Hallmarks of Entrepreneurial Excellence

2001 Survey of Innovative Practices

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This collaborative research conducted by YEO and the Kauffman Center for Entrepreneurial Leadership through the 2001 Survey of Innovative Practices initiative has been truly a groundbreaking endeavor for our organization on many fronts.

First and foremost, this comprehensive survey assists us in the implementation of our strategic mission "to be the premier, peer-to-peer, global network, community and resource for entrepreneurs." The data generated through this project greatly benefit YEO in better understanding, expanding and growing its network, community and resources.

Reinforcing the fact that YEO is indeed a truly international organization, the survey was mailed in March 2000 to our entire membership — at that time, some 3,200 members — in the hopes of discovering how young entrepreneurs are able to launch and build exceptionally innovative companies. And your response was fantastic, as 766 members (24%) participated in the project.

Results uncovered from the eight-page, 28-question survey are now — and will continue to be — extremely useful to YEO International as it develops new and better programs and services that provide value to its entrepreneurial members.

As you read through this document, I’m sure you’ll be struck, as I was, at just how wonderfully this data reflect upon us — as young entrepreneurs; as high-caliber members of the premier entrepreneurial organization; as well as successful business leaders of today’s global economy.

For those who participated in this survey, I thank you again for taking the time to help us learn more about our membership and the world’s entrepreneurial community. And to all YEO and WEO members, I hope that the information provided on the following pages will be both enlightening and valuable to you on an individual basis.

Best personal regards,

[Signature]
The 2000 Global Entrepreneurship Monitor showed that, in developed nations, variations in the level of entrepreneurial activity may explain as much as half of the differences in economic growth. Those countries with higher levels of entrepreneurial activity also have significantly higher levels of economic prosperity.

Despite this strong relationship, the creation of new enterprise is often ignored as an important role of entrepreneurs in an economy. However, research at the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation (Kansas City, Missouri - USA) has shown that new firms (i.e., those less than two years old) account for ALL or 100 percent of net new job creation in the United States. In fact, every other firm age category realized a net job loss between the 1996-1997 period under study.

But, the creation of new firms is only part of the overall impact of entrepreneurship. For the vision and passion for opportunity that lead to the creation of new ventures is the same drive behind the entrepreneurs who build great companies. This study examines the motivations, styles, perceptions and strategies of 766 of the world’s most progressive young entrepreneurs. The insights are remarkable.

“We didn’t start the business to become rich. But, we also didn’t start with any lofty ideals about improving life for mankind. We were simply overwhelmed by the opportunity we saw and the very personal challenge to build a great company. We are proud of the impact we have been able to make through the business, but what compels us to press on is our passion for enterprise.”

Anonymous
In 2000, the Kauffman Center partnered with the Young Entrepreneurs’ Organization (YEO) to study the distinguishing characteristics of YEO’s entrepreneurial members. The objective was to learn the secrets of entrepreneurs who face seemingly insurmountable obstacles, but who still realize significant growth and vitality in their ventures. As it turns out, what is unique about these companies has a lot less to do with secrets than it has to do with business fundamentals. As detailed in the following report, a young entrepreneur’s extraordinary achievements are not about sophisticated technology or unlimited access to human or financial capital. In truth, it’s about making a difference through innovation, accelerating value and leadership — the hallmarks of entrepreneurial excellence.

Like Michelle Hebert’s passion to pursue innovative opportunities that make her company, Pop Culture, unique, entrepreneurs are going to have to adapt to the new rules of innovation. Some guidelines gleaned from the successful young entrepreneurs in this study include:

• Entrepreneurs who are committed to growing their firms over time are significantly innovative, proactive and risk-oriented toward new product/market opportunities.

• They are deliberate and formal in strategic planning processes. They value and understand the need for having a clear mission statement, developing a long-range business plan, conducting detailed environmental and competitive assessments and setting clear and measurable long-term goals.

