Essence of Enterprise 2018

HSBC
Private Banking

Contents

Research methodology

The research findings referenced in this report are based on an online survey of 3,725 entrepreneurs which was carried out in December 2017 and January 2018. The research covers 11 markets: USA, UK, Mainland China, Hong Kong, Germany, France, Singapore, Australia, Saudi Arabia, UAE and Switzerland.

The minimum personal wealth level of the survey respondents was USD250,000. All survey respondents were major shareholders and active decision-makers in privately-owned businesses.

A welcome word from HSBC Private Banking

Now in its third year, our Essence of Enterprise research explores the unique pathways to success charted by business owners globally. To date, we have surveyed over 10,597 entrepreneurs around the world with an average wealth of USD2.9 million, gaining unparalleled insight into their ambitions, motivations and business practices.

As a part of the HSBC Group, a leading provider of banking and financial services internationally, HSBC Private Banking understands that it is individual aspirations which fundamentally shape lives, families and businesses. Alongside the data from our global survey, we present the personal stories of eight entrepreneurs. Our hope is that their experiences will inspire others who are considering starting or running their own businesses.

This year's edition focuses on the ebb and flow of the entrepreneurial journey to shed more light on the practices that help business owners to thrive:

1. **Openness to sharing experience and advice**
   Today's entrepreneurs defy the notion that entrepreneurship is an isolated endeavour. Instead they acknowledge that a large part of their success relies on working collaboratively, reaching out to and connecting with others. The most successful entrepreneurs find innovative new ways to build their networks and expertise.

   Our research shows that almost half of experienced entrepreneurs offer a helping hand to the next generation by acting as investors in start-up businesses. Beyond providing capital, these entrepreneurs are also engaged in providing advice and expertise. By sharing the lessons learned from their own experiences, they can help new ventures thrive and give something back to the entrepreneurial community.

   Not every entrepreneur has access to an experienced entrepreneur-investor, but many recognise how instrumental help from others is. The majority of entrepreneurs seek help from mentors and this seems to have a tangible influence on their success. We find that those with access to mentors are more financially successful and also have higher confidence in achieving their business targets.

2. **Aligning business models to personal values**
   Our research highlights that personal values fundamentally shape not only the vision entrepreneurs set for their ventures and but also day-to-day management and business operations.

   One in five entrepreneurs state that their top priority as an owner is to deliver solutions to environmental and social challenges as well as addressing issues in the local community. For these "social entrepreneurs", efforts to create a wider impact are not seen as contradictory to a profitable business model.

   Such focus is reflected in the values "social entrepreneurs" embed in their business practices. Their priorities include customer satisfaction and employee retention alongside a high emphasis on environmental, social and governance (ESG) reporting.

3. **Adopting a long term vision**
   Entrepreneurs are passionate about their businesses but they also recognise the importance of long term planning. Many entrepreneurs intend to sell their enterprise in a timeframe of over 10 years, even so they anticipate maintaining a coaching or advisory role in their current ventures.

   Just as every business venture is unique, so too is every exit plan. Entrepreneurs anticipate a multitude of roles after leaving their current ventures. These include angel investment, governance roles and creative input into new enterprises.

Entrepreneurship undeniably requires both the aptitude to deal with high uncertainty and the courage to make mistakes. However, this report shows that certain behaviours, such as the willingness to seek advice and the importance of personal values, are clear positive drivers of success.

We would like to thank all those who participated in this year's research and we hope you enjoy reading about their unique experiences.

Stuart Parkinson
Global Chief Investment Officer, HSBC Private Banking

The school of life

The old adage – that experience is the best teacher – is one that successful entrepreneurs learn quickly. While many business owners undertake continued professional education throughout their careers, organic forms of development like mentoring and 'learning on the job' are considered just as instructive in helping them to run their businesses successfully.

Unique educational journeys

Our research suggests that a majority of entrepreneurs have completed some form of professional development or training to support their career as business owners. Approximately two-thirds start with the traditional path, pursuing undergraduate or postgraduate degrees, with a smaller subset choosing to go the extra mile with MBAs, career coaching or professional body accreditations.

Each entrepreneur cultivates their own path for self-development and every type of education delivers unique value. For instance, entrepreneurs who reference MBAs as their most important source of learning believe it has been particularly fundamental in helping facilitate financial decision-making. By contrast, those who highlight the benefits of vocational learning believe this training is helpful in their client communications and handling of unexpected situations.

Cécile Reinaud, founder of international maternity fashion brand, Séraphine, is among those who began with a more traditional educational route.

"I studied business in France then came to England to work in advertising," she says. "My degree did give me an overall grounding in business and I think a little bit of experience within a company really helps; you are a little bit less naïve about business."

Generational differences emerge as a differentiator when considering entrepreneurs' path to professional growth. Baby Boomers and Generation X tend to gain knowledge from a single type of education. However, Millennials show greater propensity to leverage a range of education options available to them, potentially in an effort to develop the evolving skills required in the rapidly changing business context.

"The world is changing fast," explains Ms Reinaud, "so adapting to all these changes is key. Education at a later stage in life can become very valuable and is crucial for keeping abreast of the changes which are shaping the world around us."

The need to adapt and upskill is an experience Ms Reinaud became familiar with during Séraphine's transition from a traditional 'bricks and mortar' model to an e-commerce business.

