

The Anatomy of an Entrepreneur

Making of a Successful Entrepreneur

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Introduction and Findings

According to the U.S. Small Business Administration, since the mid-1990s, small businesses generally have created 60 to 80 percent of the net new employment in the United States. Further, they found that net job creation in the immediate years following the 1990-1991 and 2001 recessions stemmed from employment generated by small firms with fewer than 500 employees.¹ Therefore, it would seem that one good way to boost economic recovery is to encourage more business creation. To do this, policymakers need to understand the backgrounds and motivations of the founders of such businesses. They also need to understand what inhibits others from starting businesses and becoming entrepreneurs.

Our earlier research paper, *Anatomy of an Entrepreneur*, provided some insights into the motivations of founders of high-growth companies, as well as their socio-economic, educational, and familial backgrounds. We found that technology entrepreneurs are most likely to come from middle-class backgrounds, to have parents who are less educated than they are, and to be married with children when they launch their first companies. Their primary motivations for launching a company are financial and emotional. They wanted to build wealth and had a business idea on which they wanted to capitalize. Many said they had always wanted their own companies some day.

In this paper, we explore company founders' opinions and observations about their own trajectory and what influenced the success or failure of their businesses. By understanding what entrepreneurs think and believe, we hope to provide more insights into how to better support entrepreneurs and create societal, political, and economic conditions that can more efficiently foster entrepreneurship.

This research is based on a survey of 549 company founders in a variety of industries, including aerospace and defense, computer and electronics, health care, and services.

While our research cannot be generalized strictly to the entire population of entrepreneurs in the United States, it is meant to be illustrative of the backgrounds of entrepreneurs in industries that we expected to be higher growth.² We surveyed founders of businesses that had made it past the startup stage. So this research focuses on the successful businesses rather than all businesses that are started in the industries we selected.

Here are some of our key findings. Detailed statistics and charts are available in the latter sections of this paper. Note that we use the terms "company founder" and "entrepreneur" interchangeably.

Experience, Management, and Luck: The Keys to Success

We asked company founders to rank the importance of a series of factors on the success of their most

By understanding what entrepreneurs think and believe, we hope to provide more insights into how to better support entrepreneurs and create societal, political, and economic conditions that can more efficiently foster entrepreneurship.

1. U.S. Small Business Administration, Office of Advocacy, *The Small Business Economy*, Washington, 2009

2. The Survey of Business Owners from the Census Bureau is a good source of overview statistics on business owners in the United States but is only completed every five years and has very limited space for questions - <http://www.census.gov/econ/sbo/index.html>. Other private surveys, such as the Kauffman Firm Survey, also have information on owner backgrounds but are focused on a different population of businesses and longitudinal data collection - <http://www.kauffman.org/research-and-policy/kauffman-firm-survey.aspx>.

73 percent said professional networks were important to the success of their current businesses. In comparison, 62 percent of respondents felt the same way about personal networks.

recent startups and to tell us what other factors were important.

- 96 percent ranked prior work experience as an important success factor; 58 percent ranked this as extremely important.
- 88 percent said that learning from previous successes, and 78 percent said that learning from previous failures, played an important role in their present successes. 40 percent said that lessons from failures were extremely important (the factor rating second-highest as “extremely important”).
- 82 percent said their management team was important to their success. 35 percent said this was extremely important.
- 73 percent said that good fortune was an important factor in their success. 22 percent ranked this as extremely important.

Professional Networks, Education, Funding, Personal Networks: Important

- 73 percent said professional networks were important to the success of their current businesses. In comparison, 62 percent of respondents felt the same way about personal networks.
- 70 percent said their university education was important. Ivy-League graduates valued this more, with 86 percent indicating this was important. Only 20 percent of all entrepreneurs and 18 percent of Ivy-League graduates ranked university education as extremely important, however. (Our previous paper had documented that 95 percent of company founders had earned Bachelor’s degrees and 47 percent had more advanced degrees).
- 68 percent of the overall sample considered availability of financing/capital as important. 96 percent of the entrepreneurs who had raised venture capital for their most recent businesses ranked this as important.
- Venture capital and private/angel investments play a relatively small role in the startups of first-time

entrepreneurs. Only 11 percent received venture capital, and 9 percent received angel financing for their first startups.

Location, Investor Advice, Alumni Networks, and Regional Assistance: Not so Important

- Entrepreneurs were almost evenly divided about the importance of the location of their businesses. 50 percent said location was important. But this varied by region: 58 percent in the Southwest, 51 percent in the West, 44 percent in New England, 40 percent in the Midwest, and 37 percent of those located in the Mid-Atlantic ranked location as important.
- Of the entrepreneurs who received advice or assistance from their company’s investors, only 36 percent ranked it as important, 38 percent saying that it was not at all important. Surprisingly, venture-backed businesses also did not put a significant premium on advice offered by their investors—only 55 percent ranked it as important, with 32 percent saying it was only slightly important.
- Only 19 percent believed that university or alumni networks were important. Of the Ivy-League graduates, 29 percent ranked these as important.
- The vast majority (86 percent) of entrepreneurs ranked the assistance provided by the state or region as not at all or slightly important.

Entrepreneurs Perceive Very Few Obstacles for Themselves

We asked company founders to rank the challenges they faced in starting their businesses. In hindsight, the only factors that a majority considered a challenge were the time and effort required, capital/financing, and experience in running a business.

- 61 percent said amount of time and effort required was a challenge; 13 percent said this was an extremely big challenge

- 52 percent said lack of available capital/financing was a challenge; 11 percent ranked this as an extremely big challenge
- 52 percent said lack of prior experience in running a business was a challenge, but only 4 percent considered this to be an extremely big challenge.
- 41 percent said they had concerns about protecting their firm's intellectual property, but only 5 percent considered this to be an extremely big challenge.

Even factors which entrepreneurs believe are problems for others (listed below) weren't significant issues for them.

Entrepreneurs Believe Entrepreneurship is Very Risky and is Hard Work

We asked the company founders to provide an opinion on the factors which may prevent others from starting their own businesses. We wanted to understand the barriers potential entrepreneurs may face from the perspective of those that had already faced these.

- The factor most commonly ranked as important—by 98 percent—was lack of willingness or of ability to take risks, with 50 percent believing this to be an extremely important barrier to entrepreneurship. This clearly indicates that these company founders considered entrepreneurship to be a risky endeavor.
- 93 percent said that the amount of time and effort required was an important barrier. This mirrors the views they expressed about their own challenges.
- 91 percent said that difficulty in raising capital was an important inhibitor.
- 89 percent said business management skills, 84 percent said knowledge of how to start a business, and 83 percent said knowledge about the industry and markets were important issues.
- 73 percent believed that family or financial pressures to keep a traditional, steady job were issues.

