SUCCESSFUL ENTREPRENEURS BEYOND STARTUP: ACHIEVING GROWTH AND LONGEVITY

© Phil Thompson – Business Lawyer, Corporate Counsel – www.thompsonlaw.ca

Most entrepreneurs want to build a manageable business with enough profit to maintain their desired lifestyle. Some entrepreneurs would like to go beyond the "lifestyle" business and take their enterprise to the "next level". In either case the common goal is getting beyond the startup stage and building a business which will still be around six to ten years later. A recent book by Amar Bhidé of the Harvard School of Business suggests what it takes to be successful at either level.[1]

In 1997 I circulated two articles I had written summarizing published research on growing successful small businesses,[2] both of which are available on my website.[3] This article is a continuation on the same theme: the personal growth required from entrepreneurs who want to achieve longevity, growth or both.

Amar V. Bhidé is a Harvard University professor. His new book is titled *The Origin and Evolution of New Businesses* (Oxford University Press, 1999). His book is based upon his twenty years of studying and teaching entrepreneurship, including a detailed study of one hundred companies on the 1989 Inc. 500 list. His findings are useful and stimulating to anyone involved in the small business community, whether as an entrepreneur, a professional advisor, a lender or an investor.

My particular interest was to learn more about the attributes of successful entrepreneurs. In my eighteen years as a professional advisor I had come to the conclusion that owner managed businesses reflected the personalities and characteristics of the owner more than anything else.

I was also interested to learn about the attributes of entrepreneurs who successfully built their businesses beyond the "lifestyle" stage.

Most of my "successful" clients grow businesses to the "lifestyle" stage: they build businesses in which they can manage the details while producing the profits they need to maintain their desired lifestyle. They are also able to maintain their business at this stage considerably longer than most small businesses last[4]. While they consider growing their business to another level, they are reluctant to risk what they have built so far.

I have other "successful" clients who want their businesses to do more, but are inhibited by their own limitations as entrepreneurs, especially when it came to taking risk, developing and implementing successful strategic thinking, providing financing and financial controls, developing infrastructure, acquiring and keeping good people, and sharing rewards (both tangible and intangible).

Among other insights into these issues, Professor Bhidé's views include the following:

- typical entrepreneurs do <u>not</u> have a high tolerance for risk, although they do have a high tolerance for ambiguity during the startup phase of their business

- only a few, exceptional entrepreneurs have the characteristics which permit them to significantly grow their promising startup into something bigger, including:

    - a tenacious ambition to achieve something audacious
    - a higher tolerance for risk
    - an ability to switch from tactician to strategist
    - the capacity to acquire or build a wide asset and resource base (including additional assets, financing and personnel)
    - the ability to build a workable and manageable infrastructure
    - the ability to manage the business in a non-oppressive manner without giving up control of core values and operating principles.

From my own experience, I can add the following proposition of my own:

- while only a few exceptional entrepreneurs can build an Inc. 500 company, all entrepreneurs who want to build and maintain a "lifestyle" enterprise for any length of time share should be aware of and should adopt most of the qualities of the exceptional few.

<u>Promising Startups and the Entrepreneurs Who Build Them</u>

Almost all startup businesses, including the companies which eventually made it to the Inc. 500, share some common characteristics:

- they are not based on novel ideas or unique assets (including 88% of the companies from the Inc. 500 survey)
- they have little to differentiate themselves from their competitors (e.g. no patentable products, copyrights or trade secrets)
- they are bootstrapped based on the entrepreneur's personal financial resources and initial profits, and suffer extreme capital constraints (even the Inc. 500 group, 50% of which were started with capital of US$10,000.00 or less, and 80% of which were started with less than US$50,000.00)
- they do not earn much profit, and do not provide more than a basic wage to the entrepreneur
- the founder has limited prior business experience
- very little research or planning goes into starting the business

