

U.S. benefits from allowing failure

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DIANE FRANCIS

One of life's paradoxes is that an individual's success depends upon the ability to manage failure.

The same applies to economies. Nations where bankruptcy laws, public attitudes and the financial system allow people to try again after a failure are not only wise, but wealthy. This phenomenon helps explain why the United States is so successful.

"The U.S. economy is the economy that has the most lenient cultural attitude towards failure, which accounts in large part for its dynamism," says Roger Martin, dean of the Joseph L. Rotman School of Management at the University of Toronto.

"The American culture doesn't exacerbate failure," said Mr. Martin, who spent 14 years as a management consultant in the United States before returning home. "It's an economy where failure is least punished. We know lots of entrepreneurial activity fails. Only one in 10 startups survive after 12 months. You can't have a system without failure so how the culture reacts to failure becomes important. The world needs delusional, pigheaded people who try things with a low probability of success as well as a culture that doesn't exacerbate failure."

Europe's and Japan's systems are punitive when it comes to failure.

"In some places if you go bankrupt you won't ever get money again, your kids won't and your kids' kids won't — all because you failed," he said. "In the U.S., after a bankruptcy, you are likely to get money the next week. Canada is somewhere in between the two. You avoid failure by staying within your comfort zone, which is what I worry about in Canada with Canadian businesses."

Americans, both individually and business-wise, are encouraged by peers and their system to take risks, even though everyone knows the odds are against success. Americans don't think profits, or losses, are dirty words. Nor do they regard competition as anathema to their social values.

Even if they flop, their peers rally around and the system lets them try again. That's why Americans are "serial entrepreneurs," said Mr. Martin.

Peter Munk of Barrick Gold

Corp. is often cited as a Canadian comeback story. He failed in the 1950s in a manufacturing business but returned to triumph in Canada. But this was only because he left and succeeded elsewhere. When he returned, he financed his new venture mostly with off-shore capital and investors. Otherwise, Canada's comeback kid would probably have been forced to come back somewhere else.

Permission to fail is also reflected in U.S. public policies. The role of the state is less interventionist when it comes to propping up money-losing enterprises or propping up entire regions, as is the case in Canada. (By contrast, this country has squandered most of its resource wealth in the past 30 years by "investing" in backwaters and bad businesses that are politically correct to bail out or prop up. God forbid a business goes belly up in Nova Scotia or the Prime Minister's riding or some other backwater.)

The Americans and their governments don't throw money away propping up business basket cases. They don't pour billions into the hinterland. They don't feel letting businesses go under is unacceptable or somehow shameful. Failure happens and they take it in their stride more than do Canadians, their politicians or governments. These attitudes also help explain their huge success economically.

Meanwhile, in Canada, once a bankruptcy or credit risk is apparent, our conservative banks gang up and squeeze out the player. Once someone has failed, it's impossible to get financing.

Let's face facts. In Canada, banks only lend you money if you can prove you really don't need it. They insist on collateral for the loan. Even established small businesses must put up collateral. But U.S. banks lend money against accounts receivable and business prospects.

U.S. banks take more flyers because there are thousands of them competing against one another. Smaller banks are closer to the people, which also means local bankers know who they are lending money to.

Fortunately, Canada has a relatively lively stock market system, which has provided capital to entrepreneurs. And U.S. creditors and others are providing alternatives as the border slowly dissolves.

"The reason for the American risk-taking mentality may be historical," Mr. Martin speculated. "The country started with a bunch of pigheaded, delusional people who crossed the ocean, then started a violent, bloody war with their parent country. Then they created the U.S. Constitution which was, at the time, a leap of faith."

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dfrancis@nationalpost.com