"In the area of e-commerce, you are on a constant learning curve because technology is changing all the time. Obviously you end up learning from specialists – these could be employees in the business or external consultants and advisors… As the head of the business you really need to have top-line knowledge of every aspect so that you can understand the key drivers which will affect the strategy."

Unseen influences

Perhaps unsurprisingly, education paths vary, often depending on an entrepreneur's regional background. MBAs are popular among those in the Middle East and Asia; apprenticeships and vocational training are valued in mainland Europe, while those in the UK prioritise professional body accreditations.

Cultural nuances therefore continue to fuel the age-old debate around born-versus-made entrepreneurs.

Serial entrepreneur, investor and Sunday Times' weekly columnist, Luke Johnson, believes that the context in which individuals are brought up greatly affects their propensity for entrepreneurship.

Question: Thinking about your career as a business owner, which of the following activities have you undertaken as part of your professional development?

	Age Under 35 (n=1504)	Age 35-54 (n=1721)	Age 55 and over (n=500)
Undergraduate qualification or equivalent	38%	38%	35%
Postgraduate qualification or equivalent	41%	37%	29%
Executive career coaching	39%	31%	20%
Professional body accreditation	35%	30%	27%
MBA or equivalent	35%	32%	18%
Apprenticeship and/or vocational training	26%	27%	23%

"Culture and family background are very important. If there are role models at the kitchen table then that has a big impact. I don't think people are genetically programmed to become entrepreneurs – they react to their environment."

Mr Johnson attests that his own decision to become an entrepreneur was shaped by his father's career path. "My father worked for himself so I saw what it looked like to work for yourself and to see an idea come to fruition in business," he recalls. "Starting a company, growing it and the lack of hierarchy which exists in larger organisations all appealed to me."

He admits to being sceptical about whether formal learning can really teach the essential skills required for entrepreneurship. "Starting a business is the ultimate practical activity," he says. "Learning theoretical activity is the opposite. Juggling cash flow, worrying about customer needs, thinking about your employees – these are all things entrepreneurs worry about which can't be taught in text books."

A broader perspective on self-development

Instead, both Ms Reinaud and Mr Johnson agree that more organic forms of learning and development are fundamental to life as an entrepreneur.

"Like many entrepreneurs, I believe a lot more in the value of learning on the job," says Ms Reinaud. "It is all about learning from experience."

For the Séraphine founder, this has meant discovering new forums to cultivate her understanding of business. "I'm a big advocate for entrepreneur clubs. They are a great place to share best practices. These clubs tend to be sensitive about grouping entrepreneurs who are in competitive industries so you feel like you can share openly and it will not work against you", she says.

"Networking and peer learning within the industry are most important for me."

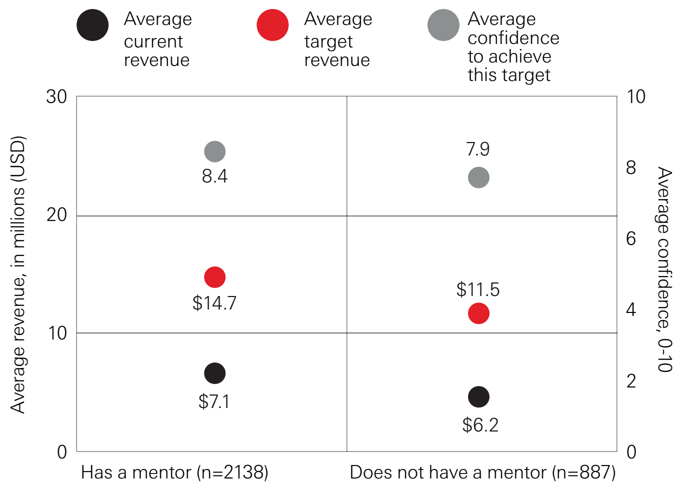
She believes the benefits of peer learning are both practical and emotional. "In my circle of friends, no-one was an entrepreneur," says Ms Reinaud. "I found it empowering to be able to share my concerns with people who had similar challenges… it was instrumental in my success – I felt so much more confident."

"As an entrepreneur, not everything is a perfectly oiled machine; there are growing pains and from talking to others, I learned that this was quite normal and that, actually, I was doing quite well."

Ms Reinaud is not alone. Learning from peers is deemed to be a highly effective tactic for many entrepreneurs. Our research indicates that 68% of entrepreneurs have mentors, with those in the Middle East and the USA most likely to turn to others for advice and support.

It is also possible that this format of learning does have a tangible influence over their success. Entrepreneurs who have mentors are typically more financially successful, project higher financial targets and are more confident about being able to achieve them.

Question: What is the current annual turnover of your main business (in USD millions)? / In five years' time, what is the target annual turnover for your main business (in USD millions)? How confident are you that you will be able to achieve this target?



Mr Johnson has found engaging in partnership to be effective. "One of the things I almost always say is 'find a partner' and go into business jointly. That's a more important decision. You see a mentor occasionally. What is their stake? Working with a business partner balances the burden and spreads the risk."

He believes that constant self-development should be an innate part of entrepreneurial activity. "I am researching all the time – almost every day of the week… I buy lots of business books and I ask people's advice in an ad hoc way."

Therefore, regardless of the educational route taken, he believes that there is only ever one crucial piece of advice for entrepreneurs: "Take the plunge, seize the day. Of course, write a business plan and think carefully about what business you want to start and run. But then, get on with it."

Question: Beyond your main business, have you made investments in other privately-owned, non-listed businesses?