Using Personal Savings is the Norm, Venture Capital Comes to the Experienced, and Friends and Family are Always There

The average number of companies started by the company founders in our sample was 2.3 and 41 percent were running their first businesses. We analyzed the sources of funding for the businesses started by the serial entrepreneurs:

- The most significant source of funding for all businesses was company founders' personal savings: 70 percent said they had used personal savings as a main source of funding for their first business, more than four times the number chiefly financed by any other type of funding. Even in subsequent startups, more than half of the entrepreneurs relied on their personal savings.
- Venture capital and private/angel investments play a relatively small role in the startups of first-time entrepreneurs, but the percentage who took venture and angel funding increased with subsequent business launches, with 26 percent and 22 percent, respectively, of entrepreneurs' most recent startups receiving such funding.
- Friends and family provided funding for 16 percent and banks provided funding for 16 percent of the respondents' most recent startups. Corporate investments played the major role in 7 percent.

It seems that entrepreneurs are forced to use personal savings in their initial startup, but it becomes easier for some entrepreneurs to raise angel and venture funding after they have started more companies.

Other Success Factors

We allowed entrepreneurs to write in factors that they considered important but were not included in our list. The most commonly mentioned factor was the importance of faith and God. Many considered this

The most significant source of funding for all businesses was their personal savings: 70 percent said they had used personal savings as a main source of funding for their first business, more than four times the number chiefly financed by any other type of funding.

extremely important to their success. Other factors listed by respondents included the importance hard work, perseverance/determination, timing, spouse forbearance and support, optimism, naivety, and willingness to risk everything.

Entrepreneurship is Believed to be Stressful, with Unanticipated Challenges

We asked respondents to list factors that our survey may not have considered. The most common and highly ranked factors were the stress involved in running a business; the difficulty of maintaining a balance in life; challenges with understanding and developing products for markets that kept changing; problems with government regulations, taxes, and costs of employee benefits; and lack of knowledge about raising capital.

Methodology, Definitions, and Background

The primary data source for this work is a subset of an existing dataset of corporate records included in the OneSource Information Services Companies database. To construct our dataset, we extracted records of companies based in the following industries:

Automotive & Aerospace

- Aerospace & Defense

Computers & Electronics

- Audio & Video Equipment
- Computer Hardware
- Computer Networks
- Computer Peripherals
- Computer Services
- Computer Storage Devices
- Electronic Instr. & Controls
- Scientific & Technical Instr.
- Semiconductors
- Software & Programming

Health Care

- Biotechnology & Drugs
- Health Care Facilities
- Medical Equipment & Supplies

Services

- Computer Services
- Engineering Consultants
- Software & Programming

We extracted randomized records by region. We

visited the Web sites of these companies to make sure the company was still in operation and to obtain names of founders and contact information. We contacted company founders via email and requested they complete an online survey consisting of a series of questions about their own personal and family backgrounds as well as their views on and motivations toward starting a business. Our team of researchers sent up to four unsolicited emails to these founders. In some cases, we followed up with phone calls.

We allowed each company executive to tell us if they were a founder. We provided guidelines for defining a “founder” as any early employee, typically joining the company in its first year, *before* the company developed its products and perfected its business model.

All questions on the survey except name, company, and email address were optional. Five hundred and forty-nine respondents took the survey and answered the majority of the questions asked. Five hundred and ten (or 93 percent) of these respondents answered all of the questions asked. We estimate that, of the founders we could reach, approximately 40 percent completed the survey and answered the majority of the questions asked. We discarded responses that were less than half complete.

Of our sample, 8 percent were women and 18 percent were foreign-born. The largest of the foreign-born group were born in India (4 percent) and the United Kingdom (2 percent).

We asked the founders to categorize their companies by industry. These responses were not always consistent with the OneSource classification of these companies. The chart below details the classification reported by respondents.

Figure 1:
Type of Business Currently Running or Founded

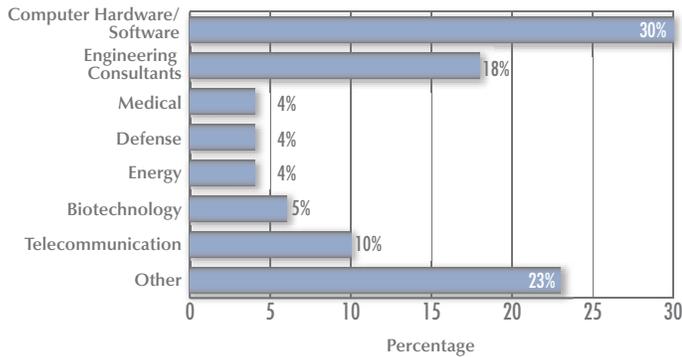


Figure 2:
Respondents by Region

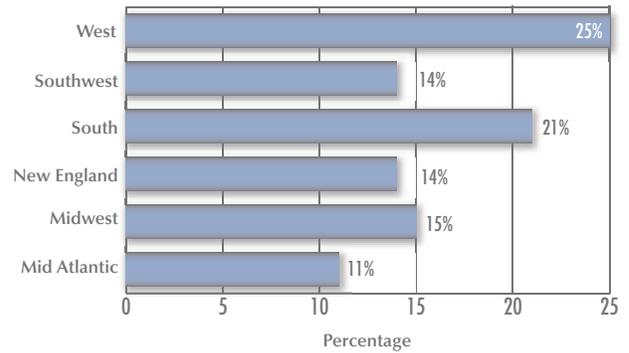
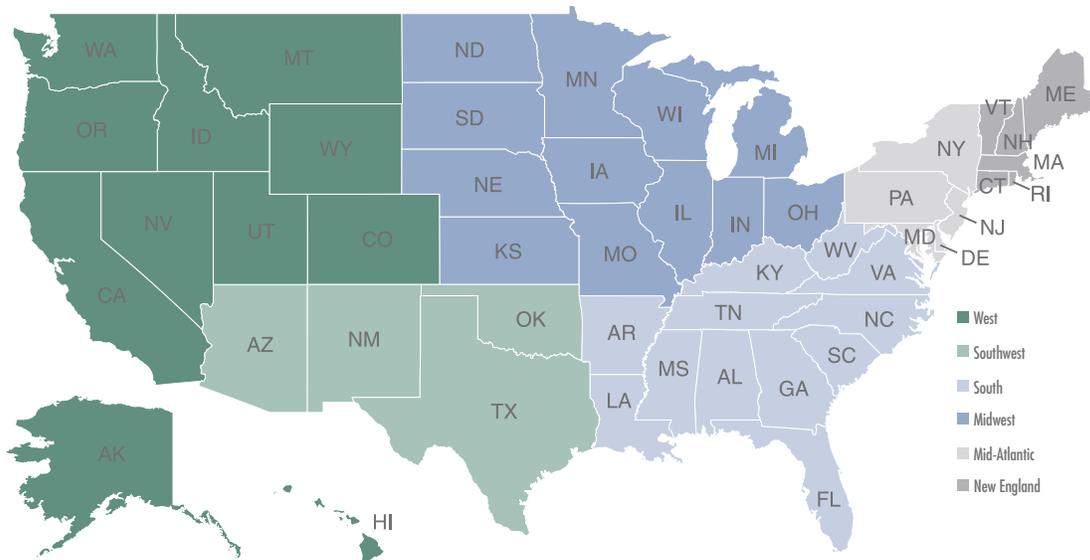


