

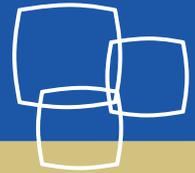


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Profile of Mid-Career Entrepreneurs:

Career trade-offs and income appropriation of high human capital individuals



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With a large segment of the population now reaching the midpoint of their careers and thus possessing increasing social and economic significance, the option of entrepreneurship as a career path for mid-career employees has become an increasingly popular alternative.

In this study, mid-career entrepreneurs are individuals who have been working for large companies and who have decided to launch their own companies or become a top executive of a small firm at midpoint in their career.

In 2007, 41 percent of all small and medium-sized enterprise (SME) owners were between 30 and 49 years old and at least 5 percent of them could be considered mid-career entrepreneurs as they had less than five years of experience in owning or managing a business.

This study is based on 14 case studies of individuals who left their paid employment to start their own company. They were divided into the three following sectors: professional services, technology and consumer products, and energy and real estate.

FINDINGS

- Prior industry knowledge is a major contributing factor to entrepreneurial success: 86 percent of respondents indicate that their former experience was the most significant factor in their success as an entrepreneur.
- On average, the respondents had 21 years experience in a field related to their entrepreneurial venture.
- The educational achievement of mid-career entrepreneurs is significantly higher than that of all Canadian business owners.
- The proportion of mid-career entrepreneurs surveyed who self-funded (including family and friends) their ventures was 43 percent. This compares to 30 percent for all entrepreneurs in the start-up phase who used only their own funding or that of family and friends.¹ Furthermore, mid-career entrepreneurs appear to be more successful in obtaining angel investment — 50 percent of those surveyed had secured angel investment, which is quite higher than the less than 2 percent of all business owners who obtain that type of financing.
- The two primary motivators for the decision to engage in an entrepreneurial venture at a midpoint of one's career were potential financial gain and work-life balance.
- The average number of years it took mid-career entrepreneurs to attain the same salary level as they had prior to their entrepreneurial venture was approximately 2.75 years, while the time it took to achieve the same level of salary and pension was slightly longer at an average of 3.22 years.
- The following characteristics of the former employer of mid-career entrepreneurs were found to encourage entrepreneurship:
 - decentralized decision making authority;
 - ability to quickly respond to market opportunities; and
 - a corporate culture premised on new product development.
- Main barriers that mid-career entrepreneurs faced include:
 - access to high-quality human capital;
 - access to capital; and
 - establishing business development procedures (building consumer base, developing potentially lucrative markets, etc.).

¹ Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

1. INTRODUCTION

It is widely acknowledged that entrepreneurs are the sparkplugs of economic activity. At the most elemental level — they get things started. Entrepreneurial activity benefits all Canadians. It is not only good for entrepreneurs themselves, it is also a powerful force driving innovation, productivity, job creation and economic growth.²

With a large segment of the population now reaching the midpoint of their careers and thus possessing increasing social and economic significance, the option of entrepreneurship as a career path for mid-career employees has become an increasingly popular alternative. In 2007, 41 percent of all small and medium-sized enterprise (SME) owners were between 30 and 49 years old and at least 5 percent of them could be considered mid-career entrepreneurs as they had less than five years of experience in owning or managing a business.³

While there is an increasing prevalence of entrepreneurship, there is also a lack of research examining both the profile of these individuals as well as the impediments faced by mid-career entrepreneurs. The primary objective of this report was to create a profile of individuals who have chosen to leave their corporate careers and venture out on their own at the midpoint of their career. In addition to creating a profile of mid-career entrepreneurs, this report's objective was to validate the findings from the literature suggesting that prior knowledge is a key determinant of entrepreneurial success.⁴

Fourteen Canadian mid-career entrepreneurs were interviewed for this report. They were divided into the three following sectors: professional services, technology and consumer products, and energy and real estate. Their responses were aggregated to provide a profile of mid-career entrepreneurs, to identify corporate practices that either promote or encumber the process of mid-career entrepreneurship and to verify whether prior knowledge is a key determinant of entrepreneurial success. The results are presented in three following sections:

- General characteristics of entrepreneurs and firms;
- Skills, knowledge and experience of the entrepreneur; and
- Issues and barriers surrounding mid-career entrepreneurship.