Giving back to the entrepreneurial community

In the early stages of building a business, success is often determined by two factors. First, is the ability to secure capital to set up and sustain commercial activities. And second, is the availability of quality, relevant advice about how to navigate the opportunities and pitfalls, which arise in the start-up lifecycle.

Given the specific nature of these requirements, it is little wonder that many experienced business owners choose to give back to the entrepreneurial community by dedicating both capital and expertise to other privately-owned, non-listed businesses.

Our research indicates that almost half of owners have made such investments, with the tradition most established in the United States, Mainland China and the Middle East.

One such investor is Scott Lester, a British entrepreneur whose companies include the retail and brand analytics firm, Flixmedia, and augmented reality production agency, EyeKandy.

"I do not know if some people are born entrepreneurs, but I certainly was not. I simply had an urge to create something," he says. When starting his first business in his mid-thirties, Mr Lester quickly learned that the path to success was not straightforward. "You have to work for years at a high intensity both physically and mentally. It's so hard and it affects friends and family because you are in an entrepreneurial zone of focus."

Mr Lester believes this first-hand experience of life as an entrepreneur is an important dimension to his role as an investor in other private enterprises. "The value of a seasoned investor is their experience," he argues. "As an investor, your value to a start-up is not giving money but giving them the benefits of the metaphorical scar tissue you have."

It is perhaps this willingness to impart direct experience which is the reason why almost two-thirds of business owners choose to invest in businesses which are aligned to their previous professional experience, knowledge and skills.

Mr Lester believes that this alignment is crucial for start-up entrepreneurs. "Raising money is the easier part, what's really hard to do, is find someone who is willing to help make the business work. When looking for an investor, look for someone who has alignment in your business field rather than just looking for the investor themselves."

Understanding successes and failures, as well as practical and logistical aspects of growing a business, are among the most valuable learnings an entrepreneur can attain from other owners.

It is for this reason that more and more entrepreneurs are looking for private investment when starting a new business. Aurélien Drain, Head of Business Development at HSBC Private Banking points out that established and successful business owners can not only provide funding, but also access to expertise and an established network which are not often readily accessible to start-up entrepreneurs.

Experienced business owners often act as "connectors" and are willing to open doors to professional contacts. As private investors, they are more likely to adopt a longer-term view on their investments than venture capitalists and allow start-up entrepreneurs more time to scale their businesses.

Investments of passion

The willingness of entrepreneurs to share their expertise does not negate the fact that, for many, these are important financial transactions. A majority (70%) apply the same strict due diligence standards to investments in non-listed businesses, as they would to any other part of their portfolio.

Mr Lester indicates that the pitching stage is crucial for unearthing vulnerabilities in potential business investments. "It normally takes only a couple of simple questions", he says, "but if the individual managing the company struggles to explain the strategy or the financial plan – then it is a definite red flag."

30% of entrepreneur-investors indicate that they often choose to invest in non-listed businesses for non-financial reasons. These business owners are more likely to see their investments as a way to get exposure to new ideas and industries.

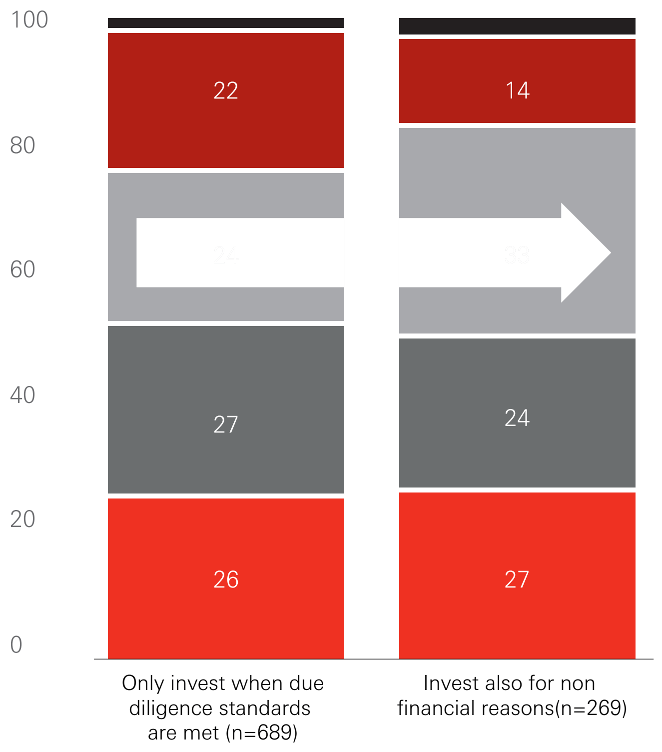
> "Entrepeneurs are looking for businesses with a longer term view for their investments. They want to fund their future aspirations financially but they also measure impact in broader terms – for example, through healthcare, green energy, or community."

Business owners who invest for non-financial reasons also cite a strong desire to support and promote the entrepreneurial community after exiting their own businesses.