Most of the "promising" startup businesses that made it to the Inc. 500 shared these characteristics, but differed from other startup companies in certain key respects:

- they occupied fields which did not overlap with the most popular startup business categories (e.g. construction, restaurant, retail store, etc.)
- they took advantage of market turbulence which existed due to external circumstances (e.g. technology, regulatory changes, fashion, etc.)
- they occupied market niches which did not require much capital investment
- due to market turbulence, not much innovation was required, customer expectations were not fully formed, and it was possible to demand higher prices and produce higher profits
- they served local customers or customers with special needs
- they tended to be business to business (86%) as opposed to consumer focused (14%)
- their product offerings tended to have higher ticker prices (US$5,000.00 median unit price)
- they faced no or limited competition from large companies
- they were even more dependant than usual on their principal's efforts, especially in the area of customer acquisition
- as a result of much of the foregoing, they were more profitable than most startups

The entrepreneurs who started the Inc. 500 enterprises, and therefore moved their businesses well beyond the startup or "lifestyle" stages, also shared some common characteristics:

- they acquired some initial knowledge of the business from a previous career experience
- they imitated someone else's ideas, with incremental improvements
- they were better educated and came from more prosperous backgrounds than most individuals who start businesses
- they were not big risk takers; they pursued business ideas they had been previously exposed to which could be started without risking very much capital
- they had a significant tolerance for ambiguity, as opposed to an unusual tolerance for risk
- they were very active in selling directly to customers (88% of principals), and had strong sales ability
- they had a significant capacity to adapt and had no problem abandoning a strategy or idea that was not working to pursue one that did
- they were decisive, open-minded, ingenious, resilient, perceptive and able to exert a significant degree of self-control

Of interest are the qualities Professor Bhidé identified as <u>not</u> being significant in the success of those entrepreneurs:

- risk-taking
- blockbuster creativity
- vision and foresight
- grand ambition
- charisma
- power

- administrative abilities.

To quote Professor Bhidé: *Successful promising ventures ... require entrepreneurs with some special qualities and talents but not all-round super humans*.

Beyond Startup: Growth, Longevity and the Entrepreneur's Personal Challenge

On the other hand: *Building a long-lived firm requires comprehensive changes. Instead of relying upon opportunistic adaptation to exploit niche opportunities, they have to formulate and implement ambitious long-term strategies ... The passage from fledgling business to a large corporation requires entrepreneurs to develop new skills and to perform new roles ... Only exceptional entrepreneurs have the capacity and the will to make such changes*.

According to Professor Bhidé, the transition of a fledgling business to a large corporation requires a fundamental transformation. It is much more than a simple "scaling" up. In particular, the business must:

- develop a diverse bundle of distinctive and complementary assets (e.g. products, plants, brands, systems)
- develop sophisticated and effective mechanisms to co-ordinate those assets (e.g. planning, communications, corporate finance, human resources)
- develop the capacity for continuous growth

In order to achieve this the entrepreneurs behind the business must adopt a strategic rather than an opportunistic approach. In particular they must perform three key tasks:

- articulate audacious goals and purpose for the business
- switch from tactician to strategist by formulating a strategy (a set of general rules and boundaries) for achieving those goals
- effectively implement the strategy by translating the general rules into specific actions and decisions

This is in contrast to the nature of a startup business, which is intuitive, adaptive, opportunistic and niche oriented. Growing the company requires the entrepreneur to move beyond his or her personal and life experiences to pursue opportunities which are more systematically developed, and which call for greater investment with less uncertainty. This also requires an entrepreneur who can patiently and successfully acquire or develop key resources (money, products, assets, customers, people) within a strategic context. It is Professor Bhidé's belief that only an exceptional few entrepreneurs can do this successfully with respect to building a large enterprise.