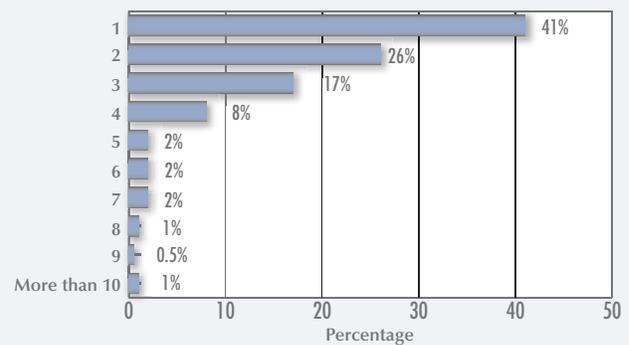
Figure 2a:
Respondents by Regions



The majority of the entrepreneurs in our sample were serial entrepreneurs; the average number of businesses launched by respondents was approximately 2.3.³ But 41 percent were running the first business they had started.

We analyzed some responses by graduates of “Ivy-League” schools. The “Ivy League” is an athletic conference comprising eight elite private institutions of higher education in the northeastern United States. These eight schools are: Harvard University, Yale University, University of Pennsylvania, Princeton University, Columbia University, Brown University, Dartmouth College, and Cornell University.

Figure 3:
How Many Businesses Have You Started?



3. In this calculation, we assigned the weighted value ten to respondents who had indicated they had launched ten or more businesses. The potential for underestimating the average number of businesses launched per respondent is likely minimal, due to the small number of respondents claiming to have launched ten or more businesses.

Detailed Findings

Success Factors

We asked company founders to rank the importance of a series of factors on the success of their most recent startups. They were asked to select whether the given factor was not at all important, slightly important, important, very important, extremely important, or not applicable. We also allowed them to enter other factors and rank the importance of these factors.

Experience contributes to success

Respondents overwhelmingly indicated that experience was the most important factor in the success of their most recent startups: 96 percent believed prior work experience constituted an important factor, and 58 percent ranked it as extremely important. 88 percent said that learning from previous successes was important, and 78 percent said that learning from failure was important. Lessons from failures were judged as an extremely important factor by 40 percent of respondents, the second-highest percentage in the extremely important category.

Lessons from failures were judged as an extremely important factor by 40 percent of respondents, the second-highest percentage in the extremely important category.

Figure 4:
Importance of Prior Industry/
Work Experience

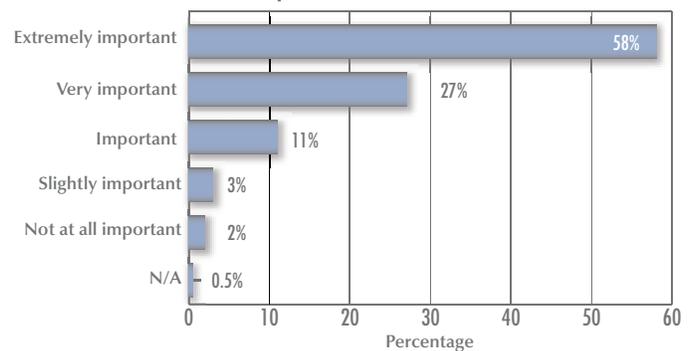


Figure 5:
Importance of Lessons Learned from
Previous Successes

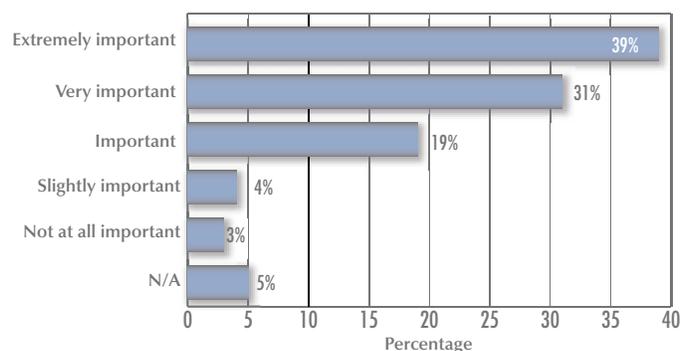
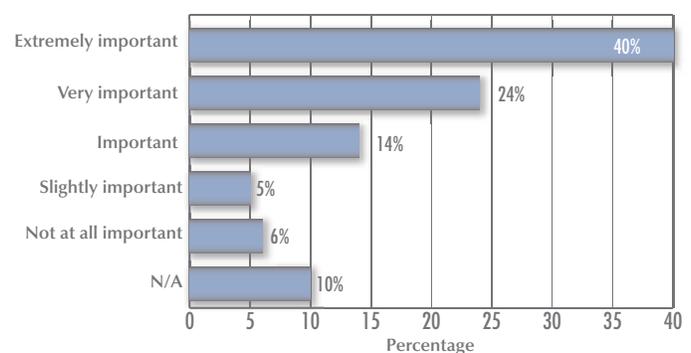


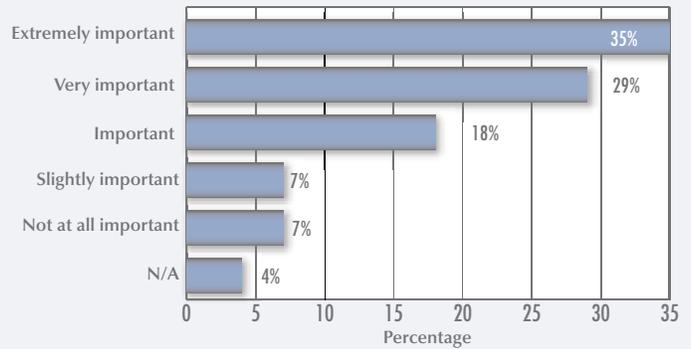
Figure 6:
Importance of Lessons Learned from
Previous Failures



Management team importance

Entrepreneurs felt strongly that their management teams were important, with 82 percent of respondents indicating that this constituted an important factor in the success of their current businesses.

