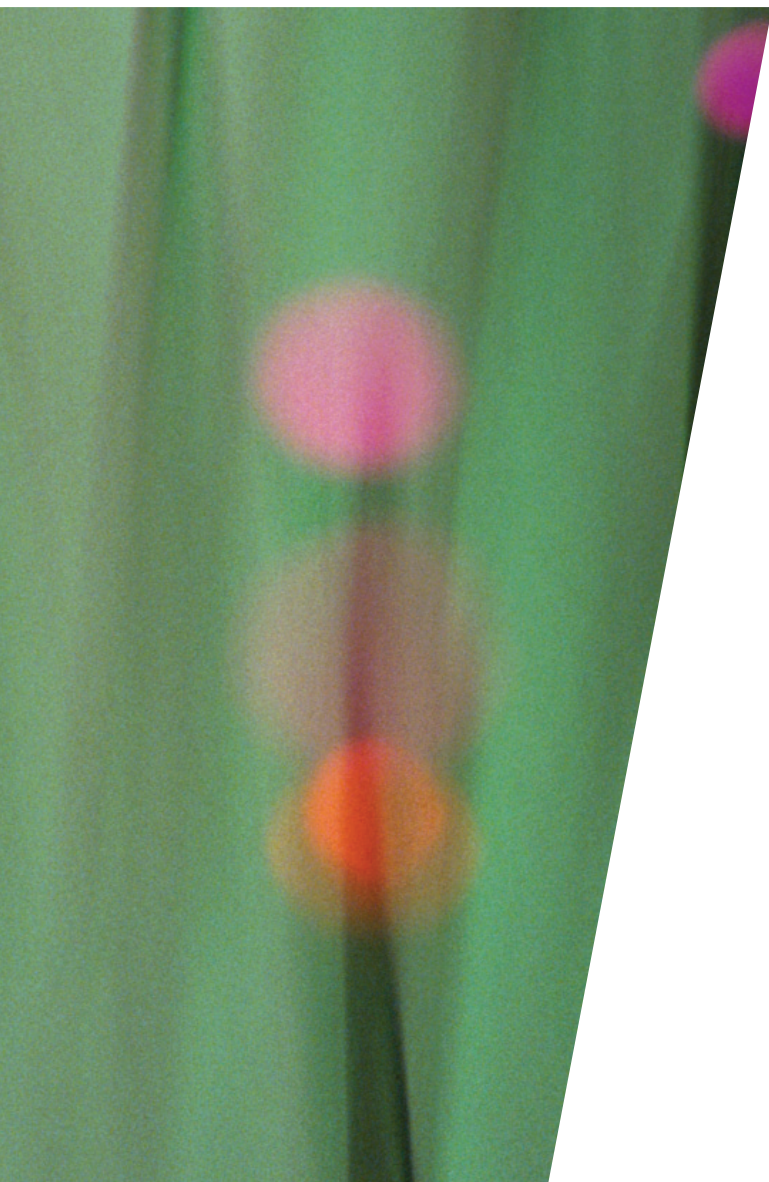


# Nature or nurture?

Decoding the DNA of the  
entrepreneur



# The essence of the entrepreneur



Entrepreneurs play a vital role in the global economy. By developing new businesses, they create jobs, increase economic activity and drive innovation. Yet despite entrepreneurs' positive influence on global prosperity and growth, they remain an often-misunderstood segment of the business world. Despite decades of academic research into the topic, there is no universal definition of entrepreneurship, and no agreement about the precise traits and behaviors that characterize entrepreneurial leaders.

As the founders of the Ernst & Young World Entrepreneur Of The Year Program, the world's most prestigious business award for entrepreneurs, Ernst & Young has the privilege of meeting and working with some of the world's most successful and creative entrepreneurs. This longstanding relationship has given us powerful insight into this highly dynamic and creative group of individuals, and has helped us to form our own view about the mindset of the world's most successful entrepreneurs.

Although entrepreneurs operate across a highly diverse range of sectors and regions of the world, we have found they share a number of common behaviors and characteristics. Subsequent research conducted for this report, which included a survey of 685 entrepreneurs and in-depth interviews with winners of the Entrepreneur Of The Year, has helped us formalize this view into a solid model of what comprises the entrepreneur. We believe that this offers an important contribution to research into the traits of today's entrepreneurial leaders.

I hope you find the report interesting and useful reading.

**Maria T. Pinelli**

Global Vice Chair, Strategic Growth Markets  
Ernst & Young

# Executive summary



Few roles in business attract as much interest and attention as entrepreneurship. Often characterized as the “rock stars” of the business world, entrepreneurial leaders enjoy a reputation as freewheeling, innovative mavericks. They are assumed to have a level of freedom of which traditional managers can only dream, and are perceived as operating in a world far removed from the staid bureaucracy of corporate life.

This romantic vision of entrepreneurship is appealing but, like most stereotypes, wide of the mark. The overlap between entrepreneurial leaders and traditional managers is much larger than is often assumed. Creative, innovative individuals may possess copious excellent ideas, but it takes leadership and business discipline to turn them into successful ventures.

Decades of academic research has sought to identify the particular characteristics of successful entrepreneurial leaders. This work may not have identified a simple formula or “entrepreneurship gene” that can be nurtured and replicated, but it reveals certain characteristics and habits typically shared by successful entrepreneurial leaders. But these characteristics alone are not enough to create the conditions for business success. Building a successful entrepreneurial venture also depends on a complex interaction of internal and external factors, including timing, geography, culture and sometimes luck.

With many major governments and industries around the world extolling entrepreneurship and innovation as a source of economic growth and job creation, the question remains, what makes up an entrepreneurial mindset? This question is echoed in major corporate boardrooms, with many chief executives keen to encourage internal entrepreneurial thinking and innovation as a way to reinvent their businesses and stay ahead of the competition.

The aim of this report is to provide some insights into the minds of today’s most successful entrepreneurial leaders and discern what makes them successful. We conclude with a model that we feel describes the core of an entrepreneurial leader, which represents both the intrinsic and extrinsic characteristics of their mindset and abilities.

As the founders of the World Entrepreneur Of The Year Program, Ernst & Young is uniquely positioned to share these insights. The report features perspective from a survey of 685 entrepreneurial business leaders from around the world and is informed by a series of in-depth interviews with Ernst & Young Entrepreneur Of The Year Award winners.

## Key findings of the report

### 1. Entrepreneurial leaders are made, not born.

The concept of the young, dynamic entrepreneurial leader who starts a venture fresh out of college is one that persists. But although many entrepreneurial leaders start at a reasonably young age, the experience they gain through education and time spent in a more traditional corporate environment is vital to their future success. Indeed, more than half of respondents describe themselves as “transitioned” entrepreneurs – in other words, they have previously spent time in traditional employment before setting out on their own.

### 2. Entrepreneurship is rarely a one-off decision.

The majority of respondents to this survey are “serial entrepreneurs” who have launched at least two companies. Entrepreneurial leaders who embark on more than one venture gain valuable insight and lessons into how to make a new business successful. As such, they perform a vital role in the economy and, among them, start a significant proportion of all new ventures.

### 3. Funding, people and know-how are the biggest barriers to entrepreneurial success.

Among the 6 out of 10 respondents who experienced obstacles in their ventures, the most common barrier is lack of funding or finance. This is particularly pertinent in the current environment, when many entrepreneurs continue to experience problems with accessing finance, despite a gradual easing of credit conditions in many countries. The two other most-cited obstacles are people and expertise. As a result, entrepreneurial leaders are well-advised to build “ecosystems” – networks of resources – to address these three areas.

### 4. Entrepreneurs share common traits.

Entrepreneurs may be made rather than born, but our research has found that entrepreneurs will typically exhibit a combination of behaviors and attitudes. At the heart of this model is a strong internal locus of control – a belief that events result directly from an individual’s own actions or behavior. This is complemented by a mindset that sees opportunity where others see disruption, along with an acceptance of calculated risk and a tolerance of failure.