• Growth-oriented entrepreneurs also compete aggressively. They avoid unnecessary financial risk, hire the most talented managers, push new product and market development, and heavily advertise to build brand power.
Yoshito Hori ("Yoshi"), CEO of Globis Group, has built the leading management service company in Japan. Yoshi understands the need to focus his company on key strategic objectives derived from a detailed understanding of the Japanese business market and rapid product/market development. The findings from this study suggest that for other entrepreneurs to realize this kind of acceleration will require the following:

- Firms that reported no international activity had an average annual sales growth of 20 percent, which was more than 75 percent greater than firms with only some international effort.
- While 80 percent of the young entrepreneurs surveyed derive less than 5 percent of their sales through e-commerce, 70 percent have either developed a preliminary plan or are ready to fully implement a commercial presence on the Web.
- For the fastest-growing firms, market diversification accounts for an average of 35 percent of annual sales. This means that more than one-third of each year’s sales is generated through markets that have only recently been entered.
- Fast-growth firms tend to be more loosely structured with more open channels of communication. The operating styles of the top management teams tend to range more freely between formal and informal, giving them greater access to important information about the firm.
Leaders, as we suggest in this report, are firms that set the momentum and determine the value proposition in their industry. Geoff Allen, CEO of Anystream, Inc., has successfully launched the industry’s leading media encoding software platform. In less than two years, Anystream has already dominated its market space. Others can learn from the basic principles that Geoff and other entrepreneurial leaders live out daily in their award-winning companies, such as:

- The average net profit margin for the leading entrepreneurial firms (those maximizing sales and profits simultaneously) is five times greater than that of most other firms. These firms also accumulate net worth at least twice as fast as any other firm.
- Accelerated profits also mean that the leading firms do not have to access debt as frequently to fuel their aggressive growth. For every dollar these firms have in equity, they average less than $0.45 in total debt, which is at least 40 percent less than that of any other firm.
- The average return on equity for these young firms is an astonishing 83 percent, which is at least 33 percent greater than that of any other firm.
- CEOs of Leader companies make almost 40 percent of their total compensation in cash and non-cash incentives tied to firm performance. Incentives represent slightly more than 26 percent of the total compensation for the top management teams of these firms.
- Leaders share equity in their firms with other employees. In addition, to fuel accelerated growth, outside investors hold an average of 14.5 percent of these privately held, fast-growth entrepreneurial firms.

It is our hope that each reader will learn these lessons from the world’s leading young entrepreneurs and will apply them. The opportunity is not so much to influence entrepreneurial businesses, as it is to influence every young business leader to realize their full entrepreneurial potential.

Through the insights reported here, the Kauffman Center and YEO salute the PASSION, COMMITMENT and COURAGE of leading young entrepreneurs around the world.
When asked about the overall purpose for their businesses, nearly 75 percent of YEO members say they are intent on growing their businesses for the long run (Figure 1). Fourteen percent are trying to maintain a lifestyle business ("Maintain"), while 12 percent want to harvest short-term profits ("Harvest").

Though a significant number of YEO entrepreneurs intend to grow, few ever realize that dream to its fullest potential. As is obvious in Figure 2, entrepreneurs who are committed to growing their firms over time maintain a radically entrepreneurial posture. An entrepreneurial posture consists of a strong emphasis on innovative approaches to developing the business, a proactive stance toward competitive rivalry and a greater acceptance of the risk inherent in developing new product/market opportunities.

Because of their commitment to growth and their willingness to accept the risks that are associated with pursuing growth over time, YEO members with the strongest entrepreneurial postures are also more comfortable in highly competitive situations.

Their innovative and proactive stance makes them more comfortable competing in hostile, dynamic and technically sophisticated environments. They are not only fully aware of the risk involved, they embrace the risk as a challenge to realizing their fullest potential.