The path to investment success

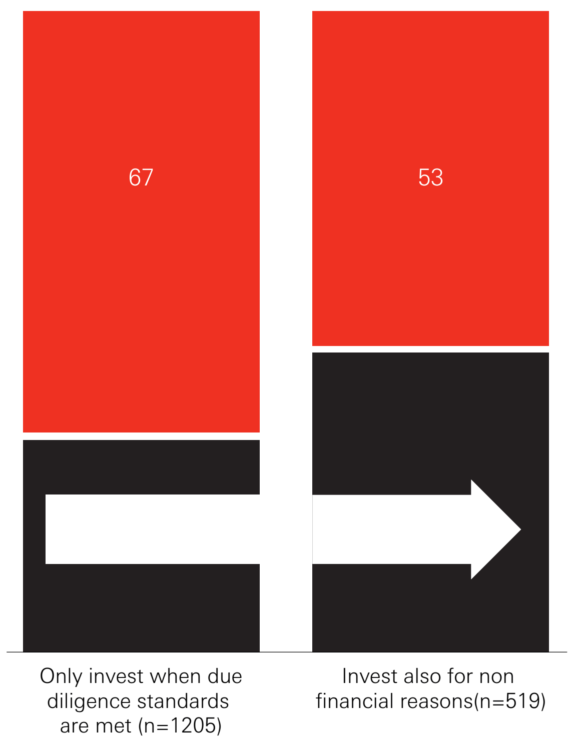
Regional traditions have also paved the way to different approaches in private investment around the globe. In the United States, for example, the market for non-listed businesses is highly professionalised; investors typically source new opportunities through formal channels, such as financial or professional advisors.

Question: Thinking about the sale of your business and / or, your exit, where do your primary personal interests lie for the future?



- Setting up or being personally and directly involved in a new business
- Promoting and supporting entrepreneurial activity through investment in business
- Becoming more active in the community, with charity or good causes
- My primary personal interests fall outside these areas
- Don't know

Question: For each of the following pairs of statements, select which best describes your attitudes as an investor in non-listed businesses?



- My investments in non-listed businesses are aligned to my previous profesional experience, knowledge and skills
- My investments into non-listed businesses expose me to new business ideas and areas from upcoming entrepreneurs

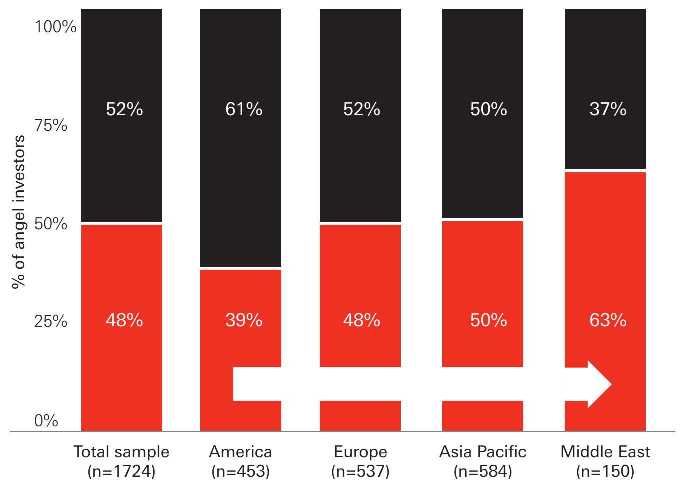
Investors in this region are also more likely to believe they can optimise the performance of the management team by challenging their thinking and strategy.

This stands in contrast to business owners in the Middle East. Finding new opportunities tends to happen more organically here, with more than half of those investing in private enterprises sourcing these investments through friends. Investors in the Middle East also perceive their role to be more supportive of the management team, with a particular focus on cultivating business development and leadership skills.

Like their peers in the Middle East, Asia's investors exert a nurturing mind-set and support their investments with equal attention to financials, business development and leadership. Venture capital is a popular route to sourcing investments in this region, alongside formal financial and professional channels.

Finally, in Europe, investors are more likely than those in other regions to perceive non-listed investments as a way to grow and diversify their portfolio, rather than as a way to build their network and share expertise.

Question: For each of the following pairs of statements, select which best describes your attitudes as an investor in non-listed businesses?



- As an investor in a non-listed business, my main role is to challenge the management team's thinking and strategy.
- As an investor in non-listed business, my main role is to support the management teams' thinking and strategy.

In spite of these regional differences, there are some key principles to success when it comes to investing in non-listed enterprises.[1] Across all four regions, investors who deem their investments most effective tend to have experimented with multiple channels to source these opportunities, to view the act of investment as a way to expand their network and expertise and to have a challenging mind set when it comes to working with new management teams.

A new era for entrepreneurial investment

A new wave of business owners is adopting these principles of investment success with gusto. Almost 6 in 10 business owners under the age of 35 have invested in non-listed businesses, compared to only 3 in 10 owners over the age of 55.

Younger investors are more likely than previous generations to perceive this activity as a way to connect and collaborate with peers and to enhance and grow their pre-existing knowledge and expertise.

While investors over the age of 55 tend to approach this activity informally through a network of their personal contacts, younger investors are increasingly leveraging a broader range of channels to seek out opportunities.

For instance, crowdfunding platforms are almost twice as popular as a means to source investments among those under 35 years old than those aged over 55. It is especially in demand in continental Europe, notably in France and the UK, where over one third of investors are using such platforms.

Aurélien Drain, explains that crowdfunding platforms are especially useful in the seed investment stage, the first round of raising capital, as they help entrepreneurs to establish their profile. "With the help of these platforms they can demonstrate that their idea created substantial interest and attracted a strong community of early adopters" he adds.

"Once the business is more mature, it is easier to approach more formal channels such as banks, corporate groups and entrepreneurs", Mr Drain continues, "but crowdfunding is a way to create the first 'buzz' and get noticed." Entrepreneurs leveraging these platforms often find unique ways to prolong the initial interest created by these platforms. Aurélien explains, "the way they communicate with their audience is very innovative – they keep them engaged by sharing frequent updates on their progress, which creates transparency and openness about the business model and results".