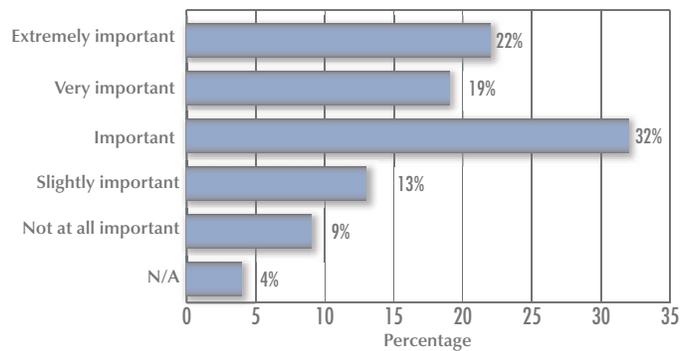
**Figure 7:
Importance of Company's Management Team**



Good fortune

The factor next-highest-rated as important was good fortune, at 73 percent, with 22 percent ranking it as extremely important.

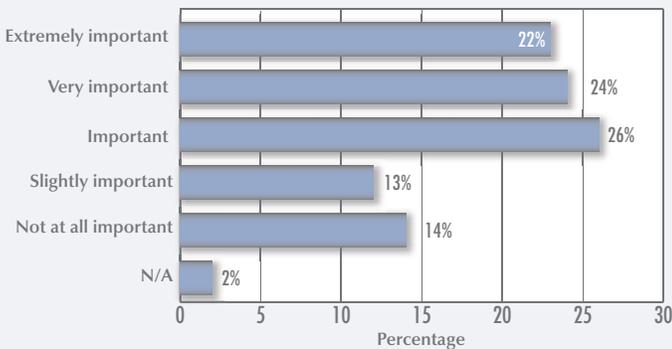
**Figure 8:
Importance of Good Fortune**



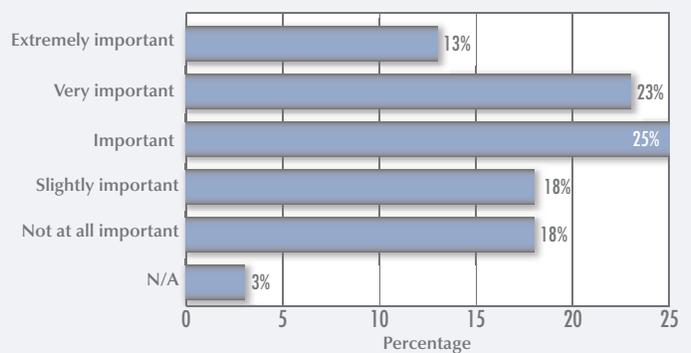
The importance of networks

Professional networks were ranked by 73 percent of respondents as important to the success of their current businesses. In comparison, 62 percent of respondents felt the same way about personal networks.

**Figure 9:
Importance of Professional/
Business Networks**



**Figure 10:
Importance of Personal/Social Networks**



University education was important to success

University education was ranked as important by 70 percent of respondents. This percentage was higher for Ivy-League school graduates (86 percent). Only 20 percent of all entrepreneurs and 18 percent of Ivy-League graduates, however, ranked university education as extremely important.

Figure 11:
Importance of University Education

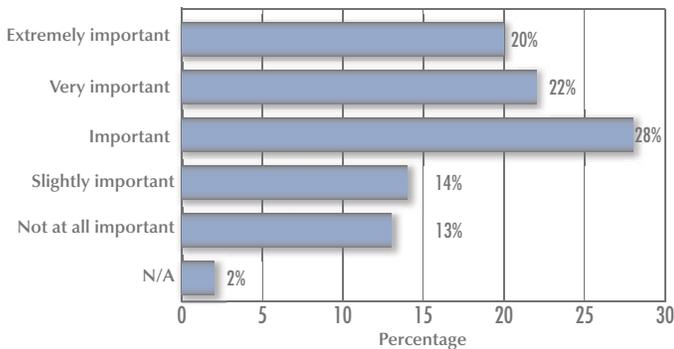
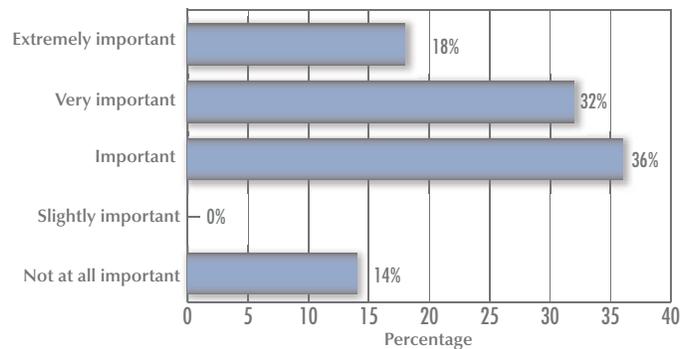


Figure 12:
Importance of University Education for Ivy-League Graduates



Availability of financing/capital

Availability of financing/capital was considered important to the success of their current businesses by 68 percent of respondents. This factor was ranked much higher by entrepreneurs who had raised venture capital for their most recent businesses. 96 percent of this group said this was important.

Among entrepreneurs who had raised venture capital for their most recent businesses, 96 percent said the availability of financing/capital was important to their current business success.