With new venture activity in many tech and non-tech industries, young entrepreneurs are fully aware of the role of innovation in the growth of their firms. Innovation is a mindset — a managerial approach used to build companies. It describes how entrepreneurs lead and, as such, is one of the distinguishing hallmarks of entrepreneurial excellence.
Though the more challenging environments are ultimately more attractive to young entrepreneurs, they are not into the risk for risk’s sake. The most aggressive young entrepreneurs are also diligent planners. When asked about the level of emphasis they place on strategic planning, young entrepreneurs with the strongest entrepreneurial postures scored consistently higher on all dimensions (Figure 3). They understand and value clear mission statements, develop long-range business plans, conduct detailed environmental and competitor analyses, and set clear and measurable long-term goals and action plans.

Emphasis on strategic planning enables them to be more aggressive competitively. Competitive strategy is about positioning the firm and its product or service offering to realize the greatest market value. There are several leading indicators of a company’s competitive position: (a) relative quality; (b) relative overall value; (c) relative costs; (d) prices; (e) customer service; (f) brand power; (g) market coverage; and (h) product line breadth.

As depicted in Figure 4, young entrepreneurs who are most committed to growing their companies position their firms in unique and competitive ways. They score higher than entrepreneurs not committed to growth on all dimensions of competitive strategy. As a result, growth in sales for these companies is significantly greater than that of firms with weaker competitive positions.
Young growth-oriented entrepreneurs also tend to be more aggressive in various functional level strategies. As depicted in Figure 5, they use less debt to fund growth. They hire the most talented people early in the life of the firm. They also emphasize the importance of R&D to drive product and process innovation. They are more adept at managing knowledge for stronger, more sustainable competitive advantages. And, they are committed to increasing operational efficiencies and effectively use marketing and advertising to build brand power.

In summary, growth-oriented entrepreneurs pursue their ambitions with great focus and determination. They are strongly committed to innovation and risk-taking. However, they are very strategically minded in their efforts, which allows them to compete aggressively.

A commitment to innovation enables young entrepreneurs to rapidly penetrate the most hostile environments, establish strong competitive positions and accelerate their business models. And, ultimately, it is acceleration that distinguishes industry leaders.
"When I decided to launch Pop Culture, I sunk everything I had into it. Having all your eggs in one basket forces you to focus, to innovate and to persevere. I know my determination is what is making the company successful."

Michelle Hebert, CEO
Pop Culture; Taylor, Michigan, USA

More than 80 percent of the most innovative and fastest-growing companies are considered non-tech. Popcorn is arguably the least sophisticated product on the market today. But don’t tell Michelle Hebert that. Driven in part by her passion for gourmet popcorn, Michelle has developed a highly innovative concept in food retailing that she affectionately calls Pop Culture.

Pop Culture’s revolutionary offering entices consumers to experience popcorn — providing a kaleidoscope of temptations for the senses. The smell, the sights, the tastes grab your attention, encouraging you to sample and thereby embrace the product. In short, this is not your grandmother’s popcorn store.

Michelle’s first design innovation was to abandon the inline store concept for the more economical kiosk layout. The kiosk format lowers the cost of retail space and increases customer contact since the smaller units can be located in the highest traffic areas of major malls and airports. The kiosks also have an inviting modern look and feel, where you can watch your favorite flavors being prepared, always fresh. The product line is also highly innovative, with more than two dozen flavors available, including the more exotic dill pickle, hot caramel and dreamy chocolate drizzle.

Pop Culture’s business model is equally innovative. The concept is fun, requires low overhead and provides relatively high margins. The concept is also simple, freeing the store manager/owner to focus his or her creative energies on the customer’s experience rather than on just operating the business.