### 5. Traditional companies can learn from entrepreneurial leaders.

Employee incentives and fostering innovation are good places to start. It is no coincidence that fast-growing entrepreneurial companies tend to place larger amounts of share ownership in the hands of employees. And in terms of innovation, traditional companies have few incentives to disrupt their own business models with game-changing innovations. But companies that can be richly rewarded.<sup>1</sup>

<sup>1</sup>“The Few, the Tech-Savvy Few: Option Millionaires,” National Public Radio, February 11, 2007, <http://www.npr.org/templates/story/story.php?storyId=7324048>.

# The entrepreneurs

Ernst & Young conducted a series of interviews with some of the world's leading entrepreneurs to explore the traits of today's entrepreneurial leaders



**Denys C. Shortt**  
Chairman and CEO of DCS Europe plc, now the UK's leading distributor of health and beauty brands.



**Ronald J. Kruszewski**  
Chairman and CEO of Stifel Financial Corp., a full-service regional brokerage and investment banking firm.



**Veijo Hukkanen**  
CEO of V. Hukkanen Oy, a Finnish company producing and processing high-quality fish delicacies.



**Fernando Turner Dávila**  
CEO and Chairman of Katcon S.A de C.V., a global leader in the automobile exhaust systems industry with leading technology and manufacturing capability.



**Howard Schultz**  
Chairman, president and ceo of Starbucks, the world's most famous coffeehouse company.



**Wally Fry**  
Co-founder of Fry Group Foods, manufacturers of a range of vegan meat analogues in a dedicated vegan facility.



**Khudusela Pitje**  
Co-Founder and Executive Director of New Gx Capital, an infrastructure advisory company with additional capabilities in funding transactions.



**Yuliasiane Sulistiyawati**  
President Director PT Pazia Pillar Mercycom, a chain of one-stop IT shops and outlets selling IT products and services in a cafe lifestyle environment in Indonesia's top shopping malls.



**Arnaud Vaissié**  
Co-founder, Chairman and CEO of International SOS, the world's leading international healthcare, medical and security assistance, and concierge services company, operating in over 70 countries.

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## Profile of 685 entrepreneurial leaders surveyed:

- ▶ Over 30 countries and 25 sectors represented
- ▶ Majority of companies have revenues ranging from US\$10m to over US\$20b
- ▶ 58% of the respondents achieved strong revenue growth of more than 20% in the last year

# Entrepreneurial leaders are made, not born

- ▶ There is no entrepreneurship gene
- ▶ Most entrepreneurial leaders start at a young age
- ▶ More than half of entrepreneurial leaders are “transitioned” (from employees)

Despite decades of academic research into the subject, there is still little agreement over the precise definition of entrepreneurship. Entrepreneurial leaders are variously described as risk-takers, innovators, bold opportunists or restless agents of change. Some commentators have even argued that entrepreneurial leaders are born with a unique set of characteristics that will always set them apart from more traditional corporate managers.

In reality, there is no single entrepreneurship gene. But there are traits and experiences that make it more likely that an individual will choose the path of entrepreneurship and, crucially, succeed over the long term.

The set of management behaviors that characterize many entrepreneurial leaders lies along a spectrum, which includes factors such as a willingness to take risks and seize opportunities, and an openness to changing. Successful entrepreneurial leaders will often fall toward one end of that spectrum in at least one of those factors, but they will also draw upon a variety of other life experiences to create the finished product.

Entrepreneurial leaders may be made rather than born, but a large majority of the most successful embarked on their first ventures at a young age. Among a survey of 685 leading entrepreneurial leaders conducted for this report, more than half started their first company before the age of 30 (see Chart 1).

Despite starting at a relatively young age, most entrepreneurial leaders do not launch straight into their ventures from higher education. More than half of the entrepreneurial leaders in the survey describe themselves as “transitioned” – meaning that they had some experience outside of the world of entrepreneurship before launching their ventures (see Chart 2). Although there are notable examples of entrepreneurial leaders who left college to form hugely successful businesses, such as Bill Gates of Microsoft or Mark Zuckerberg of Facebook, these are very much in the minority. Among our survey respondents, some form of business experience is a vital foundation that increases the chances of future entrepreneurial success.

Age at first startup

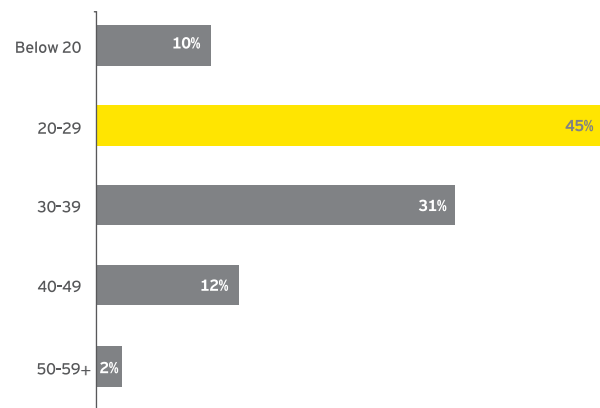


Chart 1: What was your age when you started your first venture?

Always the boss or left the boss

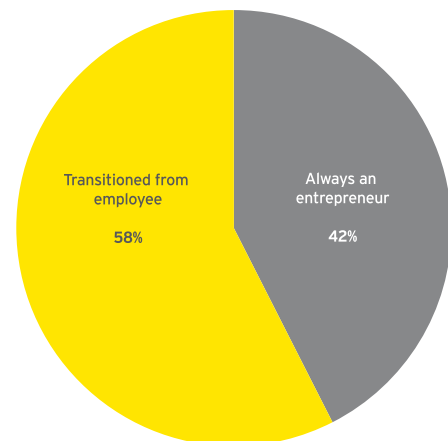


Chart 2: Did you transition into being an entrepreneurial leader, or have you always been an entrepreneurial leader?

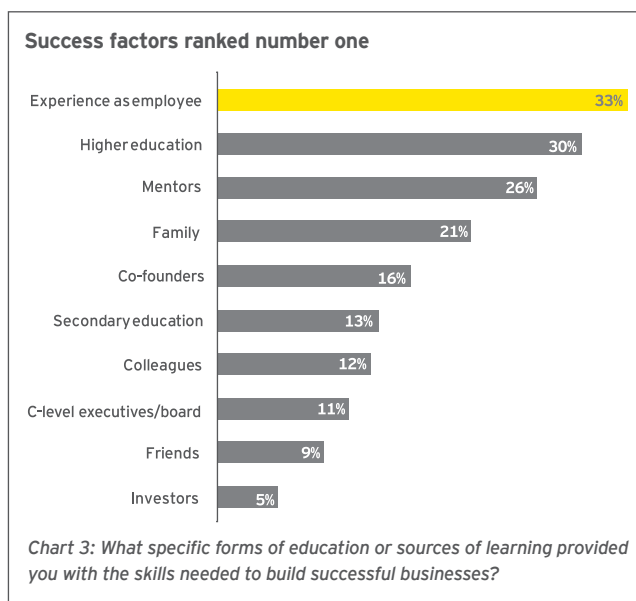
One such example is Khudusela Pitje, the Johannesburg-based founder of New Gx Capital, a South Africa-based private equity partnership specializing in telecommunications, utilities and infrastructure investments. “I was brought up in an entrepreneurial family, but I became a chartered accountant and then a banker,” says Mr. Pitje. “That technical capability does give you an edge. My education and corporate experience definitely helped me.”

Many survey respondents cite experience in a corporate environment as an important training ground. When asked to rank the factors that contributed to their ventures’ success in order of importance, respondents were most likely to select “experience as an employee” as having the greatest impact (see Chart 3). And if experience is the best education, the classroom is not far behind. Higher education was ranked the number one factor by almost one-third of respondents, just behind employee experience.