While this report sheds light on characteristics of mid-career entrepreneurs, the sample used does not allow us to draw conclusions that are representative of the entire population of mid-career entrepreneurs across all industries.

2. RESEARCH FINDINGS

2.1 GENERAL CHARACTERISTICS OF ENTREPRENEURS AND FIRMS

By definition, entrepreneurs are visionaries, and as such, must have the ability to envisage and be acutely aware of the entire business landscape when guiding their firm's strategic direction. Of the 14 respondents, 86 percent indicated that their primary business orientation was that of a strategic planner. Furthermore, 93 percent of respondents identified themselves as generalists with regard to their specific business acumen and skill set. It is necessary for entrepreneurs to adeptly master the various business facets required for a venture to become successful. They must exhibit expertise in innovative business development, streamlined operations, tight financial controls and creative marketing practices to name only several functional areas.

Education

Seventy-one percent of the respondents have completed undergraduate degrees in fields including commerce, sociology and electrical engineering. Thirty percent of the respondents went on to get graduate degrees with 75 percent of those with graduate degrees holding a Master of Business Administration. The educational achievement of mid-career entrepreneurs is significantly higher than that of all Canadian business owners, of which 28 percent had a university degree.⁵

The interviewed entrepreneurs also hold a variety of professional designations including Chartered Financial Analyst, Chartered Accountant, Professional Engineer and membership in the Institute of Electrical and Electronic Engineers. Given the breadth of disciplines studied by the interviewed entrepreneurs, and the resulting industries in which they embarked on their subsequent ventures, one can conclude that although formal education provides a framework for learning and a foundation of discipline, that perhaps it is not the determining factor driving their entrepreneurial focus.

² Industry Canada, *The State of Entrepreneurship in Canada*, February 2010.

³ Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

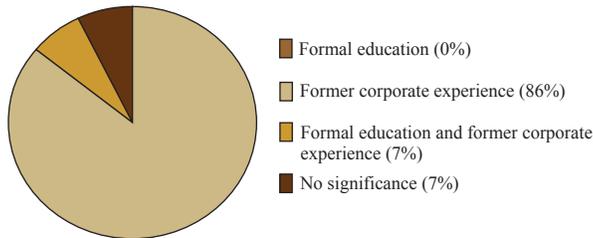
⁴ Shane, Scott. *Prior Knowledge and the Discovery of Entrepreneurial Opportunities*, Organization Science, 2000.

⁵ Statistics Canada, *Labour Force Survey*, 2007. (Special calculations)

Prior Industry Knowledge

Prior industry knowledge is a major contributing factor to entrepreneurial success. As illustrated in Figure 1, 86 percent of respondents indicated that their former corporate experience was the most significant factor in their success as an entrepreneur. Of all respondents, no one considered their formal education alone had contributed to their entrepreneurial success.

Figure 1: Role of Former Education and Experience in Entrepreneurial Success



Financing

The proportion of respondents who self-funded (including family and friends) their ventures was 43 percent. This compares to 30 percent of all entrepreneurs in the start-up phase who used only their own funding or that of family and friends.⁶ Mid-career entrepreneurs appear to be more successful in obtaining angel investment — 50 percent of those surveyed had undertaken their ventures through securing angel investment (Figure 2), which is quite higher than the less than 2 percent of all business owners who obtain that type of financing. Prior industry knowledge and network could be reasons that the entrepreneurs interviewed were able to secure such financing.

