

## **The FIVE Capitals**

### **The Introduction: Europe Today**

Over the past year several topics of concern in Europe have become object of daily news. Basically, these were economic activity, unemployment and demographic trap, but in fact others related to them could be mentioned. The apparition of China and India as industrial and export economies, the scenes of terrorism lived in Spain and London, the integration of new nations to the E.U., all this panorama has changed the European older perspective of the world and generated a feeling of uncertainty. However, I would say the situation is not as bad as it seems.

To begin with, let's take a look at the GDP, the best measure of economic performance. According to *The Economist* (November 19<sup>th</sup>-25<sup>th</sup> 2005), if we compare it with the American one, although their GDP had outpaced the European in the last year, during the last five years you were behind them by just 0.1%.

Another problem is unemployment, which, in fact, is much better than what everybody says. If we evaluate it against the American, we could say they aren't better than Europe at creating jobs. The Bureau of Labour Statistics (European Central Bank)<sup>1</sup> states that since 1996 the proportion of population of working age with jobs in U.S. has fallen from 73% to 71%; and in Europe it has raised from 59% to 65%.

And if we take a look at the emerging markets from Asia, we could also argue there is nothing to be afraid of. According to Morgan Stanley 2005 Results of studies on the euro zone as a whole, net exports have contributed only 0.1% of the 1.9% average growth in the GDP since 1999. So even though Asians are making a great business with exportations, it isn't a market Europe has been losing, because its growth depends almost entirely on domestic demand.

Finally, another problem which Europe is dealing with is the demographic decline and an aging population. For over a decade it has been decreasing its fertility rates, which means that, overall, European populations are going to shrink in the future. It is a problem which should not be left out of sight, and I think Europe is making a big effort to tackle this matter by attracting immigrants and promoting fertility.

If we think this as a whole, we could say the problem is coming from the social area and is impacting the economic activity generating more social problems and resulting in a vicious cycle. In addition, the integration between multicultural nations, as well as the distrust America has with its foreigners and the emerging economies from Asia, is making a necessity of democratic management in

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<sup>1</sup> OECD, Eurostat

order evaporate this feeling of disenchantment and insecurity to create hope and opportunity.

### ***The solution: Entrepreneurs***

“Only high-impact Entrepreneurship is responsible for the most powerful and efficient way to build wealth democratically in a society. Entrepreneurs create jobs, spread social mobility, and generate a sense of hope and opportunity. They don’t have a particular sex, race, age or nationality, neither educational background. But entrepreneurs have the energy, passion, drive and persistence to develop success. No matter what has been done before, they change it; going further than anyone, communicating and motivating to manage company teamwork activities, investigating and researching for a real economic sustainable development”, this was the core of my application for another conference, and really believe on it.

In addition to this, I would like to quote Enrique Iglesias’s words, President of the Inter-American Development Bank: “We are discovering another energy in this world, in our region, which is the energy of the young people: women and men who are able to innovate, to create, to take risks, to move ahead [...]”<sup>2</sup>

### ***The Case-Study: MIT***

Let’s take a look to look at what I think is the best example for the entrepreneurship activity, the MIT (Massachusetts Institute of Technology), which in fact is known as one of the best universities, and maybe the best of the world in Engineering.

In this school, apart from campus, labs and any other places a university has, they have a squad of institutions providing the whole context for startups. And this is not a fashion trend they had to make in these last years, for example: Sloan ran an entrepreneurship course in the early 1960s; the Alumni Association launched the Enterprise Forum as a networking group for businesspeople in 1978; the E-Club started in 1988, and today there are many more.

And the results are incredible: a 1997 study conducted by Bank Boston found that there were 4,000 MIT-related companies employing more than a million people over the world with annual sales of about \$230 billion (a figure comparable to the gross domestic product of South Africa or Thailand). Between 1996 and 2004, an average of 20 startups were founded each year to commercialize MIT-owned technology, according to the Technology Licensing Office. (The peak number was 30 in 2000, during the dot-com boom). In this way, apart from giving engineering, they teach students for the real (business) world. In the MIT they have built what they call an **Entrepreneurship Ecosystem**.

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<sup>2</sup> Endeavor Impact 2004 Catalog, [www.endeavor.org](http://www.endeavor.org)

### ***The FIVE Capitals***

So the secret of the MIT is not only to find venture capitals, because this factor alone wouldn't have been enough to encourage research, innovation, contacts and networking. It is more difficult than that, and it has taken lots of time and effort to do it.