Over time, however, corporate experience and progression through the ranks can reduce the chances that would-be entrepreneurial leaders strike out on their own. As they climb the corporate ranks and take on greater personal responsibilities, perhaps with a family to support, the perceived risk of abandoning the security of a salaried corporate position grows. “Clearly entrepreneurs are better off if they have some prior experience,” says Arnaud Vaissié, chairman and CEO of International SOS, the world’s largest international medical and security services company. “But at the same time, the more you wait, the more you have to lose.”

The challenge of finding the right time to make the transition is one that resonates with Yulisianne Sulistiyawati, founder of PT Pazia Pillar Mercycom, an IT company based in Indonesia. Prior to forming her company, Ms. Sulistiyawati spent 15 years working in the IT industry. “When I became an entrepreneur for the first time, it was a big decision because I was already in the comfort zone of having had a professional career,” she explains. “Many professionals find it difficult to become entrepreneurial leaders because they think they are risking too much. But the experience that professionals gain early in their career is vital and cannot be bought.”

Despite the need to make timely decisions about career direction, a long-term focus is vital for successful entrepreneurial leaders. “You need to make decisions at least for the next 5 to 10 years and be brave about planning for your future,” says Veijo Hukkanen, founder of V Hukkanen Oy, a fish processing company based in Finland.





*“I was brought up in an entrepreneurial family, but I became a chartered accountant and then a banker.”*

Khudusela Pitje

### **How can major corporates keep hold of their intrapreneurs?**

Intrapreneurs are often glad to have the technical and marketing infrastructure of a large company at their disposal – but the key to success is ensuring that they stay with you and do not form their own businesses, taking their ideas and innovative team members with them. A classic case of an intrapreneurship effort that didn't work out is that of the founders of Adobe Systems, John Warnock and Charles Geschke. They believed that their new product ideas were not encouraged by their former employer and left in the 1980s to form their own business. Today Adobe has annual revenues of more than US\$3b. It is therefore vitally important not only to make room for intrapreneurs in major corporates, but also to provide them with incentives to stay, including a well-defined career path.

Companies that employ scientists often use “technical ladders” to allow technical people to do what they did best while enabling scientists with managerial ambitions to take on administrative roles. Ron Pierantozzi, an adjunct lecturer at The Wharton School and principal at Cameron and Associates LLP, an innovation consulting firm in Philadelphia, argues that companies should do something similar for innovators.

Rewards can be an effective way to go: 3M offers intrapreneurs rewards for marketing excellence for reaching US\$2m in new product sales in the US or US\$4m worldwide and another award for technical innovation. Recipients are regarded as “corporate scientists.” In addition, intrapreneurs can join technological or R&D forums where membership is a source of pride because it is by invitation only.\*

**\**Igniting innovation: how hot companies fuel growth from within, Ernst & Young, November 2010.***

# Entrepreneurship is rarely a one-off decision

- ▶ The minority of entrepreneurial leaders create a majority of start-ups
- ▶ The “narcissism trap” is a common problem among entrepreneurial leaders
- ▶ Serial entrepreneurial leaders often retain a stake in earlier businesses
- ▶ Only a small core of entrepreneurial leaders make the successful transition from start-up to mature company

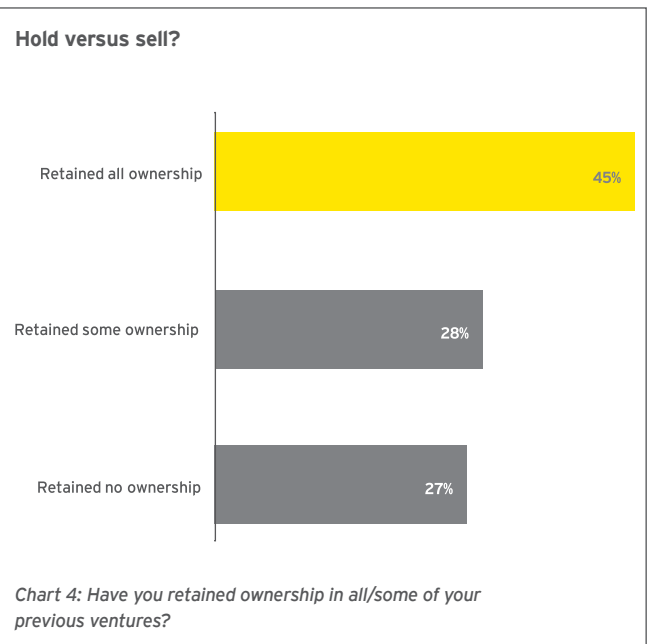
Academic studies have shown that a high proportion of new ventures are started by entrepreneurial leaders with previous experience of launching a new business. An analysis of our survey results suggests that 10% of entrepreneurial leaders start between 25% and 30% of all new businesses, while 20% start almost half. In other words, it is the minority of entrepreneurial leaders that creates the majority of start-ups.

One way of categorizing entrepreneurial leaders by their ability to create companies is to say that they generate three kinds of results: grow and sell, grow and kill, and grow and grow.

## Grow and sell

The “grow and sell” category contains the serial entrepreneurial leaders. These businesspeople have enough self-knowledge to recognize that they are unsuited to running a mature company. After creating and scaling up a company, they move on to the next one. But this is not to say that they relinquish all control or financial interest in previous ventures. Among the survey respondents, 45% say that they have retained all ownership of each venture, while 28% have retained only a percentage stake in their ventures (see Chart 4).

Starting and selling companies has become extremely lucrative over the past 15 years. “The pressure on entrepreneurs to cash in on their ventures has become enormous,” says Mr. Vaissié. “There is so much money out there that any business making a decent profit is going to be pursued by investors. Once you have proved the concept, even companies with revenues of a few million dollars are worth a great deal to large corporations that want to acquire innovations and stay ahead of the competition.”



*“The pressure on entrepreneurs to cash in on their ventures has become enormous.”*

Arnaud Vaissié

## Grow and kill

These entrepreneurial leaders are those who are unable or unwilling to give up control. Some fall into what Manfred F. R. Kets de Vries, a Dutch management professor and psychoanalyst and the founder of INSEAD's Global Leadership Centre, calls a narcissism trap. They fail to listen to customers, lenders or employees, and either destroy their companies or develop stunted firms that stop growing after an initial spurt. Unwilling to share equity, they over-borrow and often fail during an economic downturn. Or they follow a “visionary” strategy, failing to listen to those who raise objections to the vision, dismissing them as negative or not team players.

“Sometimes these entrepreneurs have a subconscious desire for the company to fall apart,” says Professor Kets de Vries. “Given the intense anxiety that comes with worrying about failure, bankruptcy gives them a sense of release and they can start again. Entrepreneurial leaders can sometimes be their own worst enemy. They may not take the obvious steps, or continue to micromanage and avoid delegation. They may also treat a big company as though it can pivot like a small one, when in fact that is almost never the case.”

## Grow and grow

This small core of entrepreneurial leaders is nimble, agile and can make the transition from start-up to a more established growth company. When the time is right, they can hire trusted, capable subordinates who can continue to guide the company's growth. Because they often sell off pieces of the company to fund growth, they have an easier time getting investors at the start, since their interests are aligned with those of the venture capitalists who provide early-stage funding.

The “grow and grow” scenario has a better chance of happening now than in the past, according to Professor Kets de Vries. There are several reasons for this. First, today's entrepreneurial leaders tend to be well-educated, and education often leads to greater self-knowledge. Second, entrepreneurial leaders can benefit from a considerable amount of support from advisors, peer groups and educational institutions that can guide ventures through the early stages. “It takes willfulness almost to the point of blindness to kill a company rather than grow or sell it,” says Professor Kets de Vries.