Michelle epitomizes entrepreneurial excellence. In addition to her innovative flair, she is committed to long-term growth. She currently operates three retail outlets and plans to open two more in 2001. She expects the current annual sales of $1.2 million to grow more than 100 percent this coming year as the company begins to aggressively expand its franchise operations. Her long-term mission, however, is to be the leading popcorn retail operation in America with a store in every major mall and airport.
As we have demonstrated, young entrepreneurs who are most committed to growth approach their businesses very aggressively. However, their level of effort appears to be less indicative of the desire to build something of substantial size than it is of the need to maximize a potential opportunity. It is the desire to realize the potential profit embedded within a new opportunity that makes the opportunity so compelling. Even though the size of the firm will inevitably increase with success, the focus of the strategic effort is on accelerating value creation.

This is the link between entrepreneurial posture and accelerated growth as depicted in Figure 6. Those respondents with relatively weak entrepreneurial postures realize significantly lower rates of growth. This lower growth limits the amount of new resources channeled into the company, which in turn minimizes the number of opportunities the firm can afford to pursue. While the average annual sales growth for the entire sample is slightly more than 30 percent, the average for firms with weak entrepreneurial postures is less than 25 percent.
Interestingly, it is not the more appealing aspects of internationalization or e-commerce that are fueling the growth of today’s young entrepreneurial firms. On the contrary, the degree of internationalization of YEO member firms is relatively small. The average percent of sales derived from international operations is slightly more than 10 percent. The average percent of all capital invested in foreign markets is 3.5 percent, and less than 2 percent of all employees are employed in markets outside of the country where the firm is headquartered. Firms were asked to rate the extent to which 12 different factors deterred their efforts to expand globally.

The more significant deterrents tended to be associated with lack of experience (Figure 7). Factors involving the uncertainties of international expansion (e.g., financial risk and access to information) were rated as more significant deterrents than issues of implementation, such as language barriers and technical and accounting standards.
Rather than conducting business internationally, most of today’s aggressive young entrepreneurs are pursuing opportunities for growth and expansion in the countries where they are headquartered. In fact, the firms that reported no international activity had an average annual sales growth of 20 percent, which was nearly 36 percent greater than the firms with the most international activity and 75 percent greater than those firms with only some international effort.

E-commerce has also been touted recently as a panacea for rapid growth. We are told that firms around the world are rushing to establish a presence on the Internet with the hopes of realizing substantial gains. The young entrepreneurs in this survey were asked to indicate what percent of their sales were generated through e-commerce. The average was 7.5 percent. More than 60 percent have no presence at all on the Web, while 80 percent derive less than 5 percent of their sales through e-commerce. There is also no significant difference in the rate of annual growth between those with an established Web presence and those without.

Though the Internet may not be able to explain the phenomenal growth that the majority of today’s young entrepreneurs are experiencing, this will be a substantial statistic to watch in years to come. As Figure 8 illustrates, 70 percent of the young entrepreneurs surveyed have either developed a preliminary plan or have plans that are ready for implementation to establish a commercial presence on the Web.
Entrepreneurial growth is primarily dictated by the entrepreneur’s commitment to pursuing new opportunities. Of the young entrepreneurs in this survey, the fastest-growing 10 percent (Hyper-Growth) do not allow sales of their existing products to their existing customers (i.e., penetration strategy) to account for more than 36 percent of annual revenues (Figure 9). The slowest growing 30 percent of firms (Slow-Growth), on the other hand, allow sales of existing products to existing customers to derive as much as 56 percent of sales. Entrepreneurs of fast-growth firms realize that a certain minimal commitment is needed in order to stay prepared for opportunities as they present themselves.

For young firms with ever-expanding innovative ideas, the focus of this energy is on developing new markets. Hyper-Growth firms require that market diversification efforts account for an average of 35 percent of annual sales. This means that more than one-third of their annual sales is generated through markets that they have only recently entered.