When asked what sets the new generation of entrepreneurs apart, Mr Drain concludes, "they are determined; they think globally and adopt a very collaborative mind-set". Their main driver is their passion to change things around them and contribute to a positive cause they particularly care about.

In spite of these generational changes, it is clear that the interest of seasoned business owners to share their experience with those at the start of their journey is a cornerstone of entrepreneurial culture.

Those who are successful today are likely to have had a helping hand in the beginning. While motivations and approaches to private investment in enterprise may differ across ages and locations, the core principles of collaboration and knowledge transfer within the entrepreneurial eco-system are universal.

[1] Successful investors are defined as those who self-report the past success of their investments above the region/country average (success measured on a scale from 0 to 10)

Interview with Antoine Baschiera

CEO and Co-Founder of pan-European start-up ratings agency, Early Metrics

When Antoine Baschiera looked across the start-up landscape in 2014, he was excited by what he saw. The sector was rapidly growing and attracting a lot of attention; new accelerators and incubators were being set up to cultivate innovative, new businesses.

"Blue chip companies were driving demand as they began to recognise that start-ups provided them with a way to support their innovation strategy," he describes. "New concepts such as open innovation were emerging, and providing opportunities for collaboration as well as strengthening the engagement between larger enterprises and start-ups."

In spite of the increasing proliferation of start-ups and a growing demand to invest in these businesses, Mr Baschiera believed there was no way for corporate enterprises nor investors to assess the true potential of ventures at an early stage in their business lifecycle.

"No one was assessing early stage ventures", he asserts. "The larger rating agencies did not have a rating model specific to the challenges of these young businesses. Start-ups cannot be analysed in the same way as other businesses, therefore, there was a need to develop a relevant methodology that focused on determining their growth potential rather than analysing credit risk."

This led Mr Baschiera and his business partner Sébastien Paillet to create Early Metrics, a rating agency focused solely on start-ups and innovative SMEs. The business's proprietary model for assessing the potential of early stage businesses harnesses qualitative data from three main pillars: the management team, the innovation idea and the market environment. Crucially, Early Metrics never receives payment from the start-ups it rates to avoid conflicts of interest.

Having rated over 1,700 start-up companies using this model, Mr Baschiera acknowledges "there is no single golden rule or fixed recipe" for success. However, he believes that the team at the heart of the business is a strong influencer. "It is not only about personality, but about the complementarity between the team's skill set and the product they are offering to the market."

It is critical that the start-up's management demonstrates strong skill set in areas that are decisive for a successful launch in the market. For example, for a payment processing start-up the key skills cover the area of regulation, technology and commercial ability. Without mastering these core skills, it is going to be tricky to turn an idea into a success story.

Early Metrics also back tests its methodology to explore which combinations of skills and capabilities deliver the best outcomes. The firm reviews the ratings given to start-ups in previous years and compares these with their current performance. The process enables them to uncover the operational or personality factors that can shape future business success.

As well as identifying the right people to lead the business, Mr Baschiera also believes that speed and agility are critical attributes for a successful start-up. "Product development cycles are much shorter these days," he says. "If you spend two to three years developing a new technology or product, you risk that it won't be relevant anymore when the market evolves."

He advocates that entrepreneurs push the product out into the market as early as possible, and continuously modify based on the feedback they receive. "You need to expose your idea to early adopter feedback as soon as possible even if not all the features are developed. My main advice would be to watch the speed on your prototype."

For corporate Venture Capitalists and investors, Early Metrics provides greater transparency to inform decision-making. Mr Baschiera indicates that it is important for those looking for opportunities within the start-up sector to consider the fine balance between short-term liquidity and long-term potential. He also asserts that investing in businesses which have a degree of alignment to personal expertise and skills can deliver the best results for both investor and start-up.

"There is a correlation between how much help you provide as an investor and how much value you extract from the company," he believes.

> "Investors need to realise that these investments are not passive – they require active involvement.

Investors need to make sure they have some time to spend with the start-up team – a phone call every month or so. The more time you offer the more you get out of it."

Having started four years ago, Early Metrics now has a team of over 40 across offices in France, Germany, the United Kingdom and Israel and boasts an impressive roster of blue chip companies and various types of investors among its client base.

For Mr Baschiera, the journey has been exhilarating. "It is amazing how my role has evolved – the fast growth of a start-up is such a steep learning curve because you have to go through so many hurdles in a very short time."

However, the energy and dynamism of the start-up eco-system serves as a constant source of inspiration. "The nature of what we are doing is so interesting. I get to speak to so many interesting people from the start-up side, but also from the investor side. All parties are generally very passionate about what they do, which makes it extremely rewarding."

Sparking innovation with impact

Among the ebbs and flows of running a business, an increasing number of entrepreneurs are choosing social impact over other factors as their top business priority. Rather than prioritising areas that focus on family, employee responsibility or commercial factors – one in five entrepreneurs considers social responsibility, being active in the community, or environmental responsibility as their top priority as a business owner. We call these – 'social entrepreneurs'.

Motivations for becoming an entrepreneur vary widely, and sustaining this is often crucial to longer term business success. It is therefore perhaps unsurprising that those who make social factors their top business priority are much more likely to do so because these align to their personal motivations for becoming entrepreneurs.