# Funding, people and know-how are the biggest barriers to entrepreneurial success

- ▶ Access to finance is the entrepreneurial leader's biggest problem
- ▶ Entrepreneurial leaders need to choose between "being rich" or "being king"
- ▶ Skills are difficult to find, but finding people with the right values is even harder
- ▶ It is essential to build teams that combine deep technical knowledge with broad business skills. It is rare for a single individual to combine both

In the struggle to build momentum and grow their businesses, survey respondents and interviewees agree that founders face three main challenges: funding, people and know-how. And of those three, the biggest obstacle is funding (see Chart 5). "The number one barrier to growth is access to finance," says Denys Shortt, founder of the UK beauty products distributor DCS Europe and the software developer Enable. "During the financial crisis, my bank, a family bank for 30 years, pulled out on me and became nationalized. I had to find a new bank that would loan me money at the levels I needed to sustain the business."

Fernando Turner Dávila, president of Mexico's National Association of Independent Businessmen and the chairman of the Mexican industrial group Katcon, agrees. He points to a market failure in traditional commercial banking business models as a major problem. "Everyone who studies small business agrees that finance is the biggest problem entrepreneurial leaders face," he explains. "Lending a small amount of money is very expensive. Banks don't need to lend to small businesses, or even medium-sized ones, to make a profit."

Both Mr. Shortt and Mr. Turner Dávila are talking about debt finance. But what about giving up control over the company in return for the flexible equity capital required to grow and build value?

Biggest challenges to start-up success

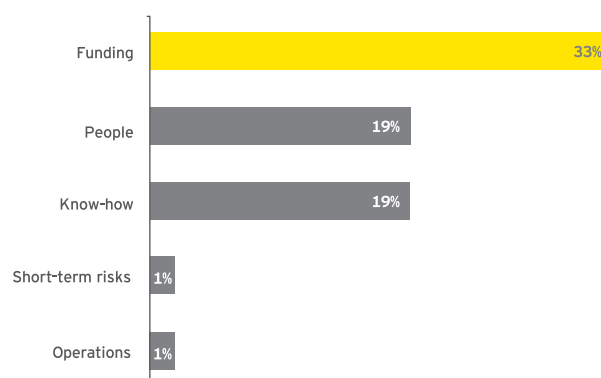


Chart 5: Did anything hold you back in your ventures? (Chart shows factors for respondents who replied "yes")

*“I had to find a new bank that would loan me money at the levels I needed to sustain the business.”*

Denys C. Shortt

This is a central decision that all founders of growing companies face: what Harvard Business School Professor Noam Wasserman calls the rich-versus-king choice and Professor Kets de Vries of INSEAD calls the control trap. If the desire for wealth (being rich) drives the entrepreneurial leader, he or she should accept outside capital, give up the reins and enjoy a smaller piece of a bigger pie. If the desire to run a successful business (being king) is a stronger motivator, the choice should be to rely on debt financing or self-funding, continue to control the company, and accept that growth may be constrained.

According to Professor Wasserman, a common problem is that many entrepreneurs insist on being both rich and king. This is possible, as some entrepreneurs have demonstrated, but unlikely. Moreover, many entrepreneurial leaders may be unclear about which they value more – being rich or being king – and this can lead to inconsistent decisions. Professor Kets de Vries points out a more destructive outcome associated with the retention of control. This involves the founder surrounding himself with yes-men, shutting out counterarguments and lobbying the business press. “You know the Wall Street saying,” he explains. “When they buy the corporate jet, sell the stock.”

## People

The challenge of finding the right people to execute the entrepreneurial leader’s strategic vision is a perennial one. But this is not unique to entrepreneurial businesses – all companies struggle with attracting, motivating and retaining a workforce that will help the business to grow and increase its market share. “Once you’re actually running a business, you face a huge problem getting people with the right skills to join your business,” says Mr. Shortt. “For instance, there is a huge shortage of engineers in the UK at the moment.”

But skills are not the only problem. It is far more challenging, according to entrepreneurial leaders questioned for this report, to find people with the right values. “If I want a CEO tomorrow to take over the company, the biggest challenge is not going to be finding the right skills. It’s more about finding a person who shares our ethos,” says Wally Fry, co-founder of Fry’s Vegetarian, a food manufacturer based in South Africa.

## Know-how

In addition to people with the right skills and values, entrepreneurial leaders themselves need the right know-how to take their business forward. Stanford’s Mr. Carr uses the analogy of what he calls “T-shaped people” to illustrate the importance of know-how. The vertical line of the “T” refers to depth of knowledge. This is a single discipline that a founder knows extremely well, such as computer programming (Mark Zuckerberg of Facebook), genetics (Craig Venter of Celera) or electrical engineering (Ken Olsen of Digital Equipment Corporation).

The horizontal line of the “T” refers to the broad knowledge that is also needed to run a successful company. This includes disciplines such as marketing, finance, sales, operations, supply chain management and, of course, leadership. Most founders have either vertical or horizontal skills, but only a small proportion possesses, or develops, both.

# Entrepreneurs share core traits

- ▶ **Entrepreneurial leaders habitually possess a strong internal locus of control**
- ▶ **They also see opportunity where others see disruption**
- ▶ **Culture has a strong influence on risk-taking and tolerance of failure**

Based on our research into the mindset of today's entrepreneurial leaders, Ernst & Young has developed a model of what comprises an entrepreneurial leader:

- ▶ At the nucleus of the model are the opposite, yet complementary characteristics of an opportunistic mindset combined with a unique attitude to risk failure.
- ▶ The nucleus is combined with the idea of "locus of control" – a belief in control over one's environment. This is bolstered by the ability to see – and a willingness to take risks, to seize – opportunities.
- ▶ Surrounding the core of the model are six guides to action that entrepreneurial leaders live every day: passion, persistence, the ability to work with a team yet follow their own instincts, the creation of a "success culture," an eye for niches and market gaps, and focus on building an ecosystem to support the venture.
- ▶ Finally, the outer ring of the model draws on previous research of the attributes identified as those held by leaders of exceptional enterprises – uncovered as part of Ernst & Young's Exceptional Enterprise model.<sup>2</sup>

The core of the entrepreneur is ultimately about a way of viewing the world and the ability to act on those views. Entrepreneurial leaders are personally characterized by a strong locus of control, an opportunistic outlook and a willingness to take risks (and potentially fail). These traits are at the core of the model. The model should be viewed as "and, and" not "either, or" as it is the combination of all four layers that sets entrepreneurial leaders apart from their peers.

## The DNA of the entrepreneur model

<sup>2</sup> Why are some companies luckier than others? Ernst & Young 2008



## An opportunistic mindset

Where others see disruption and chaos, entrepreneurial leaders see opportunity. Fernando Turner Dávila, President of Mexico's National Association of Independent Businessmen and Chairman of Katcon, founded his company a year before the Mexican peso crisis of 1994. He notes that the business environment in Mexico has changed significantly in the past 25 years, going from a closed economy to an open one that made many domestic companies uncompetitive. "Established companies don't like disruption, but I do," he explains. "It brings opportunities."

Even disruptions like the financial crisis have generated opportunities for entrepreneurial leaders who are willing to take them. Mr. Turner Dávila explains how his company acquired the emissions control business of a global company at a time when few competitors had the financial resources or willingness to invest in new opportunities. "We bid for and acquired it, so the disruption of the financial crisis led to an opportunity for us," he explains. "We went from being a domestic manufacturer serving Mexico, the US and Canada to operating in nine countries, having our own R&D capabilities, and being a global player."

Other times of abrupt change and uncertainty that generated opportunities include the period after the devastation of World War II, when entrepreneurship blossomed in Japan and Germany. The opening of the internet to the public and the growth of genetic technologies drove thousands of start-ups in the 1990s.