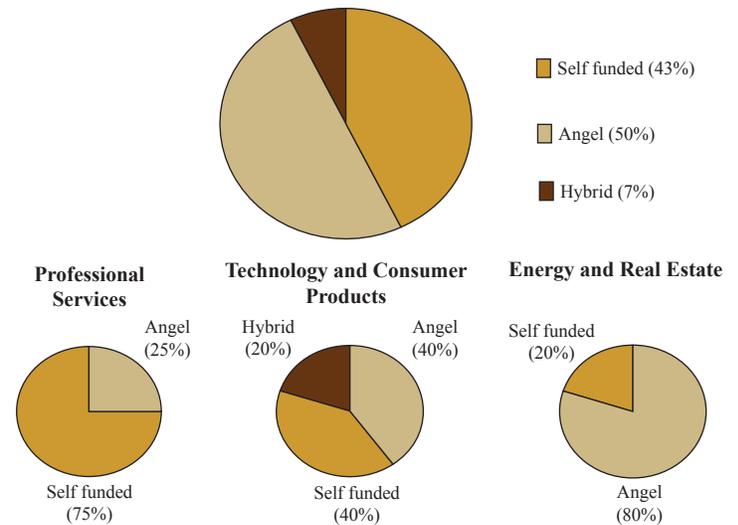
Only 7 percent of entrepreneurial ventures considered in this report were funded via venture capital investment, or a hybrid of two or more investment vehicles (including angel investment, venture capital, self-funding and commercial debt). As 10 percent of all SMEs used only commercial or personal loans from financial institutions to start their business,⁷ mid-career entrepreneurs surveyed relied relatively less on debt financing for their venture.

Ownership and Exit Strategy

Seventy-nine percent of respondents revealed that they were not the sole founder of their ventures, but that they formed their respective companies with the assistance of

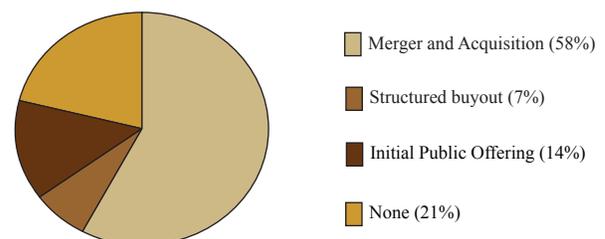
one or more co-founders. Currently, there are 71 percent of respondents who hold a majority position in their company.⁸

Figure 2: Sources of Financing



Each respondent was asked to indicate what their initial exit strategy was when embarking on their company building journey. As illustrated in Figure 3, 58 percent of the total respondents indicated that a merger and acquisition (M&A) was their anticipated exit strategy while 14 percent stated that an initial public offering (IPO) was the initially identified exit strategy. Twenty-one percent of the respondents stated that they did not have an anticipated exit strategy upon the formation of their company. Twenty-nine percent of the mid-career entrepreneurs interviewed have realized an exit strategy, primarily through merger and acquisition activity.

Figure 3: Entrepreneurs' Anticipated Exit Strategy When Starting Their Venture



⁶ Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

⁷ Ibid.

⁸ For the purposes of this report, majority position is defined as holding a position in the company that is equal to or greater than that of the other co-founders.

The majority of firms created by mid-career entrepreneurs interviewed in this study have been in operation for at least seven years. Overall, 50 percent of firms disappear within their first five years of operation.⁹

Income

All but two of the respondents eventually generated the same income level that they had prior to their entrepreneurial venture. Of these individuals, the average number of years it took to attain the same salary level was approximately 2.75 years, while the time it took to achieve the same level of salary and pension was slightly longer at an average of 3.22 years.

2.2 SKILLS, KNOWLEDGE AND EXPERIENCE OF THE ENTREPRENEUR

Prior Employment and Experience

The prior employers of each respondent ranged across the spectrum of industry sectors. Despite the diversity of the pre-entrepreneurial firms, the primary underlying theme was that the majority of the interview candidates were employed in the same industry sector as the entrepreneurial venture that they decided to embark on. This speaks to the findings from the literature that prior knowledge is a primary determinant of success when applied to entrepreneurial ventures and successful company formation.

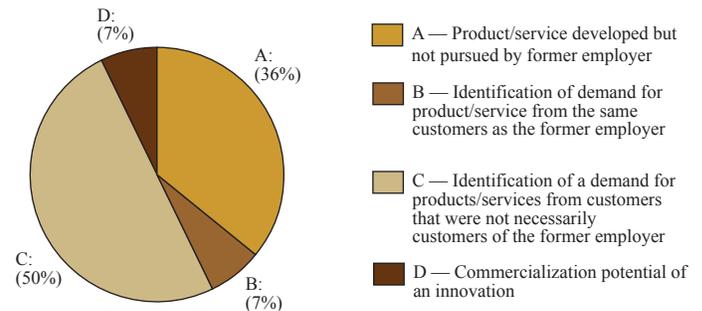
Despite the variety of positions held by interview candidates prior to becoming entrepreneurs, the fundamental similarity is that these positions all required a great deal of responsibility and focused on the development of strategic direction and the overall high-level operation of the company. The various job titles included President, Chief Technology Officer and Chief Financial Officer among other chief-level designations.