"Of course societal issues are very important to me, but at the same time they also seem natural to me," says Sandra Rey, founder of bioluminescent light company Glowee, which uses inspiration from nature to address environmental challenges such as light pollution. "I had an opportunity to work on an amazing project, which I could not step away from, so I decided to work on it to see what it could lead to," she says.

"The idea of Glowee initially started as a student competition project when I was at business school. I saw a video on deep oceans in which underwater fish and other organisms naturally emitted light, and applied this concept to the project. After winning the contest there was so much interest from the media, as well as from the industry – energy companies, architects and others were interested in learning how this technology could be applied in their industry," she explains.

"I did not plan to be an entrepreneur; I just got so excited about the idea that I needed to see it through!"

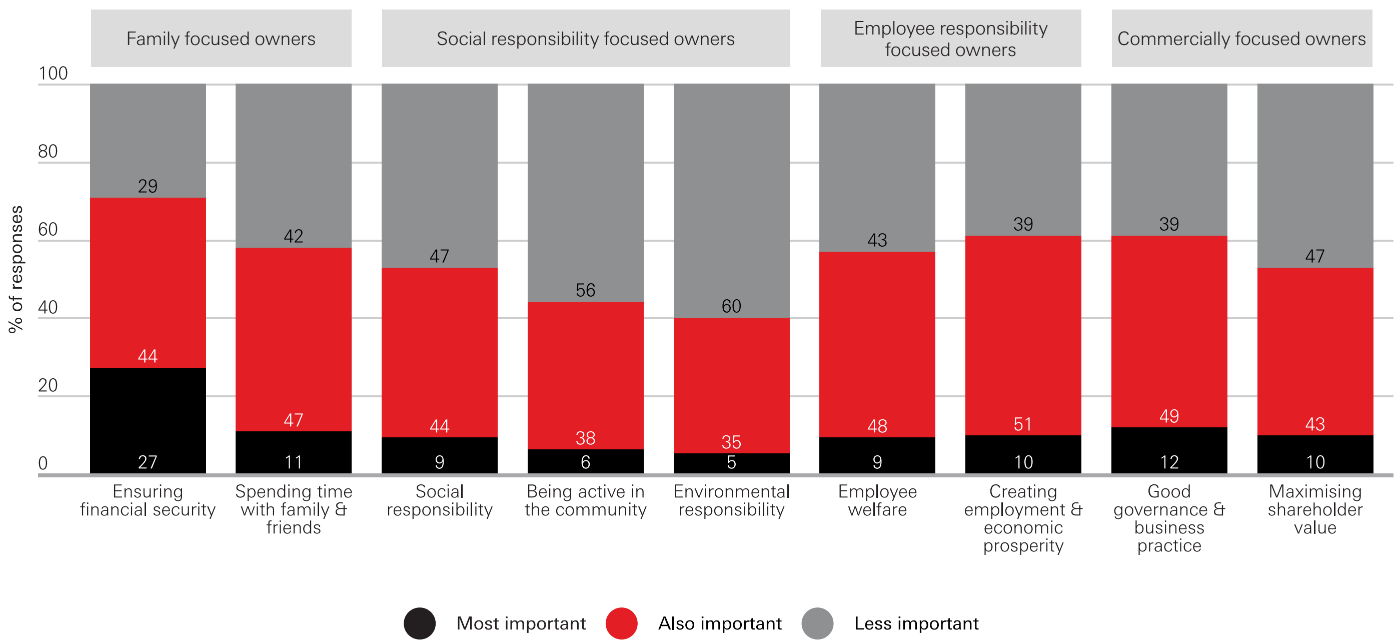
Sustainability and social responsibility are broad movements and can mean many things to different people. For Guillaume Gibault, founder of locally manufactured underwear company Le Slip Français, sustainability begins with a profitable business model: "It might sound surprising, but social responsibility means economic profitability to me.

"If you do not have a profitable business model you cannot go to the next level, which is social and environmental responsibility."

Manufacturing in France is five to six times more expensive than elsewhere in the world, so we have to work hard to ensure we have a profitable and sustainable business."

Mr Gibault's path to entrepreneurship came about a little unusually: "I was 25 years old, working for a French retail chain that was selling organic products. I was interested in fashion and knew I wanted to stay in that space. I wanted to sell products of superior quality, rooted in made-in-France craftsmanship and *savoir faire* – to create a brand with both heritage and a modern outlook. A friend of mine told me that people would not buy underwear online and that I wouldn't be able to persuade them...so that is the reason why I started the company – I wanted to prove him wrong."

Question: As a business owner, please rank the following in terms of importance?



Fuelling vision to change the world

Social entrepreneurs (41%) are more likely than average (30%) to be motivated by the opportunity to create an impact; this includes environmental impact, community impact or building a name for themselves.

"If you want to change the world, you need to start with yourself," says Mr Gibault. "We wanted to show that it is possible and profitable to create jobs in France and to produce in France. It is also a very nice feeling to know that you can force bigger brands to embrace social responsibility and move into these areas. If a young start-up can do it – what is the excuse for bigger players?"

Ms Rey has similar feelings: "Glowee has always been about a long-term vision. You cannot think about impact only. You create social impact by understanding the business case."

This way of thinking manifests itself on many fronts, and across a myriad of their business and personal decisions. For example, at business inception stage, entrepreneurs who prioritise social impact are most likely to give gravitas to social and environmental concerns in their planning.