Academic research also suggests that entrepreneurs are typically optimists. Surveys of entrepreneurs consistently find that a majority believe that their business has a better chance of success than others in their sector. "To be an entrepreneur, you have to be an optimist," says Mr. Turner Dávila. "Entrepreneurs see opportunities and believe that they can find ways to profit from them."

## Acceptance of risk and potential failure

A willingness to take risks is often cited as a core characteristic of entrepreneurial leaders. Indeed, some of the most widely used definitions of entrepreneurship – put forward by the economist Frank Knight and the management writer Peter Drucker – see risk-taking at the heart of the entire concept. "Most people avoid risks," says Mr.

Turner Dávila. "Many companies won't take risks even when they're about to fail. That's one reason why they are vulnerable to smaller, more nimble companies run by entrepreneurs that are more willing to take risks."

The extent to which a culture celebrates or stigmatizes failure can make a difference in how entrepreneurial leaders see risk. Among venture capitalists in countries such as the US, Israel or Taiwan, failure is seen almost as a badge of honor. Early business failures are viewed as providing vital experience for future successes. Mr. Shortt puts it this way: "My advice to any aspiring entrepreneur is to get out there and accept failure. Take it on the chin, get up and do it again."

But in some cultures, there can be a persistent fear of failure that deters entrepreneurs from taking risks or standing out from the crowd. Bankruptcy laws, which prevent failed entrepreneurs from starting new businesses or even opening bank accounts, can serve as a further deterrent. "These cultural dimensions are a vital determinant of business creation," says Mr. Vaissie. "Acceptance of failure helps to explain why business creation is far more vivacious in the Anglo-Saxon world than in France, Germany or Asia, where business failure is viewed in the opposite way, as a stigma."

Some recent literature has questioned whether entrepreneurs are really risk-takers at all. In their recent study *From Predators to Icons*, the French scholars Michel Villette and Catherine Vuillermot argue that, rather than being risk-takers, successful entrepreneurs are risk minimizers who take great care to ensure that they evaluate opportunities carefully and assess the risks that their venture will face.

## The locus of control

It is often said that entrepreneurial leaders have a desire for independence and control. But this is not unique to that group – most people like to be in control of their lives and careers. The difference, however, is that entrepreneurial leaders have the drive and fortitude to act on the urge for control and independence. What's more, they do it consistently and with a sense of urgency, over a sustained period of time. "There is a 'just do it' aspect to the entrepreneur's personality – the sense that one way or the other they are going to turn their idea into reality," says Jeffrey Carr, executive director of the NYU Stern School's Berkeley Center for Entrepreneurship and Innovation.



*“Entrepreneurs see opportunities and believe that they can find ways to profit from them.”*

Fernando Turner Dávila

Professor Kets de Vries explains this trait using a concept that he calls locus of control. Individuals with an external locus of control typically believe that events happen as a result of circumstances that are beyond their control. By contrast, those with an internal locus of control believe that the events in their life result directly from their own actions or behavior. According to Professor Kets de Vries, entrepreneurs habitually possess a strong internal locus of control.

An internal locus of control tends to appear more frequently in market-based economies that celebrate business success, such as the US. Those with a single-minded focus on individual achievement, such as Japan, China or Korea, are also likely to give rise to businesses run by entrepreneurial leaders with a strong internal locus of control.

### The behaviors around the core

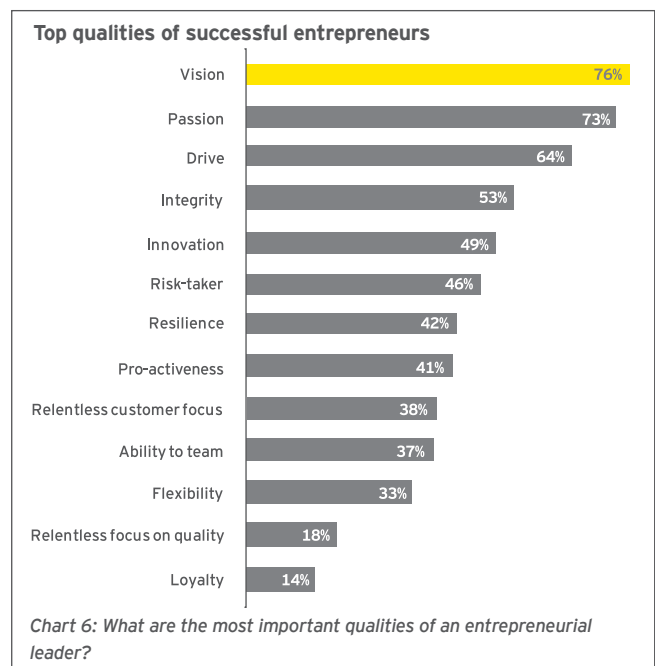
Complementing the locus of control, opportunistic mindset and attitude toward risk are six behaviors that characterize entrepreneurs.

#### Drive, tenacity, persistence

Almost by definition, entrepreneurial leaders need drive and tenacity to make their ideas succeed in the face of many obstacles. Along the way, these leaders will encounter dozens of people who will tell that their idea will not work. It takes commitment to see past these naysayers and keep a long-term goal in mind. Indeed, survey respondents cite drive as one of the key qualities of successful entrepreneurial leaders (see Chart 6).

#### Be the architect of your own vision: passionate and focused

Entrepreneurial leaders can be single-minded. Asked about the most important qualities of entrepreneurial leaders, respondents point to vision, passion and drive as the key factors (see Chart 6). When they are successful, it is because they have been able to help people come together around a common purpose to achieve a goal. This kind of achievement does not come from good tactics, management or strategy. It comes from a vision owned not only by the people in the business, but also by investors, customers, suppliers and all of the people that the organization touches. The entrepreneurial leader is the architect of that vision.





Howard Schultz, CEO of Starbucks, on returning to the company in 2008, took the decision against the advice of his colleagues to speak frankly to his employees at a meeting of almost 10,000 employees at the height of the financial crisis. He talked about love. "It's not a word you would expect, either from a man or in the context of a business environment," he explains. "I said, I've been asked why I came back as CEO. I came back because of love, how much I love the company, how deeply I feel about the responsibility we have to the 200,000 people and their families who are relying on us as leaders. There isn't anything I would not do to enhance and preserve this company. Other than my family, there is nothing I love more than Starbucks."

#### **Build an ecosystem of finance, people and know-how**

Any entrepreneur faces challenges in establishing and growing his or her business. We have seen already how access to finance, skills and know-how are powerful barriers that can stand in the way of entrepreneurial success. Solving these problems depends on building an ecosystem of people, money and know-how to protect and nurture the business. Entrepreneurs must demonstrate powerful team-building and delegation skills to build strong teams around them, and be able to convince and attract a sometimes skeptical investor based on the strength of their vision.

The need to develop the right mix of skills and know-how highlights the importance of a partnership arrangement, according to Mr. Vaissié. "Partnerships allow you to have a continuous dialog with someone at your own level, which is extraordinarily fruitful and helps companies grow," he says. "And the best combination is a mix of skill sets. If you're an engineer, find a business guy. If you're a scientist, find a business guy. If you're a business guy, find an expert. That increases the chances of survival dramatically."

Geographical location can also be a factor in the entrepreneur's ability to build an effective ecosystem. Globalization and the development of information and communications technology would seem to suggest that geography is no longer a constraining factor on where entrepreneurial leaders are located. But in fact, many of the world's most successful entrepreneurial leaders have emerged from clusters, such as Silicon Valley or the Harvard-MIT complex in the US. Being physically located in a cluster often gives entrepreneurs more ready access to the money, skills and know-how that they need.

*“Don’t listen too much to advisors or how others did it. Make your own way with your own ideas.”*

Survey participant

### **Seek out niches and market gaps**

The speed and agility that characterizes many entrepreneurial businesses means that they can identify and move quickly to take advantage of niches and market gaps.