The vast majority of entrepreneurs who were interviewed, 79 percent, divulged that their mid-career entrepreneurial venture was their first foray into the field. Given that many attribute their entrepreneurial success to prior knowledge that they obtained through previous industry experience, this result is ultimately not surprising. It is likely that the skills learned, the characteristics honed and the knowledge acquired through their previous corporate experience was the underlying factor that contributed to their entrepreneurial success.

Furthermore, only 36 percent of respondents indicated that their business idea was developed but not pursued by their former employer. As shown in Figure 4, 50 percent of the

mid-career entrepreneurs interviewed said that they identified potential demand from customers that were not customers of their former employer.

Figure 4: Process by Which the Business Idea was Identified



The entrepreneurs interviewed provided insight into the role that their former employer played with regard to their various motivations to leave corporate life. The primary response was that there was a lack of creativity in their previous employment and as such, their motivation to excel within their respective firms was significantly diminished. Other motivations included corporate culture and being constrained by the narrow scope of the business.

The most prevailing response from the entrepreneurs about corporate barriers to entrepreneurship was that employees were simply expected to do their jobs — not think creatively. This corporate mentality, although not explicitly mandated, is extraordinarily frustrating for entrepreneurial employees, as it is these individuals who thrive on creativity and challenging situations, none of which were present with any abundance in their former corporate employment.

Motivation

Time and money are two primary motivators in any situation, and this is reflected in the interview respondents' answers as to what factors contributed to their decision to become mid-career entrepreneurs. All of the respondents cited potential financial gain and a greater work-life balance as the primary motivators behind their decision. All of the respondents within the professional services and energy and real estate industries indicated that freedom from subordination within a corporate hierarchy was a contributing factor.

None of the entrepreneurs cited recognition as a motivating factor. Entrepreneurs are creative, passionate individuals who identify an opportunity and pursue it. The concept of personal challenge and creative freedom were

⁹ Industry Canada, *The State of Entrepreneurship in Canada*, February 2010.

the dominant drivers — recognition was simply described as a by-product of the entrepreneurial process.

Implementation of Business Ideas

Of the mid-career entrepreneurs that were interviewed, 86 percent indicated that their entrepreneurial venture was in the same sector as their previous corporate experience.

Most respondents knew the various individuals that they would be dealing with in their new venture, be it suppliers, financiers, government services, etc. For example, the professional services firms demonstrated an acute awareness of their industry prior to beginning the entrepreneurial venture, as 100 percent of respondents indicated that prior to launching their venture, they held relationships with existing specialized service providers, financiers and potential customers. Conversely, all of these individuals indicated that there was no awareness of either any applicable economic development programs or government services.

Knowledge and Networks

An ability to evaluate and anticipate changes in the competitive landscape is a defining characteristic of entrepreneurial success. With 93 percent of respondents indicating that their initial knowledge of the competitive landscape was acquired through their former employer, this is congruent with the hypothesis surrounding prior knowledge and its impact on success.

Overall, 72 percent of the mid-career entrepreneurs indicated that product development knowledge was obtained through their former employer, directly before embarking on their entrepreneurial venture, and 50 percent indicated that following the business launch, their main sources of product development information were industry associations and various other external intelligence gathering means. Furthermore, 57 percent of respondents indicated that when starting their business they obtained their general knowledge regarding market demand through information acquired while employed in the service of their former employer.

2.3 ISSUES AND BARRIERS SURROUNDING MID-CAREER ENTREPRENEURSHIP

Factors Encouraging Entrepreneurship

The majority of the mid-career entrepreneurs interviewed did not utilize the economic development programs and resources provided by governmental and non-governmental institutions. However, the Scientific Research and

Experimental Development (SR&ED) Program was utilized by 80 percent of entrepreneurs within the technology and consumer products industries. Given the research and development focus required by technology companies in order to remain current and competitive, this result is not unexpected.