Figure 13:
Importance of Availability of Financing/Capital

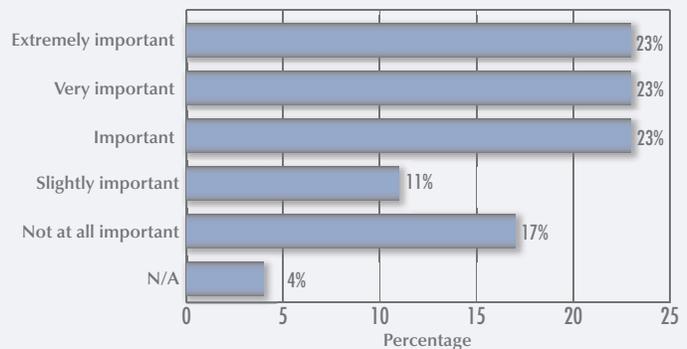
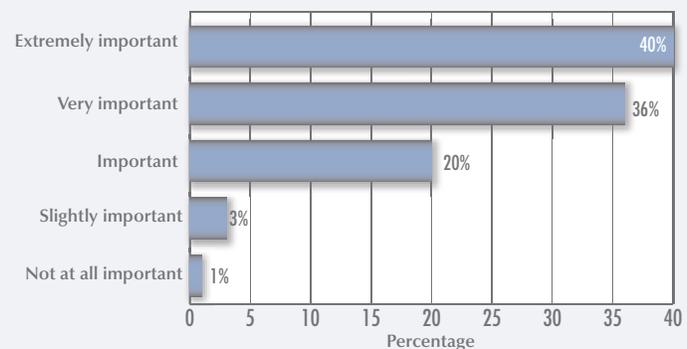


Figure 14:
Importance of Availability of Financing/Capital for Founders of Venture-backed Companies



The role of business location

Entrepreneurs were almost evenly divided about the importance of the location of their businesses. 50 percent ranked location as not at all important or slightly important. The importance of company location did vary by region, though. Compared with 58 percent of the entrepreneurs in the Southwest and 51 percent in the West, 37 percent of those located in the Mid-Atlantic and 40 percent in the Midwest ranked location as important.

Figure 15: Importance of Location of Business

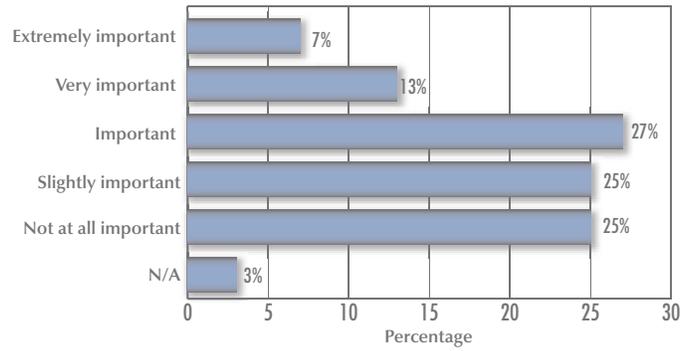
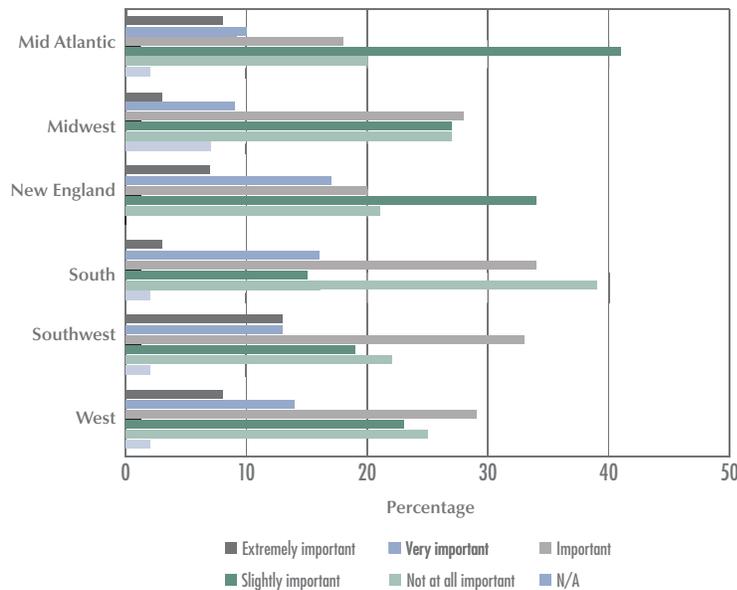


Figure 16: Importance of Location of Business by Region in which Founders' Firm is Located



Overall, 50 percent of entrepreneurs ranked location as slightly or not at all important.

Investor advice and assistance

Of the entrepreneurs who received advice or assistance from their company's investors, only 36 percent ranked it as important, 38 percent saying that it was not at all important. Surprisingly, venture-backed businesses also did not put a significant premium on advice offered by their investors. In businesses that had received venture capital, 55 percent ranked it as important and 32 percent said it was only slightly important.

Figure 17:
Importance of Advice/Assistance Provided by Company Investors (all responses)

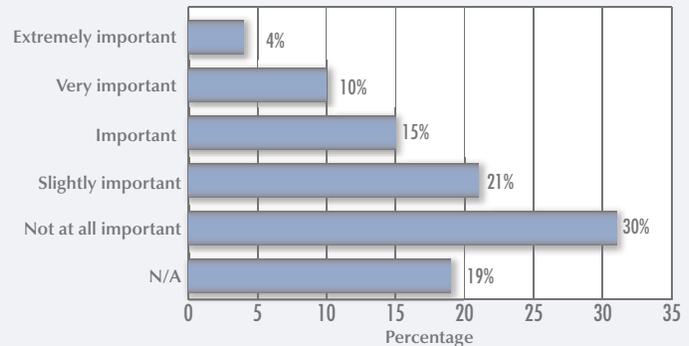
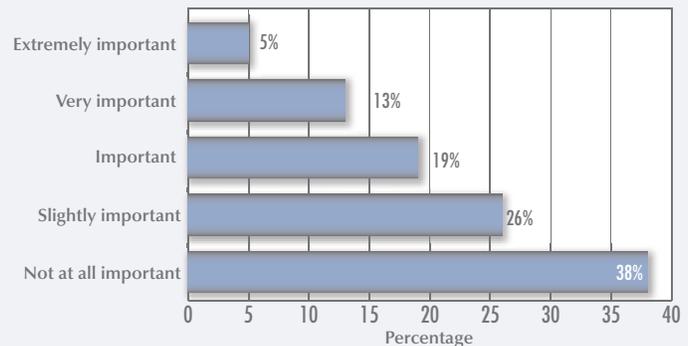
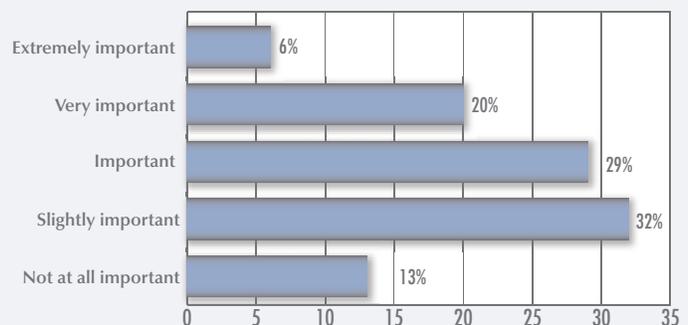


Figure 18:
Importance of Advice/Assistance Provided by Company Investors (excludes N/A)



Investor advice or assistance was ranked as more important by those who received venture capital than for those who did not.