Although innovation is important, filling niches and market gaps does not need to involve coming up with radical new solutions. Often, an entrepreneurial business can simply find a better business model or a more effective way of delivering a product or service. Entrepreneurial businesses also have the ability to experiment more readily than some larger competitors, where a stifling fear of failure may prevent a more innovative approach.

Mature industries populated by large, slow-moving companies are particularly ripe for this approach. “There is no need to be the next Google,” said one survey respondent. “Taking innovations to tired industries – those that need new thinking, processes, systems, approaches, brand communications or technologies – can create enormous opportunity.”

### **Live what you believe: build success culture and values**

Entrepreneurial leaders typically have a strong, consistent set of values that drives their overall behavior in their professional lives. The strength of their character means that many find it difficult to adapt their personalities to fit in with traditional corporate mindsets. “When you belong to a large organization, you take on the organization’s values and you have to follow the leaders,” says Mr. Turner Dávila. “An entrepreneur might be very good at his job, but he never really fits in. Running your own company allows you to create the culture and values yourself. You are in your own element. You live what you believe.”

A survey interviewee offers some follow-on advice to highlight the importance of imparting values to others in the organization: “Only hire people who share your business values. If you believe in customer focus, hire people who believe in customer focus. If you believe in honoring commitments, make that your hiring criteria.”

For Mr. Schultz, returning to lead the now 40-year-old Starbucks organization meant using his ingenuity as an entrepreneur to make maverick decisions, such as closing every store in the US for retraining one evening in February 2008.

This trait of seeking out new markets and market gaps is supported by Ernst & Young’s recent global research into what drives competitive success in the new economy. Our study showed that high-performing companies – the top quartile in both revenue and EBITDA growth – have focused on executing four drivers of competitive success:

1. Customer research – to optimize their potential market
2. Operational agility – to maximize their effective response
3. Cost competitiveness – to optimize their profitability
4. Stakeholder confidence – to secure both talent and support for achieving their goals

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## The difference defined is reactions in crisis situations

Criminal psychologist Dr. Thomas Müller has made a career of getting inside the criminal mind. FBI trained, he has spent the better part of three decades traveling the world working on some of the most high-profile cases in modern history.

Dr. Müller's abilities are in demand: governments and police forces around the world call on him regularly to help solve cases that have baffled them for years. But Dr. Müller was happy to accept Ernst & Young's invitation to study recent research into what sets an entrepreneurial leader apart from the rest of society.

"My personal opinion is that a good entrepreneur will show his or her personality not when the sun is shining, when the business is running well, but when it is raining," says Dr. Müller. "They show their qualities in a crisis situation. That is the big difference between an entrepreneur and a traditional CEO or a CFO."

He adds that it is in crisis that three of the successful entrepreneur's defining characteristics reveal themselves: the ability to withstand pressure beyond the point at which most people would compromise for the sake of security; an aptitude for risk; and the ability to quickly adapt to new circumstances and realities.

"One of the key issues in a crisis situation, I think, is the willingness for development," he explains. "Some people will sit in a crisis situation in their hole, telling everybody 'we have to get back to how things were before.' They will have a harder time getting over the crisis than entrepreneurs who say 'let's see if we go one step further, what's the opportunity to be exploited?'"

Entrepreneurial leaders may be unafraid of working tirelessly toward their objectives, all the while constantly surmounting the apparently insurmountable, but Dr. Müller cautions against the possibility of early burnout. "One of the biggest challenges any entrepreneur will ever face is keeping the balance across the various aspects of his or her life. It is not easy."

Although there is general agreement entrepreneurial leaders share common characteristics, Dr. Müller is careful to highlight their differences. Looking at the 100 or so entrepreneurial leaders invited to the Ernst & Young EMEA Entrepreneur Of The Year Forum in Dubai, he says that, despite their similarities, they are as individual as fingerprints. "In this conference there are 100 people," he says. "But look at them – you will never see two people wearing the same shoes and the same glasses. We are all different."

*“In a crisis, whether the cataclysmic financial crisis or a crisis of our own making, the most important thing is to be authentic.”*

Howard Schultz

But it also meant sitting in long meetings, going through the operational side of the business with a fine-toothed comb and asking painful questions. It meant making tough decisions - closing stores and losing employees, including replacing the majority of his top executives. “The key issue,” he explains, “was finding people with like-minded values.”

Ultimately, he believes the main reason for the turnaround in Starbucks’ fortunes was the resiliency of values in the company and its guiding principles. “We had always intended to create a balance between profitability and social conscience,” he says, “and underneath that I recognized, especially in the past couple of years, that success is best when it’s shared.”

#### **Nonconformist and a team player**

The notion of the entrepreneur as a nonconformist outsider who plays by a different set of rules is one that endures in popular business literature. It suggests that there is a clear distinction between those managers who like security and predictability and those who prefer to live life on the edge. Just as many traditional managers would find the life of the entrepreneur deeply unsettling, so too would entrepreneurs find traditional corporate life stifling and boring.

Entrepreneurial leaders are nonconformists almost by definition. “Don’t listen too much to advisors or how others did it. Make your own way with your own ideas,” says one survey respondent. “Don’t listen to negative comments. Follow your dream,” says another.

Yet this trait is not at odds with building successful teams. Entrepreneurial leaders must be team players in order to get anything done. Starting a company requires leadership, which means constantly influencing and directing others. “Entrepreneurs are social animals,” says Tom Byers, the academic director of Stanford University’s Technology Ventures Program. “Look at the calendar of the founder of any start-up and see how much time they spend interacting with other people.” Adds a survey respondent: “Never be so arrogant as to not be able to listen to people who have walked the path you are currently on.”

#### **The outer ring: the behaviors around the core**

Our research shows us that, on average, the major indices of leading companies churn by about 40% every five years. This means that the next generation of market leaders is already waiting in the wings. Having worked with many of the companies that have made it to the top, we know that the fortunes of future market leaders will not be guided by luck, but by how they use their attributes to face the challenges of change as their businesses evolve.

Some of these attributes are reflected in the six behaviors but are listed separately as an explicit reminder of the characteristics that specifically help an entrepreneurial leader take control of their direction and leave nothing to chance.

The outer ring links to Ernst & Young’s Exceptional Enterprise model, which examines the way a fast-growth company addresses six fundamental challenges on its growth journey and makes its own “luck”: customer recruitment and management, people recruitment and retention, managing risk, transactions and alliances, operational effectiveness and managing finance.<sup>3</sup>

<sup>3</sup>Why are some companies luckier than others? Ernst & Young, 2008

# What traditional companies can learn from entrepreneurial leaders

- ▶ **There is much that traditional companies can learn from growth companies led by entrepreneurial leaders**
- ▶ **Companies need to foster a culture in which entrepreneurship is celebrated and rewarded**
- ▶ **Traditional companies are not renowned for game-changing innovation, but there is no reason why they cannot do this. Moving into adjacent sectors that do not cannibalize existing business models is one approach**

Large, traditional corporations have extraordinary resources, global reach and highly refined, efficient processes. Yet they are often slow to respond to opportunities, unwilling to take risks and behind the curve in terms of innovation. There is a great deal that large companies can learn from entrepreneurial ones. The interviewees and survey respondents had a number of ideas to share. These tend to fall into two areas: how employees are treated and how to approach innovation.

## Treatment of employees

Most interviewees agree that incentives for employees in many companies are misplaced. "People are not paid to help the company prosper," says Mr. Turner Dávila. "They are paid for keeping discipline and behaving in approved ways. Matrix management turns everyone into diplomats, negotiating with peers like bureaucrats in Brussels instead of focusing on the market and the customers."

