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## Why small companies are best placed to meet the big challenges of the knowledge economy

From Dr Shashi Kant.

Sir, I totally agree with the arguments and analysis presented by Graciela Chichilnisky ("Think small if you want to create more jobs", May 13). Employment is a big issue for any economy, particularly in an election year. However, irrespective of the year, at least in the first quarter of this century, employment is going to be a big challenge to developed economies because of difficulties posed by emerging economies such as India and China.

It is true that outsourcing will reduce jobs in the US but the solution to this problem is not legal restrictions. These limits will not only hinder globalisation and free trade but also put US industry in a disadvantageous position compared with other developed countries that do not restrict outsourcing, and with emerging countries such as China and India. US policymakers have to think beyond the conventional option of legal restrictions.

Prof Chichilnisky has rightly pointed

out that we are moving from an industrial age to an information and network economy, and from industrial labour to knowledge worker. The past century was the century of industrial revolution and this century, at least the first half, will be the century of information revolution.

Means and ways of employment generation need to be different and the countries that will take the lead in designing appropriate policies and interventions will be the winners.

Many examples in the information and knowledge economy have clearly demonstrated that large capital is not a prerequisite for a successful company, and small companies have an edge over large ones.

As Prof Chichilnisky has pointed out, small companies produce 13 to 14 times more patents per employee than large ones, and their patents are more valuable. Hence, labour productivity as well as capital productivity is much higher in small companies.

Small companies have many other advantages. First, income inequalities

among employees are much smaller, compared with big companies, which promotes an environment of belonging and more chances of success.

Second, employees have strong networks, and the company has strong links with its clients, both of which improve social relations and social stability.

Third, the magnitude of unemployment due to failure of a small company is much smaller compared with the failure of a big company. Small companies can therefore play a bigger role than big businesses in this economy, and US policymakers can boost job creation by promoting the market power of small companies. It will be interesting to watch the actions of US policymakers and policymakers from other countries, developed as well as developing.

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