Figure 19:
Importance of Advice/Assistance Provided by Company Investors for Founders of Venture-backed Businesses



University or alumni network importance

Only 19 percent of the respondents believed that university or alumni networks were important, very important, or extremely important for their businesses. The graduates of Ivy-League universities ranked this higher at 29 percent.

This finding was surprising, given the conventional wisdom that these networks are particularly valuable for business contacts. Clearly, entrepreneurs felt that professional networks were more important than alumni networks for the success of their businesses.

Given the conventional wisdom that university or alumni networks are particularly valuable for business contacts, it was surprising that only 19 percent of respondents ranked these networks as important, very important or extremely important.

Figure 20:
Importance of University/Alumni Contacts/Networks

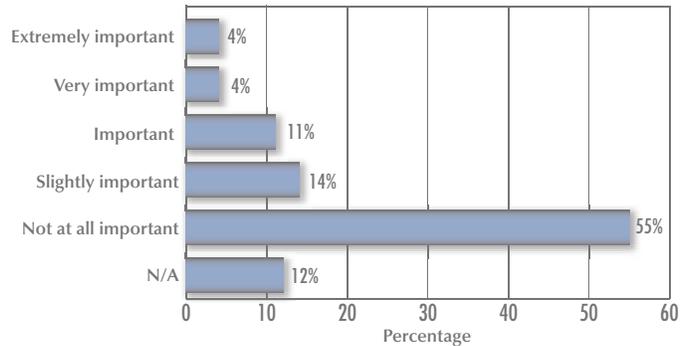
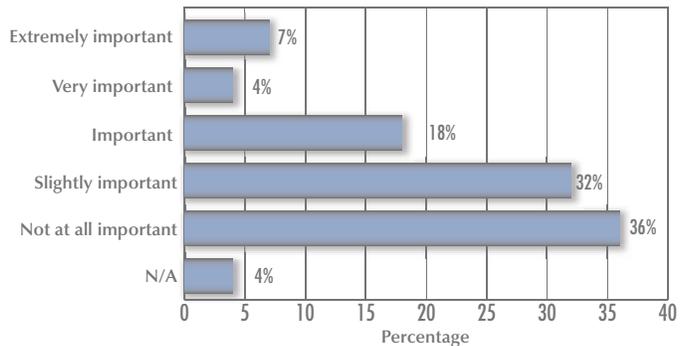


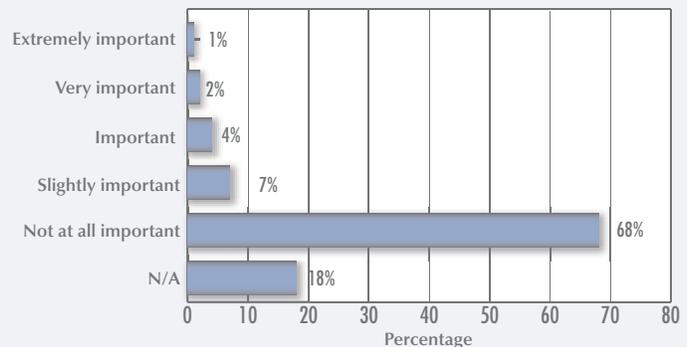
Figure 21:
Importance of University/Alumni Contacts/Networks for Ivy-League Grads



Assistance from state or region

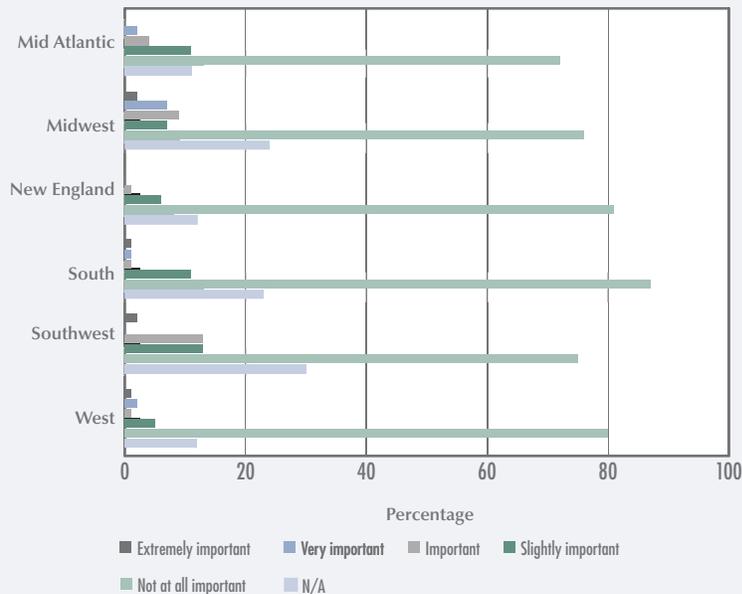
The vast majority (86 percent) of entrepreneurs ranked the assistance provided by the state or region as not at all or slightly important.

Figure 22:
Importance of Assistance Provided by State/Region



Midwest and Southwest entrepreneurs put a slightly higher premium on this assistance than others did, with 19 percent and 15 percent, respectively, ranking it as important. Entrepreneurs from New England put the lowest premium on it, with only 1 percent ranking it as important, followed by the West and South, both with 4 percent.

Figure 23:
Importance of Assistance Provided by State/Region in Which Founder's Firm is Located



Other Factors: Faith, Hard Work, and Perseverance

We asked respondents to list other factors that were not included in the set we had used. Nearly 100 respondents wrote in additional factors. Here are some of the more common responses that generally were rated very important or extremely important in the approximate order of the number of times in which these were mentioned.

- Faith, belief in God
- Hard work
- Perseverance/determination
- Timing/luck
- Spouse forbearance and support
- Listening to clients
- Optimism, naivety
- Willingness to risk everything
- Lessons learned from father's mistakes
- Ability to adapt and change
- Ability to make difficult and unpopular decisions
- Creativity

Challenges they Faced in Starting Their Businesses

We asked company founders to rank the challenges they faced in starting their businesses on a scale of 1–5, with 1 = not at all a challenge, 2 = small challenge, 3 = somewhat of a challenge, 4 = big challenge, 5 = extremely big challenge.