Figure 10 presents the average annual rate of sales growth for firms below the median of 20 percent of sales derived from market diversification and firms above the median. As Figure 10 suggests, firms with less than a median level of commitment to market diversification did not realize the largest gains in revenue. In other words, the entrepreneurs who are committed to growing their ventures over time understand that relying on existing products to existing customers is insufficient to get the job done. In fact, they have learned that it is not even enough to simply experiment with new products and new markets.
It should be noted, however, that there are substantial variations in the level of effort in new market diversification across industry categories (Table 1). So the appropriate level of new market development does depend on the nature of the industry in which the firm is competing. However, regardless of the industry, the results clearly show that the level of sales derived from new market development is a critical link to firm growth. But, what explains how Hyper-Growth firms are able to manage such phenomenal levels of growth when other firms are not able to grow at all?

From the data, we can see that how these entrepreneurs structure their firms is highly unique (Figure 11). Hyper-Growth firms tend to be more loosely structured with more open channels of communication. The operating styles of the top management teams tend to range more freely between formal and informal, allowing the firm to bend with and adapt to the complexities of rapid growth. Hyper-Growth firms appear to be better able to respond to situational needs that may arise. Lastly, they tend to define the duties of their key employees by roles rather than by job descriptions in the truest sense.

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>Penetration Strategy (Percent of Sales)</th>
<th>Market Diversification Strategy (Percent of Sales)</th>
</tr>
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<tbody>
<tr>
<td>Information Technology</td>
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<td>Telecommunications</td>
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<td>Agriculture</td>
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<td>10.00</td>
</tr>
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<td>Other</td>
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<td>32.07</td>
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</table>
Entrepreneurs are visionaries whose vision usually influences the people around them. In 1992, Yoshito Hori ("Yoshi") had a vision for a new company that would ultimately impact the values and opportunities of the entire nation of Japanese business professionals.

Japan, relative to other nations, has long suffered from a weak entrepreneurial sector. However, the worldwide shift from a capital-intensive to a knowledge-intensive economy, has birthed a fresh spirit of enterprise in Japan. Today, despite the lack of a solid entrepreneurial infrastructure, young professionals are creating successful new ventures in Japan and their success is laying a strong foundation for future generations.

Yoshi recognized nearly a decade ago that the business infrastructure in Japan was inadequate to support a shift to entrepreneurship. Thus, the Globis Group was created to provide the management training, financial capital and access to qualified managerial leaders needed to build an entrepreneurial engine. The company’s core lines of business include:

- Globis Management School (a private graduate business school)
- Globis Organizational Learning (a corporate training and consulting business)
- Globis Management Institute (a management research and publishing business)
- Apax Globis Partners & Co. (a venture capital fund)
- Globis Management Bank (a management search and recruiting firm)

Today, the Globis Group is the leading forum for entrepreneurship in Japan. The Globis Management School is the largest for-profit business school enrolling more than 4,000 MBA students. Globis Organizational Learning is the largest management training company serving more than 300 of Japan’s largest corporations. The Globis Management Institute publishes many leading Asian management books. The $200 million fund in Apax Globis Partners & Co. is one of the largest venture capital funds in Japan. The fund has invested in 26 ventures at an average of $2.6 million per company, which is 75 percent larger than the average investment for all other Japanese funds.

From the humble beginnings of a single classroom to the leading national forum for entrepreneurship, Yoshi has the Globis Group positioned for a strong future. The company’s advantages with economies of scale, scope and speed will be effective for realizing its mission to accelerate entrepreneurship in Japan.
The rapid rise and recent struggle of many Internet firms should teach us that, regardless of age, firms that are growing revenues but not generating profits ("Builders" in this study) are at a serious disadvantage when the rules of the game shift out of favor. Today, the only e-commerce firms able to attract venture funding to support their growth initiatives are those that are able to demonstrate strong profit potential. In a similar way, firms that are profitable but that fail to pursue legitimate growth opportunities ("Prospectors" in this study) are equally subject to swings in the competitive momentum. It is only those able to simultaneously manage rapid growth and high performance ("Leaders" in this study) — the entrepreneurial elite — that are able to capture competitive momentum and, thereby, lead industries (Figure 12).