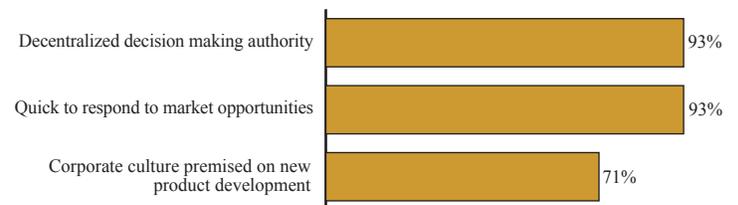
Professional services firms are primarily knowledge based and less capital intensive than the two other industries considered in this study, therefore the entrepreneurs in that sector were not highly predisposed to seeking out programs and subsidies.

An entrepreneur's ability to consistently make decisions quickly and effectively, often with limited or incomplete information, is evidenced by the significance that the respondents place on the two following elements of their former employer organization:

- decentralized decision making authority, and
- ability to quickly respond to market opportunities.

As illustrated in Figure 5, 93 percent of respondents cited that both of these elements significantly encourage entrepreneurship while 71 percent found that corporate culture premised on new product development in an employer organization encourages entrepreneurship.

Figure 5: Corporate Factors Encouraging Entrepreneurship



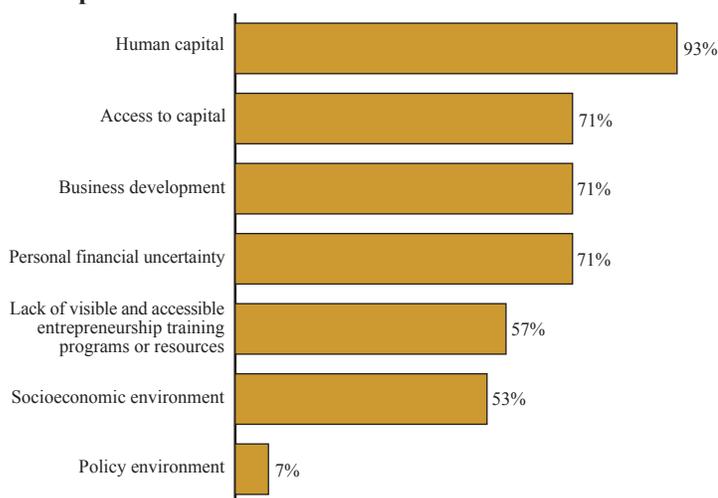
Factors Hindering Entrepreneurship

Entrepreneurs face challenges during their company-building journey. One challenge common to all entrepreneurs is the economic uncertainty as they clearly linked the state of the economy to the performance of their business. Furthermore, the entrepreneurs interviewed indicated that the lack of an entrepreneur support network and excessive workload were the other challenges encountered.

The most prevailing operational pain point faced by mid-career entrepreneurs is access to high quality human capital. As shown in Figure 6, a resounding 93 percent of the entrepreneurs interviewed indicated that access to high quality human capital was a prevailing pain point that must continually be addressed throughout the company

building journey. Human capital is a primary contributor to the success of any organization, regardless of size, scope or industry. In contrast, when examining all Canadian SMEs, only 41 percent identified finding qualified labour as a challenge.¹⁰ Of the entrepreneurs interviewed, 71 percent indicated that access to capital was a significant pain point experienced, while the other 29 percent, all within the energy and real estate industries, specified that accessing capital was not a significant issue when starting their company. Similarly, business development and personal financial uncertainty were also identified as existing pain points faced by 71 percent of respondents. In contrast, the most prevailing pain point for Canadian small business owners as a whole was the rising cost of business (56 percent).¹¹

Figure 6: Operational “Pain Points” Faced by Mid-Career Entrepreneurs



3. CONCLUSION

An increasing number of individuals within Canada’s population are reaching the midpoint of their careers. Given the skills and experience they possess, the option of entrepreneurship as a career path for mid-career employees seems to be a very popular alternative. Fourteen mid-career entrepreneurs from three different industries were interviewed. Their responses validated the hypothesis that prior industry knowledge is a significant determining factor surrounding one’s decision to embark on an entrepreneurial venture and the probability of venture’s subsequent success. In fact, 86 percent of respondents indicated that their former corporate experience was the most significant factor in their success as an entrepreneur.