The results show that these entrepreneurs perceive very few obstacles that can stand in the way of their success.

The only factors that a small majority considered somewhat of a challenge, big challenge, or extremely big challenge were the time and effort required, capital/financing, and experience in running a business. And only 13 percent ranked time and effort, and 11 percent ranked capital/financing required as extremely big challenges.

Most factors were ranked as not at all a challenge or a small challenge by the majority.

Figure 24:
Challenges Faced by Founders in Starting Their Business(es)

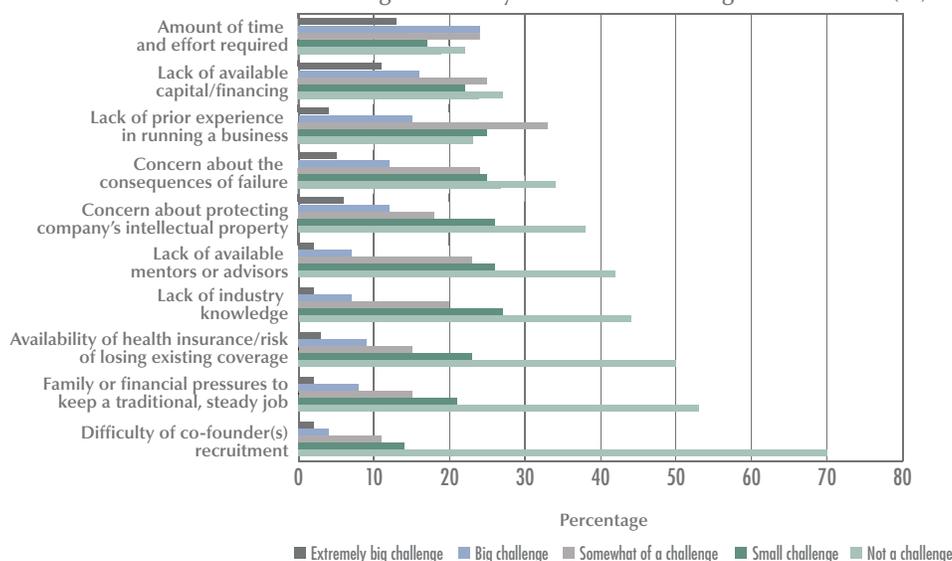
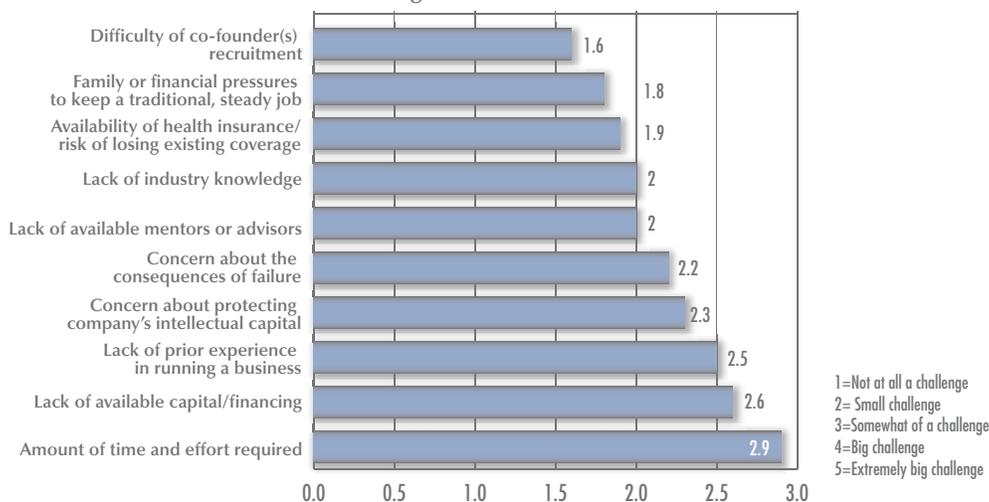


Figure 25:
Ranking of the Challenges Faced by Founders in Starting Business(es)



Other Factors

We asked respondents to list other factors that were not included in the set we had used. Here are some of the more common responses. These are ranked in the approximate order of the number of times in which these were mentioned. The only factor ranked as an extremely big challenge was the first: work–life balance.

- Stress of running a business/maintaining a balance in life
- Perfecting a business model
- Government regulations/rules/taxes/cost of employee benefits
- Lack of knowledge about raising venture capital
- Technology cycles/market conditions
- Finding and maintaining good employees who share the business vision and values
- Ability to communicate/market products
- Sales cycle/building a sales team
- Reputation of sector which business was in (skepticism about technology)
- Ability to scale management and infrastructure with company growth

Inhibitors to Entrepreneurship

We asked the company founders to provide an opinion on the factors that may prevent others from starting their own businesses. We wanted to understand the barriers potential entrepreneurs may face from the perspective of those that had already faced these.

The overall responses indicate that the respondents perceive the barriers to entrepreneurship being much greater for others than what they personally faced.

The highest-ranked factor was the willingness or ability to take risks. 98 percent said this was an important, very important, or extremely important factor, and 50 percent ranked this as extremely important. This clearly indicates that these company founders considered entrepreneurship to be a risky endeavor.

The second highest-ranking inhibitor was the time and effort required. 93 percent ranked this as an important, very important, or extremely important factor. This mirrors the views they expressed about their own challenges.

Difficulty in raising capital was considered to be a significant inhibitor (by 91 percent of respondents), as were business-management skills (by 89 percent) and knowledge of how to start a business (by 84 percent).