In many competitive contexts, the firm that is considered the industry leader is often the largest, the oldest or the most technically advanced. However, the findings from this study suggest that leadership has relatively little to do with size, age or sophistication. The leader, by definition, is the one everyone else is following — the firm with market momentum. Such leaders have the greatest opportunity to influence the rules of competition.

The research clearly shows young entrepreneurial firms that are committed to accelerating their business models and can generate sufficient resources to sustain the effort over time, do rewrite the rules of the game.
The survey results indicate that Harvesters are not intent on increasing sales or profits. As their name implies, they establish strong holds in their respective markets and labor to maintain that position as the competitive landscape shifts. The greatest risk Harvesters face is being left behind, unable to effectively respond to competitive changes. Prospectors are positioned to amass the greatest level of profitability while defending their competitive position in the market. Their greatest strength is the ability to earn above-average profits relative to competitors. In contrast, Builders are intent on accumulating assets and increasing sales at the expense of profitability. Their major concern is whether they can reach critical mass quickly enough and keep the company financially sound in the process.

Leadership is determined by the ability to sustain above-average performance over time and/or dominate markets. Leaders typically grow sales and profits simultaneously, and every additional dollar gained is used to further fuel growth, i.e. build momentum. The average net profit margin for Leaders is five times greater than that of Harvesters or Builders (Figure 12). Leaders also accumulate net worth at a faster pace than all other firms (Figure 13) — twice as fast as Builders and three and four times faster than Prospectors and Harvesters respectively.

The increased profits mean that Leaders do not have to access debt as frequently to fuel their aggressive growth campaigns. While their equity dollars may be exposed to a slightly higher level of risk, return on equity for Leaders on average is 50 percent greater than that of Builders and nearly 33 percent greater than that of Prospectors (Figure 14).
Leaders also compete aggressively for resources. As depicted in Figure 15, their average percent of sales derived from the penetration strategy (i.e., existing products to existing markets) is significantly less than all other types of firms. At the same time, the percent of sales Leaders derive from exploring and developing new markets is significantly greater than that of all other firms. Thus, Leaders not only amass a larger pool of less costly resources than the average firm, they also strategically deploy those growing resources in competitive ways.

Leaders are unique in how they motivate employees. CEOs of Leader companies make almost 40 percent of their total compensation in cash and non-cash incentives tied to firm performance (Figure 16). In contrast, incentive pay makes up less than 20 percent of the total compensation for CEOs of Harvester companies. A Leader firm also tends to hire the most talented personnel in order to establish a strong competitive advantage in the skills and expertise of its top management team. They attract a more talented labor pool because on average more than 25 percent of the top management team’s total compensation is paid through incentives tied to personal performance (Figure 17).

Unlike most firms, Leaders go beyond cash incentives and are more inclined to share equity in their companies. Leaders on average share more than 5 percent of the equity in their firm with employees. In addition, to fuel accelerated growth, outside investors hold, on average, 14.5 percent of the stock in these privately-held entrepreneurial firms.
"The keys to managing our rapid growth have been hiring only experienced top managers, communicating the company's vision over and over, making every employee a shareholder in the company, and aligning stakeholder interests around key market objectives."

Geoff Allen, CEO
Anystream, Inc.; Arlington, VA, USA

The leadership of great entrepreneurs is perhaps most evident when their emerging companies develop innovative technologies to exploit untapped market opportunities and aggressively position themselves as the market leader. Though Geoff Allen and his management team conceptually designed the first software platform for media encoding just 18 months ago, Anystream, Inc. is already the recognized market leader. With more than $17 million in early stage venture capital funding, the firm has catapulted from just 4 employees in July 1999 to more than 80 today. And the number is accelerating rapidly.