While most entrepreneurs are not setting out to make it to the Inc. 500, all entrepreneurs who are looking for more out of their businesses would be wise to consider the list of qualities that Professor Bhidé identifies as being crucial to an entrepreneur trying to get his or her business "to the next level". These include:

- **ambition** – to achieve something audacious; to build a legacy; to achieve more than simply starting a business (which does not require much ambition); to do more than pursue profits (the personal ratio of profits to effort and risk is probably maximized at the leveling off point that is eventually reached by all "lifestyle" stage businesses); all as opposed to the single-minded pursuit of profits that got the business past the startup stage
- **risk taking** – to get to the next level requires the entrepreneur to risk what she or he has already built, and frequently requires a commitment of significant personal financial resources which were not required or which did not exist at the startup stage; it also important to keep in mind that promising business are built by individuals with a high capacity for ambiguity, as opposed to big risk-takers
- **imagination** – including the ability to synthesize ideas from different sources, envision a different future, and shape the future to meet the vision; as opposed to the reliance on mimicry that characterizes most promising startups
- **constancy** – sticking with the vision even in tough times, or not selling out too early; which contrasts with the opportunistic, adaptive open-mindedness that got the business started
- **balanced persuasiveness** – a combination of inspiration and intimidation that effectively bends wills to meet the entrepreneur's vision without losing key people and resources along the way
- **willingness and ability to learn new things** – the entrepreneur must acquire new skills, including finance, administrative, communication and motivation skills that are different from the technical or sales skills that were largely the foundation for making the business successful in its early days

In short, to take a business to the next level the entrepreneur must grow as well. The very qualities that made the business successful in the beginning must be abandoned and the entrepreneur must switch to a new way of leading and developing the business.

In the end, however, *the forces of competition leave standing those very select firms whose principals have (or can develop) the capacity to formulate and implement sound, long-term strategy*. According to American government statistics, 60% of startups are no longer in business after six years, and 70% have ceased to exist after eight. These facts suggest that it not only takes exceptional entrepreneurs to build large corporations, but that it takes entrepreneurs with exceptional qualities to build and maintain successful "lifestyle" businesses with any kind of staying power.

Measuring Up

Henry Ford is an extreme example of an audacious entrepreneur. He had no shortage of competitors. While he was building Ford Motor Company William Durant was in the process of acquiring thirty small car manufacturers and combining them into General Motors. In 1903 when he founded the company with money borrowed from friends, Ford built 1,700 cars. In 1911 Ford built 40,000 cars. In 1925 his company built 1.4 million cars, only 20% fewer than Ford built in 1997. By 1925 (twenty-two years after startup) Ford had grown his company to 100,000 employees and 6,400 dealers. He had established a 1,115 acre manufacturing facility. He did this in an era without satellites, computers, photocopiers, fax machines, calculators, television or even electric typewriters. Ford achieved the audacious goals he set for his business despite intense competition by bending the industry and his nation to match the goals he was trying to achieve. He built the product (the Model T) which triggered the very wave he rode to success. The fact that most entrepreneurs scoff at ever trying to achieve when Ford achieved is the point. We know we lack the audaciousness, the risk tolerance, and the strategic abilities to pull it off.

However, to a lesser extent, most entrepreneurs would like to see something of Henry Ford in themselves. They admire his audacity, determination and success, and wish to emulate his achievements on a smaller scale. With help from Professor Bhidé's insights, they can now appreciate what it takes from them as individuals if their businesses or going to progress to and maintain the "lifestyle" stage most entrepreneurs aspire to, and can assess for themselves whether they have what it takes to proceed even farther.

---

[1] Bhidé, Amar V., *The Origin and Evolution of New Business* (Oxford University Press, 1999).

[2] *Entrepreneurial CEOs: The Top Three Skills You Need to Learn and Maintain*, and *Businesses Built to Last: Here's What They Look Like*

[3] www.philthompson.com

[4] Both Canadian and U.S. studies reveal that only 20% of new businesses are still around ten years later, with the majority failing, selling or otherwise disappearing within the first six years.