Furthermore, entrepreneurs’ responses were aggregated to provide a profile of mid-career entrepreneurs (see text box) and identify factors that may promote or encumber the process of mid-career entrepreneurship. Some of the key findings indicate that:

- While 71 percent of entrepreneurs interviewed have completed undergraduate degrees, none of them consider that their formal education alone contributed to their entrepreneurial success.
- The majority (71 percent) of entrepreneurs revealed that they were not the sole founder of their ventures and 79 percent divulged this venture was their first foray into the field.
- The two primary motivators for the decision to engage in an entrepreneurial venture at a midpoint of one’s career were potential financial gain and work-life balance.
- The following characteristics of the former employer of mid-career entrepreneurs were found to encourage entrepreneurship:
 - decentralized decision making authority;
 - ability to quickly respond to market opportunities; and
 - a corporate culture premised on new product development.
- Main barriers that mid-career entrepreneurs faced include:
 - access to high-quality human capital;
 - access to capital; and
 - establishing business development procedures (building consumer base, developing potentially lucrative markets, etc.).

Given some of the results from this small survey, it would be interesting to compare the survival rates, growth and sectors of activity of businesses founded by mid-career entrepreneurs with that of businesses formed by younger entrepreneurs. Their respective profiles, as well as what they see as impediments to their entrepreneurial success will most probably differ. Assessing these differences would be useful in determining whether different types of support are needed for each of these groups.

¹⁰ Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

¹¹ Ibid.

CHARACTER PROFILE OF THE MID-CAREER ENTREPRENEURS

In aggregating the responses obtained from the 14 interview candidates, the results revealed a consistent character profile that is described by the following behavioural traits:

Personal Accountability: The signature character trait of the successful entrepreneurs interviewed for this study is personal accountability. The entrepreneurs who demonstrated meaningful wealth creation accepted complete responsibility for their actions and the outcome of those actions.

Clarity of Purpose: The entrepreneurs interviewed for this study demonstrated a high level of clarity about who they are and what they want. Clarity of purpose is reflected in a business's mission, operational objectives and goals. It is also a reflection of the entrepreneur's personal goals.

Peak Performance Under Pressure: Individuals with intrinsic entrepreneurial ability act and react best when managing under pressure.

Competence: The entrepreneurs interviewed for this study all validated that a key insight regarding competence, concentrating energy and time on leveraging your personal strengths, is more effective than concentrating energy and time on improving or upgrading areas of lesser strength. Self identified weaknesses were addressed by targeted hiring.

Courage, Passion, Belief: When speaking with the mid-career entrepreneurs, the word 'passion' was mentioned over and over — these individuals were able to identify an opportunity that resonated with them and because of their passion for and dedication (courage to start a venture, belief in their abilities and venture) to their idea, were ultimately successful.

Leadership and Decision-Making Skills: Given the fast-paced environment that surrounds starting a business, one must be able to make informed and thoughtful decisions both quickly and effectively. Furthermore, being a charismatic and effective leader plays an integral role in the attraction and retention of motivated employees and ultimately, committed and engaged employees are a primary contributor to the success of a business.

Competitiveness: When queried about the underlying incentives to become mid-career entrepreneurs, "winning" was equally strong a motivator as the potential for wealth creation and the desire for greater control over their time.

Mid-career entrepreneurs demonstrate three qualities that are particularly conducive to building a business:

- First, they actively seek out opportunities to learn more to increase the breadth and depth of their knowledge from a diverse range of information sources.
- Second, they try more things using their respective businesses as platforms for experimentation, changing established variables within a given business model.
- Third, they persist longer than anyone else. A corollary characteristic of persistence as a behavioural trait is that it both instils and reflects long term thinking. The interviewed entrepreneurs are all committed long term thinkers and planners.

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