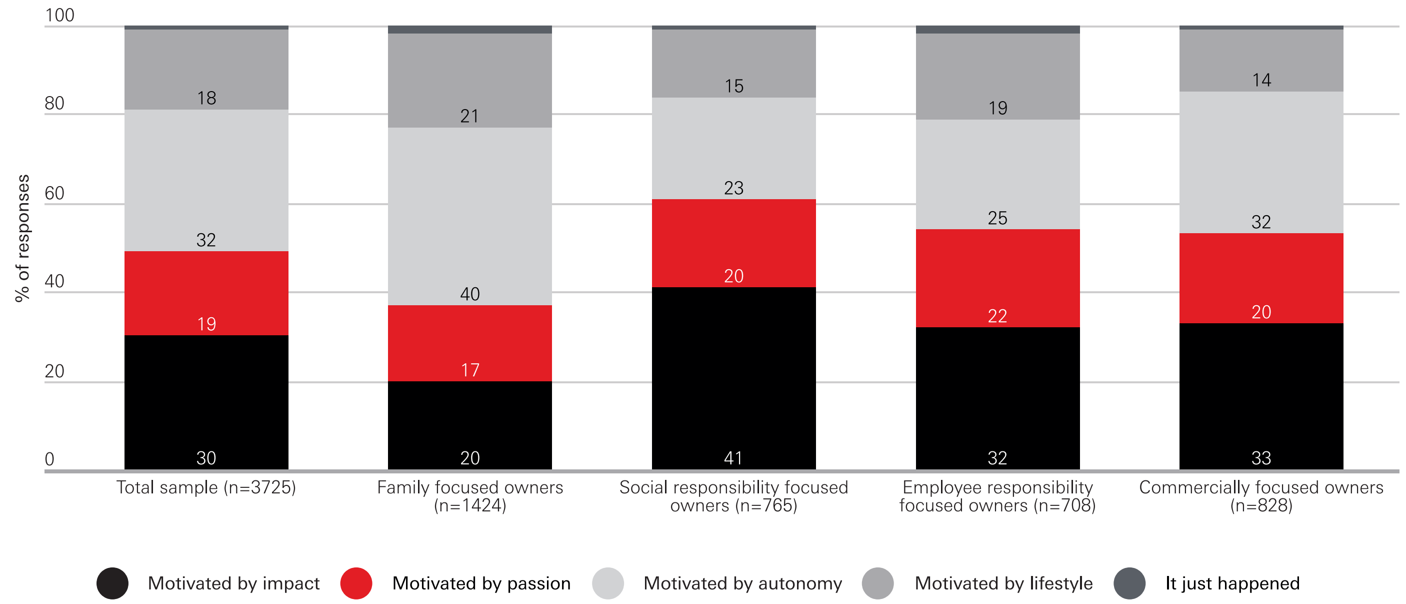
"At the time of setting up Le Slip, the internet was changing the way we work and how we do things, so I saw a lot of potential there. Instagram did not exist, Facebook was the main channel for us. The idea was to use online channels for sales and distribution. In order to do so, you need a really good story to share online. Before the 2012 presidential election campaign, there was a lot of debate in the media about the future of French industry and journalists were searching for entrepreneurs who produce in France. 'Made in France' proved to be a very valid idea – it did and still does resonate with the wider public."

When running their businesses, social entrepreneurs are also more likely to measure the extent of their day-to-day impact by using a broader set of metrics than the average entrepreneur. Aside from customer satisfaction and employee retention, for example, which are important metrics to all business owners – social entrepreneurs also consider factors such as media coverage, industry awards, and environmental, social and governance (ESG) reporting.

"The fashion industry has a big environmental impact so the challenge is to find better alternatives or produce things in a better way. Our focus has always been on superior craftsmanship and local production; social media enables us to take our customers behind the scenes. Thanks to social media, we can be very transparent about how we do things and show how our products are made," says Mr Gibault.

Ms Rey echoes these views on transparency and communication: "We show our stakeholders all the steps we are taking and explain why it's important. This is engaging for both the public and the organisations we work with, and evidences what we do."

Question: Thinking about your personal motivation, why did you become an entrepreneur/ business owner?