Entrepreneurial employees exist in every company, but their potential is often buried beneath layers of bureaucracy. Making the most of these entrepreneurial individuals requires company leaders to foster a culture in which innovation is celebrated. "The entrepreneurial mindset is always there," says Ron Kruszewski, Chief Executive of the US regional investment bank Stifel, based in St. Louis. "You can take the most staid and mundane company in the world and make it entrepreneurial if you lay the framework for an entrepreneurial mindset to flourish. It's embedded in the mind of every person in the company. It's just a matter of figuring out how to let it out."

Mr. Kruszewski recommends the use of a three-pronged plan to make large companies more entrepreneurial:

1. Make sure the company is a meritocracy and that people know they will be recognized for their achievements.
2. Hire the right people. Stifel looks for three qualities: competitiveness, passion and compassion.
3. Reward employees for growing the company by giving them equity in the company.

In 1997, Stifel associates owned 10% of a company with US\$40m in market capitalization. Now, 14 years later, associates own 40% of a company with US\$2.5b in market capitalization. The distribution of the equity has changed, but because the company has grown in value by a factor of over 60, everyone is better off. "I say, if it's boring, do something about it," says Mr. Kruszewski. "Don't accept it as it is. Bring that entrepreneurial spirit to it."

## Approach to innovation

Both large/traditional and smaller-growth companies have the capacity to be innovative. But in large companies, innovation tends to be gradual – a refinement of a product or process over time, for instance. Game-changing innovation, however, is more likely in smaller companies, since there are few vested interests standing in the way of transformational change.

An example is the auto industry. Electric engines for cars have existed for many decades, but were not promoted by large companies. "It took a huge effort from a very small company to develop an electric lithium battery," says Mr. Vaissié. "It's the small companies that could develop the electric engine, whereas the large company would be going against a fundamental business model."

That doesn't mean that large companies can't launch game-changing innovations, however. One way to do so is to enter an adjacent sector where the company's existing business model is not at stake.

*“You can take the most staid mundane company in the world and make it entrepreneurial if you lay the framework for an entrepreneurial mindset to flourish.”*

Ronald J. Kruszewski

### **Igniting innovation: how hot companies fuel growth from within**

**A previous report published by Ernst & Young identified the six corporate strategies that underlie the most successful intrapreneurship efforts:**

- 1. Set up a formal structure for intrapreneurship.** Give people enough time away from their “day jobs” to work on creative ideas, but set up formal processes to make sure those ideas develop and take root.
- 2. Ask for ideas from your employees.** They have their fingers on the pulse of the marketplace. Encourage everyone from all ranks and functions to contribute to the innovation dialogue.
- 3. Assemble and unleash a diverse workforce.** Statistical research has established that diverse viewpoints result in better ideas and better products.
- 4. Design a career path for your intrapreneurs.** They tend to be nonconformists who dislike conventional jobs, so look for non-traditional ways to advance their careers.
- 5. Explore government incentives for innovation.** Ask how these can support your intrapreneurial ventures. Governments all over the world are offering new tax and other incentives for research and development (R&D) – and corporations in turn are urging governments to support innovation.
- 6. Prepare for the pitfalls of intrapreneurship.** Backing bold ideas can backfire. Be prepared to deal with failed ventures, internal conflicts and financial risks.

# Conclusion

Over the past decade, entrepreneurial leaders have played an increasingly important role in the global economy. Their ability to see opportunities in an uncertain environment, take calculated risks and be tenacious in turning ideas into successful ventures are crucial components of both job creation and the global economic recovery.

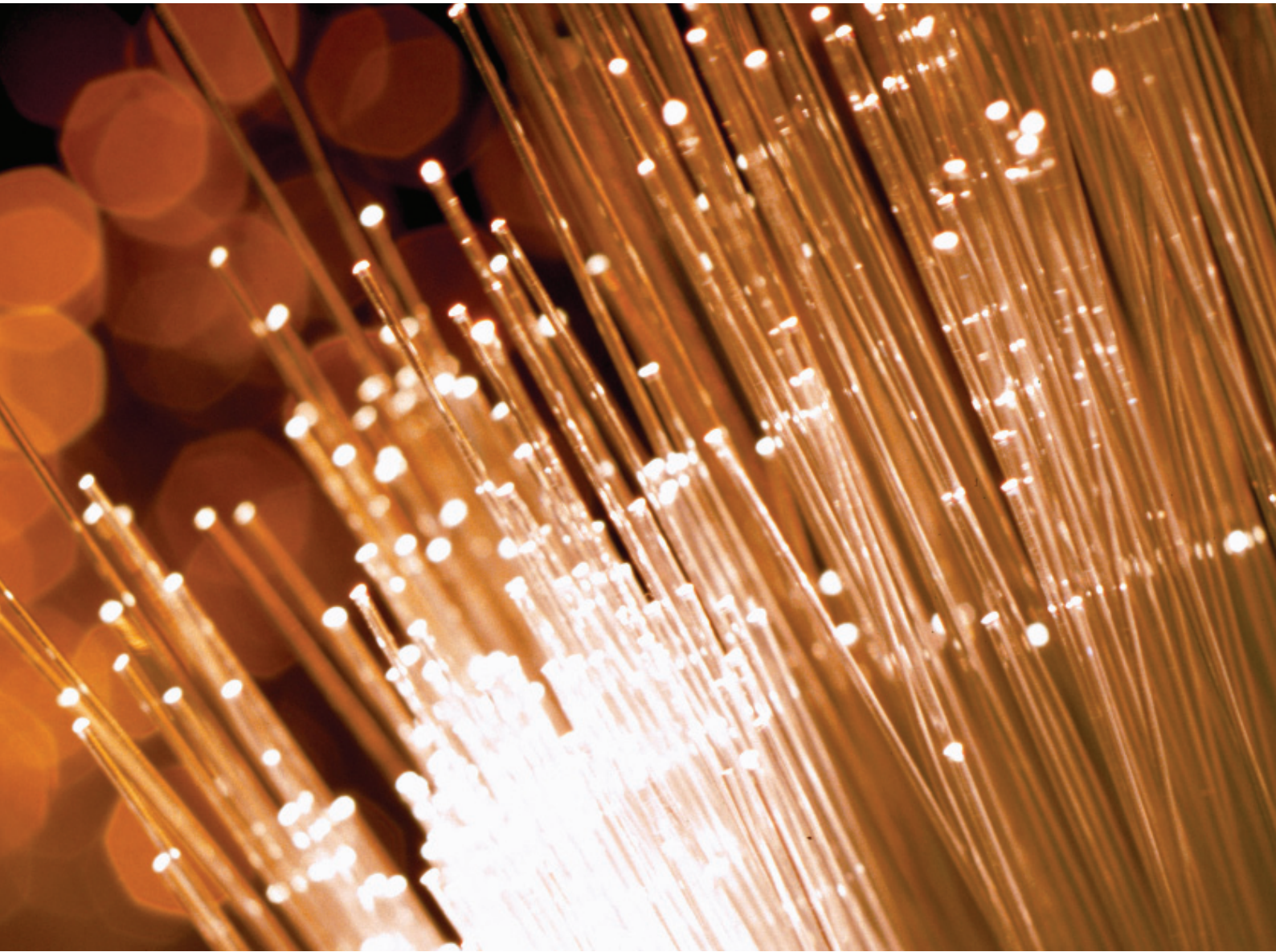
Understanding the motivations and drivers of the world's entrepreneurial leaders is therefore a vital pursuit. We believe that our DNA of the Entrepreneur model provides a useful addition to the existing literature on this topic. The combination of an internal locus of control that combines a consistent attitude to risk and opportunistic mindset lies at the core of this model. But there are attributes surrounding this core that are key characteristics of most successful entrepreneurial leaders, including drive, passion, and the ability to be both a strong individual and a team player.

