack Hidary. "It would be helpfulif something could be done for more of that seed stage."

Fortunately, nearly $25 million of city money previously allocated to the Emerging Industries Fund is now most likelyavailable for that purpose. The mayor should instruct EDC to restructure the program to make small seed investments—this time under a newly created advisory board of successful entrepreneurs and "angel" investors.

Finally, the administration should make sure to embrace the city's other entrepreneurial class—first-generation West Indians, Nigerians, Guyanese, Dominicans and other new immigrants living in the five boroughs. Entrepreneurship among immigrants helped keep the city's economy going during the last recession. The city could encourage a similar response to the current downturn by creating community entrepreneurial assistance centers in each borough to provide technical assistance and training.

All of this is possible. The opportunity is here. Whether it happens or not may depend on whether the city's entrepreneur-turned-mayor makes it a priority.

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