Figure 26:
Factors that Prevent Others from
Becoming Entrepreneurs

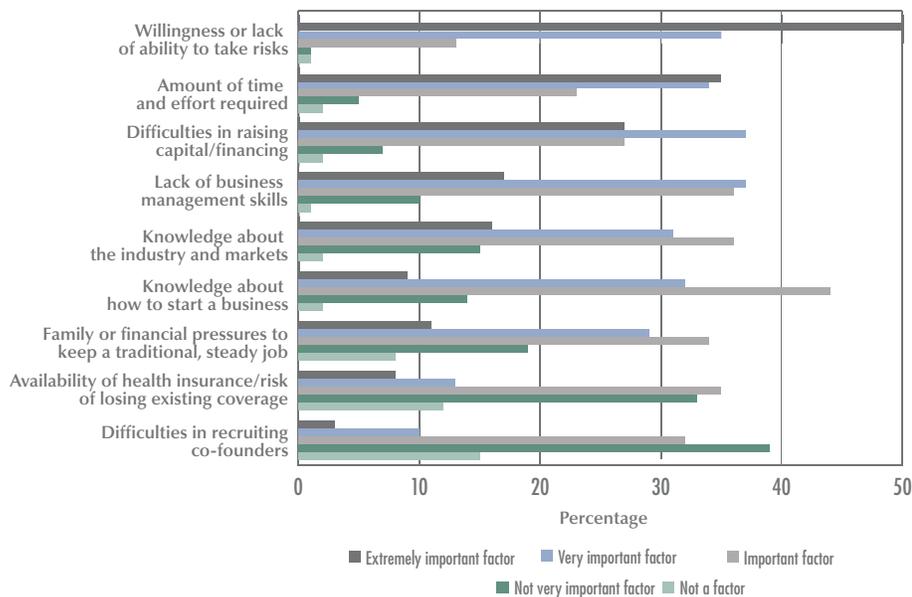
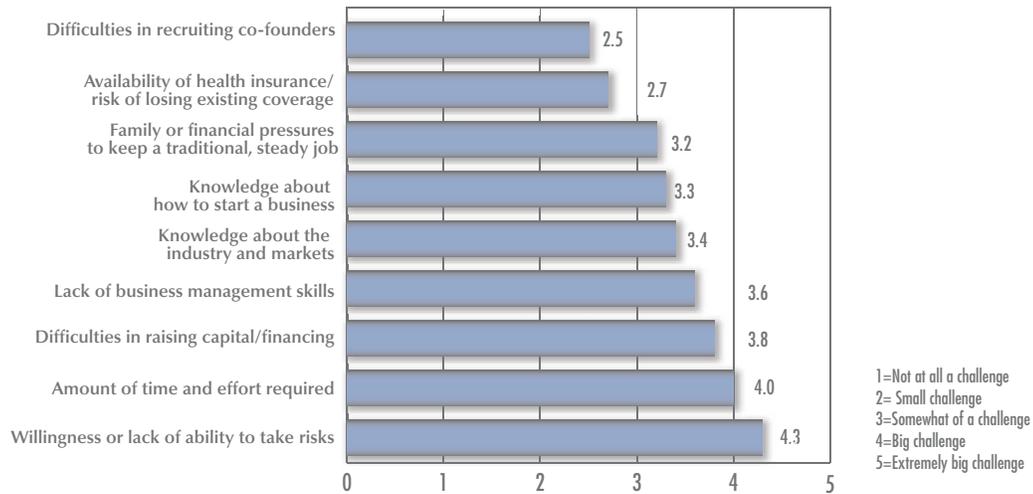


Figure 27:
Ranking of Factors that Prevent Others from Becoming Entrepreneurs



Sources of Funding

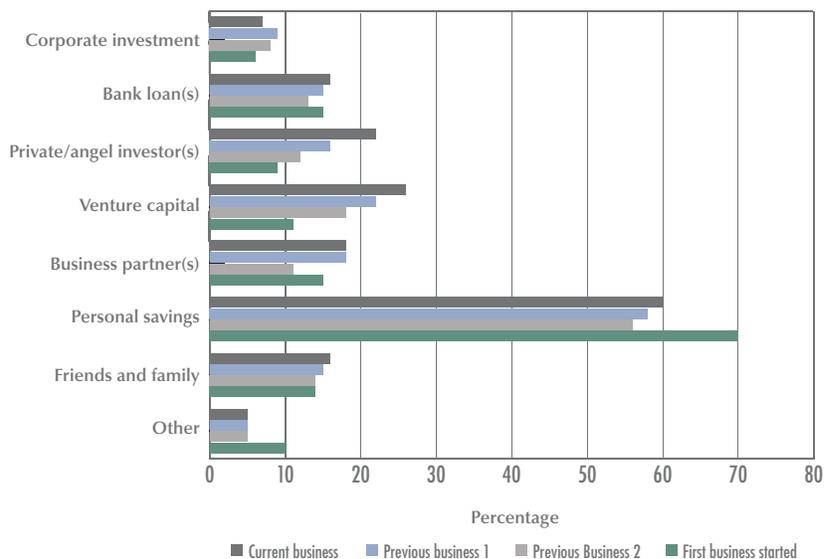
We asked survey respondents a series of questions about their business background and sources of funding. We asked about their most recent business, two previous businesses, and their first business. We present an analysis of the sources of funding for businesses started by serial entrepreneurs.

We learned that the most significant source of funding for all businesses started by respondents was their personal savings: 70 percent said they had used personal savings as a main source of funding for their first businesses, more than four times the number for any other category. Even in subsequent startups, more than half of the entrepreneurs relied on their personal savings.

Friends and family and bank loans were a source of funding for around 13 percent to 16 percent of our sample.

Venture capital and private/angel investments played a role in the first startups of only a few entrepreneurs—just 11 percent received venture capital, and 9 percent received angel financing. But the proportion of entrepreneurs who take angel and venture funding increases with each subsequent business launch by the entrepreneur. The percentage of the sample of serial entrepreneurs receiving venture capital for their latest startup was 26 percent and 22 percent received private/angel financing.

Figure 28:
Main Sources of Funding



Analysis and Conclusions

The responses to this survey clearly contradict some strongly held beliefs about starting a business and entrepreneurship. The four most important factors for entrepreneurial success, according to our respondents, are prior work experience, learning from successes and failures, management teams, and luck.

Networks and financing also were important factors. However, when asked about sources of funding, few took venture capital or angel financing in their first ventures. The lesser role of venture capital funding implied by the responses indicates that perhaps this avenue of funding is less useful for first-time entrepreneurs than even bank funding. Further, the lack of importance entrepreneurs place on investor advice implies that they value “smart money” less than expected, and that entrepreneurs are even more self-reliant than previously assumed.

The lack of reliance on alumni networks also implies that the stated value of attending a top-grade institution, with one of the explicit goals being to obtain access to the alumni network, has been overstated as a benefit for startups. However, lessons learned in college are greatly valued, particularly for alumni of Ivy League schools.

The emergence of professional networks as an important success factor for startups implies that such weak yet functional ties are perhaps the most useful as opposed to close personal ties or extremely weak ties like those found in alumni networks. This could be a fertile area for study of social networks with regard to startups.

Understanding what makes entrepreneurs successful could help develop better policies to foster entrepreneurship and increase the numbers of high-growth companies.

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