Anystream maintains an extremely aggressive entrepreneurial posture. The company’s innovative line of software products has redefined the industry standard, offering very competitive benefits. It allows media content producers to exponentially increase productivity while at the same time radically decreasing the costs of production. By significantly marginalizing the cost of media streaming, the young firm has attracted some of the industry’s largest and most prestigious customers, including CNN, Weather Channel, the NFL and Internet Broadcasting Systems.

Geoff admits that the greatest difficulty in the early stage has been establishing and maintaining inertia in a new market space. The senior management team works hard to create the market and overcome the only formidable competitor — an entrenched "desktop" software mindset. But, Anystream is a model accelerator with growth in annual sales projected to be an explosive 1,000 percent or more for the foreseeable future. Though growth of this magnitude presents many challenges, the rewards are usually worth the effort.

Geoff’s advice for those who want to grow is to hire only "A" players who have proven experience in the market and require that they take an equity position in the company. Like other great entrepreneurial leaders, Geoff understands that in a rapid growth context, it is critical to align everyone’s interest by requiring that they participate in the equity of the company. He asserts, "Our long term objective is to own the worldwide market for streaming media encoding. Sharing the rewards with those who produce is the only way we will attract and motivate the kind of experienced leaders necessary to reach this goal."
Previous studies have shown that female entrepreneurs do not grow their businesses as fast as male entrepreneurs. Some of the explanations have included limited access to capital, fewer growth opportunities in the industries entered and smaller social networks. However, other explanations have been overlooked, such as managerial style, environmental perceptions and strategic choice. This study explores these possible explanations for the YEO sample of emerging female entrepreneurs.

Relative to the males in the sample, the female entrepreneurs appear to have a lower level of interest in long-term growth. However, there were no significant differences between men and women in terms of their degree of entrepreneurial posture. In other words, female entrepreneurs are equally committed to innovation, are equally proactive towards competition and are equally risk-oriented in the pursuit of new opportunities. There are also no real differences in strategic orientation between male and female entrepreneurs.
Both emphasize environmental scanning, competitor analysis, setting long-term goals and action planning. The only slight difference is that women appear to place less emphasis on the need for long-term business plans, which may support the idea that long-term growth is not as strong a mission for female entrepreneurs as it is for males. By maintaining strong entrepreneurial postures, today’s young female entrepreneurs represent strong role models for future generations of women aspiring to own entrepreneurial ventures.

Women do, however, maintain more fluid organizational structures. As depicted in Figure 18, women are more likely than men to allow the most knowledgeable person in the firm to make important decisions when a crisis arises. Women also maintain generally more loose and informal controls than men with an emphasis on cooperation in getting the work done. Lastly, they are less likely than men to reinforce narrowly defined job descriptions when individuals are challenged to apply themselves in tough decision-making situations.
One of the reasons that has been suggested as to why women generally do not choose to grow their ventures as fast as men is because the types of businesses they tend to start do not possess the same number of opportunities for growth. However, this is not the case among the female members in YEO (Table 2). While there are differences in the percentage of male and female members by industry, these differences are not significant. In other words, the rate at which women participate across industries relative to men does not explain why women generally choose to grow their firms slower over time.

However, when asked to rate the degree of hostility in the industries in which they compete, interesting differences emerge between men and women. The findings show that young female entrepreneurs view their environments as having less hostility than male entrepreneurs do who are competing in the same arenas. These differences in perception may partially explain why women tend to grow their businesses slower. When an entrepreneur competes in a perceived hostile environment, growth becomes a matter of survival. The firm must reach critical mass to adequately defend its market position. However, if one assumes the same market is not hostile, there is less of a need to respond aggressively. Therefore, these findings suggest that lower growth rates for women may be a function of the perception women generally maintain about the nature of competitiveness in their industries.