The key has been to combine the five most important Capitals they have: **Human, Financial, Social, Cultural and Intellectual**. There are many ways in which resources could be categorized, but I will classify them into five categories because many times we think entrepreneurs only depend on Human and Financial Capitals, although Human also includes various social aspects which can't be overall covered. Well, here it is what I understand by them:

- Human Capital: I mean genuine leadership, which in spite many authors expose how can be teach it, even in the 21st century it has not been found a correct way to do it. Anyway, I refer to giving guidance or direction to a team with a definably objective.
- Financial Capital: Economic support for the creation, enlarging or improving of businesses.
- Social Capital: The power it has for entrepreneurs the networks. The mobilization of them not only creates working teams, but also it improves innovating ideas and attracts investors.
- Cultural Capital: To showcase role models. This generates hope and opportunity. Most of entrepreneurship institution does it, and believe me that it really works.
- Intellectual Capital. This is basically education + intellectual skills. Any profitable business must have enough of those to develop research and innovation.

The Five Capitals cover the whole Entrepreneurship Ecosystem, and in this way they must be developed in order to generate entrepreneurship activities. All of them act on particular subjects, but they are related and need to work together.

Usually they have to face barriers such as: Untapped talent, lack of mentoring, closed networks, scarce information, and lack of role models, and the Five Capitals must work to break them through coordinated programs.

The most difficult part is to understand that these Five are a system, and systems are composed by its components. The government, private sector, press, education and non profitable institutions, the whole society is involved in them. The key for Europe would be to work coordinately in order to achieve long term entrepreneurial experiences.

### ***The Conclusion***

Europe is suffering a social feeling of insecurity and is not motivating its community. This trend is going through the economic area and the way round to society. It is a problem that affects the whole continent, and if long-term decisions are not taken, the consequences can be more difficult to repair. Economy depends on companies, and companies on their people, its entrepreneurs, who will make their businesses according to the Five Capitals.

The most significant trend and development in Europe will be in charge of those entrepreneurs with the potential to transform their industries, their communities, and even the whole continent. Europe's challenge is to make context, which is a matter of developing and organization between the Human, Financial, Social, Cultural and Intellectual Capital.

**The Extra Credit**

Buenos Aires, January, 2006

Dear Europe,

I'm glad this international competition gave me the chance to write to you. I know you have asked me for some source of inspiration, and even though I'm not a Nobel Prize economist, neither the smartest student of my class; I think my opinion would help you.

I hope to have covered all the economic and social aspects which are threatening the continent, which in fact, as I said before, we could think them more as opportunities than threats. Moreover, I think there is lot to do and that there is not only one solution, but only one I could say it will bring long term consequences: Entrepreneurs. Well, I hope to be clear enough in this entire essay.

Apart from that, let me tell you two experiences I had during my travel last year to Europe, which was my first time in this continent in spite of the fact that I had been in all the others before. I went for a business conference in Germany and I stayed some weeks more traveling around that country. When I came back, people asked me about the landscape, museums, and other places, but I remember me talking about two social aspects which I had never seen before.

During my trip, I spent some days in some of the principal cities, and if something surprised me, it was the fact that in all this places there was always a feeling of construction and development, but it wasn't a feeling I only had between the real state sector. During the conference, I remember hearing various executives aware of the economic situation and the emerging competitors from China and India. And I asked myself for a while: "I can't understand how they can be bothered if they are one of the richest countries in the world". I did not ponder on this for very long, and only one answer appeared in my mind: "The only way you can achieve and maintain at the crest is continue trying to improve, no matter the context, no matter how high you are, always continue" and that's what they really do .

Another place I visited was the "House of History" in Bonn, a WW2 Museum. The guide was a woman in her forty's, nice and friendly. And besides that, her speeches were so great that I was moved as I had never been before by someone I didn't know. Only the people who lived a war know how it really looks like, and the best of all is you are sure you won't like to go through another one again. Living so many years of history brought big problems, and, in spite of this, the advantages of learning about them are tremendous.

Although you may not realize it, you still have the best asset any organization can have: People. And despite being able to measure statistically its education, health, life expectancy, which in fact are the highest found of the world, we still cannot measure the leadership skills, the networks, the right people have to express, and many others which are important issues which I believe it makes this continent the wealthiest.

I don't have more words to express my finest wishes for the next decades. I just ask you to continue growing, you are going through the right path, and you are an example for

the rest of this planet. I understand the cultural, religious and demographic problems you have, the competing capitalism we are living in and the challenge of succeeding in a hyper complex world. But please don't give up, do it for you, do it for us, do it for all.

Best wishes, sincerely,

A young student from South America

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