Although it is often said that entrepreneurial leaders enjoy considerable independence, a romantic notion that entrepreneurship is the path to unfettered freedom is misguided. Entrepreneurial leaders may not be answerable to a corporate boss, but their sense of responsibility to customers, employees and investors is considerable.

Another misconception requiring correction is that entrepreneurial leaders are somehow inherently different from traditional managers. As our survey and interviews show, entrepreneurial leaders are defined as much by their early business experience, cultural background and external environment as they are by any innate personal characteristics. Put simply, nurture is more important than nature in shaping the entrepreneurial mindset.







# The global voice of entrepreneurs

In our globalized economy, where innovation and agility are vital to success, entrepreneurs matter more than ever. They are the lifeblood of the world economy and deliver growth in a slow-growth environment.

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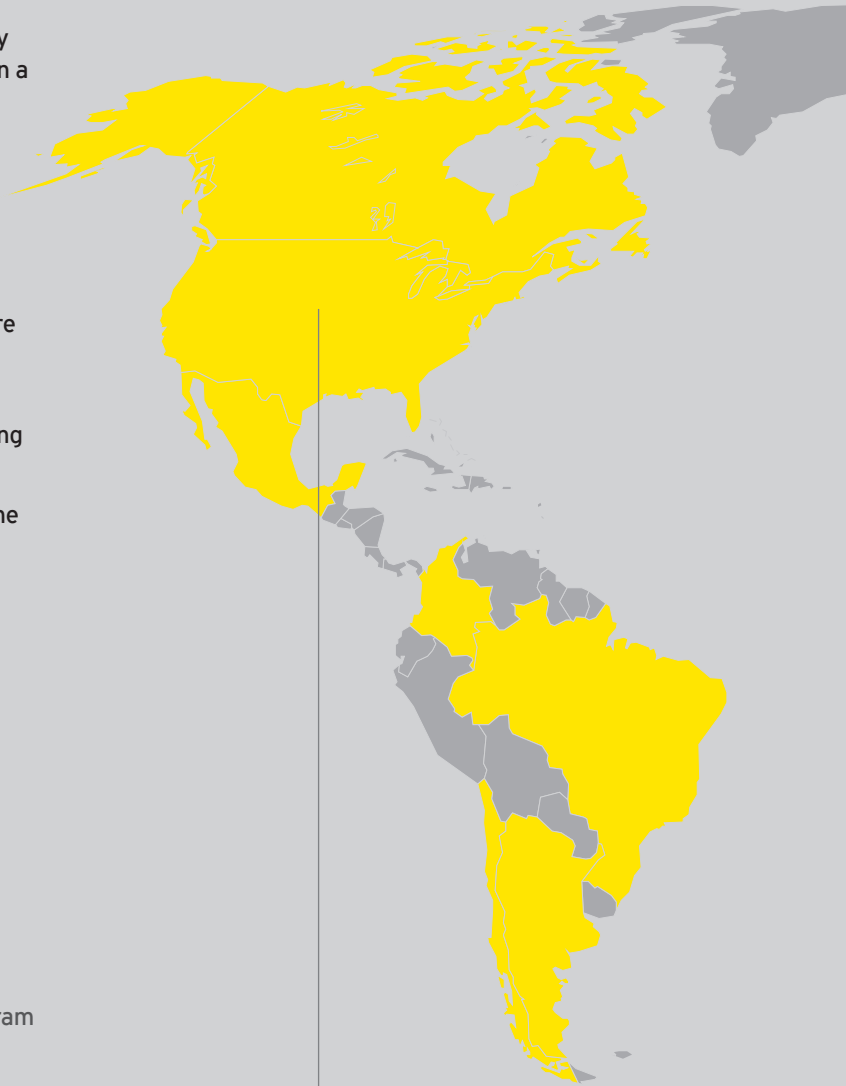
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We are proud to recognize the achievements of these outstanding individuals and remain committed to highlighting and encouraging entrepreneurial activity around the world.

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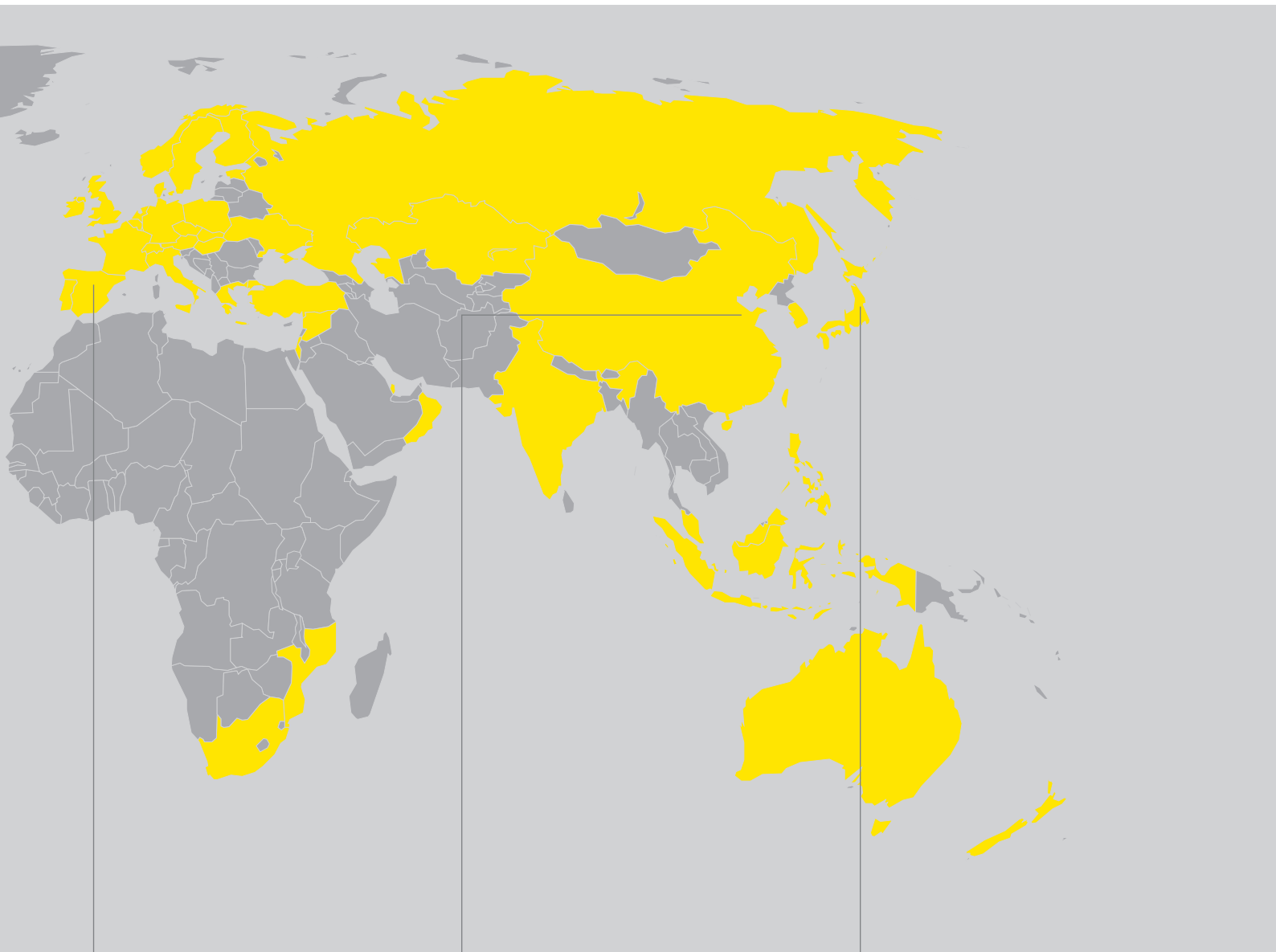
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