Table 2. Percent of Respondents in Each Industry by Gender

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Males</th>
<th>Percent of Females</th>
<th>Average Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Tech.</td>
<td>13.7</td>
<td>19.7</td>
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<td>Telecommunications</td>
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<td>21.1</td>
</tr>
<tr>
<td>Distribution</td>
<td>2.2</td>
<td>1.3</td>
<td>13.9</td>
</tr>
<tr>
<td>Construction</td>
<td>8.5</td>
<td>7.9</td>
<td>31.0</td>
</tr>
<tr>
<td>Other</td>
<td>6.6</td>
<td>6.7</td>
<td>33.6</td>
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</tbody>
</table>
The Young Entrepreneurs’ Organization (YEO) supports entrepreneurs under the age of 40 whose companies earn more than $1 million in sales annually. YEO’s vision is to be the premier, peer-to-peer, global network, community and resource for entrepreneurs. Its global objective is simple — to support, educate and encourage young entrepreneurs to succeed in building companies and productive lives. Total annual sales of the more than 4,000 members exceed $55 billion, and they employ in total more than 400,000 people. YEO members are located in more than 120 cities in 34 countries.

For this study, approximately 3,200 YEO members were surveyed by mail. After two follow-up mailings, a total of 766 completed and useful surveys were gathered for a 24 percent response rate. The 766 member firms in this study reflect world leaders with respect to entrepreneurial achievement. Though not all of them are growing or profitable, each demonstrates a strong entrepreneurial spirit. Despite variability in the level of growth, these young entrepreneurs are compelled by a seemingly insatiable desire to build companies of lasting value.

The average age of the companies in the sample was 14 years, while the average age of the entrepreneur was 35. Figure 19 depicts the percent of respondents by how they became the top executive of their company. As indicated, more than 72 percent of all YEO members actually founded or co-founded their companies. Approximately 90 percent of the respondents are male, and less than 4 percent of the firms are publically traded. The median number of employees is 25 and annual sales average around $6.5 million. The respondent firms are representative of every major industry group (Figure 20).
Figure 21 illustrates the average annual rate of growth in sales for the four growth classifications in this sample (Low, Moderate, High, Hyper). As indicated, Low-Growth firms are actually realizing an average net decrease in annual sales of approximately 14 percent. The rates of growth for the Moderate, High and Hyper categories are 25 percent, 58 percent and 97 percent, respectively.

These are exciting times for entrepreneurship. All around the world adults between the ages of 25 and 40 account for the largest share of new business startups. These young entrepreneurs are most responsible for the incredible surge in new business creation, innovation and economic prosperity. From generation to generation, scores of young entrepreneurs are striving to break into the ranks of the world’s elite business leaders.

The findings from this study clearly reveal that the fastest-growing young entrepreneurial firms are very competitive. They lead their industries and they share the rewards of success with those who produce. They are indeed role models for all who are compelled by the spirit of enterprise.
For additional copies, contact:
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888-777-GROW (4769)
For more information on YEO, call: (703) 519-6700
email: info@yeo.org
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The Kauffman Center for Entrepreneurial Leadership is accelerating entrepreneurship through educational programming and research. Inspired by Ewing Marion Kauffman's passion to provide opportunity for other entrepreneurs, the Kauffman Center is the largest organization solely focused on entrepreneurial success at all levels — from elementary students to high-growth entrepreneurs. For more information, visit our Web site at www.entreworld.org.

The Young Entrepreneurs' Organization (YEO) was founded in 1987, and has grown into the premier, peer-to-peer, global network and resource for entrepreneurs. Dedicated to fostering the growth of young entrepreneurs through an array of learning and networking opportunities, YEO, today, has more than 4,000 members worldwide. With members in more than 120 cities, spanning 34 countries, YEO's rapidly expanding membership includes entrepreneurs from every size and type of business. Membership in YEO is by invitation only. YEO members are under 40 years of age and the founders, co-founders, owners, or controlling shareholders of businesses with gross annual revenues exceeding (US) $1 million. For more information, visit www.yeo.org.

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