Aligning efforts on all fronts

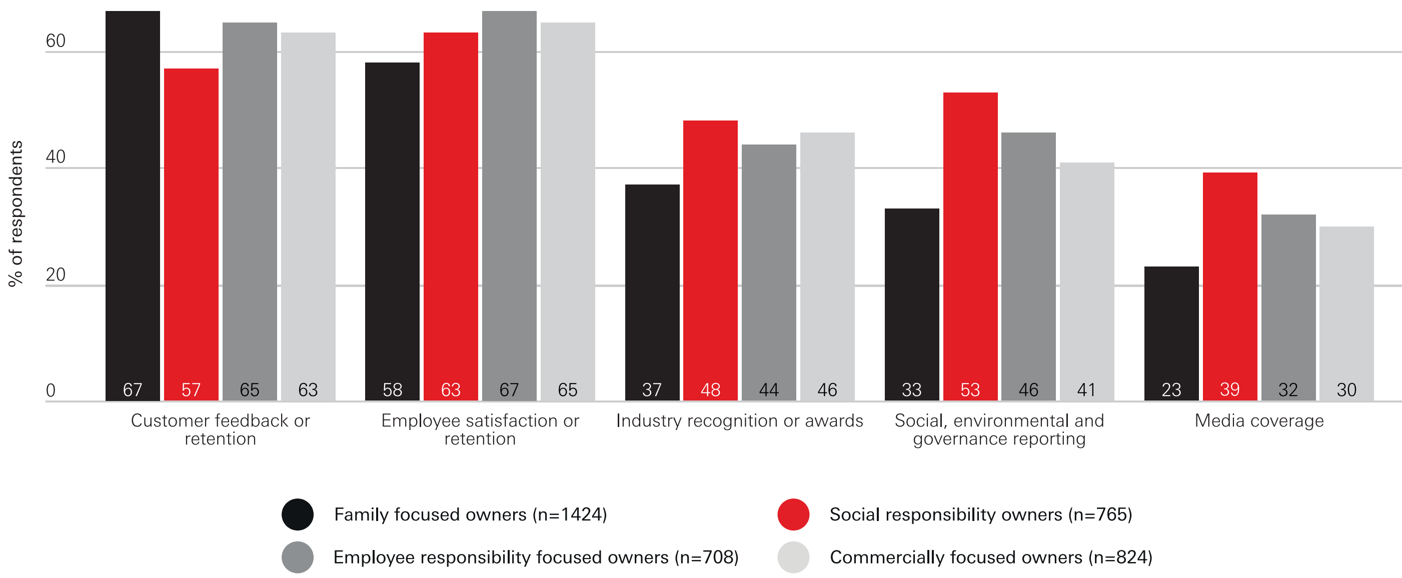
A similar pattern can be seen on the 'giving' side, where social entrepreneurs' personal and business choices are most likely to lead to clearly defined impact outcomes. Like their counterparts, they are likely to have given time or money to support good causes in the last year (77% vs. 70% avg.). Unlike their counterparts however, who tend to make single donations to charitable causes, impact-focused entrepreneurs are most likely to be active in their community, contribute via strategic business decisions or through their personal investment choices with clearly defined social objectives.

"I feel that my work and personal life are really aligned," says Ms Rey. "This is a huge source of motivation and passion. Without passion you would not be able to go through so many challenges and hurdles."

Mr Gibault agrees: "Of course what we are trying to achieve personally and through our business is aligned, otherwise it would be very difficult. You need to believe in what you are doing. It is not just a claim or a nice statement to have on your website, you need to live with it – it needs to be rooted in your team and in the way you interact with others…The fashion industry is a very big industry in France, even bigger than the car industry. With our small company we showed everyone that we can improve the way we do things!"

Of course not every entrepreneur will start out with a sustainability agenda, yet it is encouraging to see that an increasing number are unfazed by today's complex challenges. Instead, business leaders use the gains from their economic success to foster positive social and environmental change in their communities, inspiring and encouraging others to join in their vision to change the world.

Question: Do you use any objective measures to assess the positive impact of your business?



How to build sustainability into your business practice

Growing awareness of and interest in ethical and responsible alternatives, both from a business and a customer perspective, are encouraging entrepreneurs to innovate and think more holistically about their business practices. Indeed, two-thirds of business owners say social and environmental concerns are important to their business planning and so split their time between activities like creating a positive social or environmental impact, ensuring business practices are ethical or creating a positive company culture.

With this in mind, international partnerships and cross-sector collaborations are likely to emerge as new ways of developing impact-driven business models, exploring social entrepreneurship cultures and making the most of global networks and experts.

We talk to Susanna Wilson (HSBC's Global Head of Sustainable Networks and Entrepreneurship), Matt Robinson (HSBC's Sustainability Engagement Head) and Pip Wheaton (Ashoka's Country Director for the UK) about what steps entrepreneurs, wishing to integrate sustainability into their everyday business practices, can take to make this daunting task more achievable.

"We need to think about sustainability by taking into consideration the true cost of doing business," says Ms Wheaton. "This means integrating all the short- and long-term externalities of a business' operations to really bring sustainability to the core of a company's financial viability."

Ms Wilson echoes these views: "Our aim is to contribute to a sustainable global economy, particularly through sustainable supply chains by supporting sustainable business growth practices. Entrepreneurs are a part of that ecosystem – smaller companies looking to internationalise and become a part of the global supply chain."

From our conversations we identified seven ideas that can help businesses increase their core sustainability.

1. Hire change-makers

"Think about hiring people differently. Because a company is an amalgamation of its individuals, its thinking will depend on those individuals' beliefs, drivers and passions," says Ms Wheaton.

> "Businesses need what we refer to as 'change-makers' or people with innovation skills, they need to go beyond simply finding that talent and foster that talent internally."

"I would also recommend surrounding yourself with people who are great supporters but who can also be critical friends. You need people who have the nerve to put their hand up, regardless of their position in a company, be honest with you and say – We can do this differently!"

2. Seek collective action

"We also need to think how to better organise fluid open teams across companies, so we go beyond specific individuals or departments. It's important to have teams which can be open to new ideas, to change, and to sharing information," says Ms Wheaton. "This enables companies to adapt and co-create against the hard boundaries of a company."

"We're seeing a lot of companies co-create with entrepreneurs – when social entrepreneurs and businesses come together to find a solution to existential problems. Consider textile companies, for example. A couple of them will create an alliance, or identify a joint venture they want to partner on, to encourage long-term commitment and change to the way they do business. This kind of collective action de risks the venture and maintains competitiveness by ensuring the playing field remains balanced for everyone."

3. Learn from others

"Learn from other businesses, especially those known in the market for having sustainable brands – why reinvent the wheel and waste precious time, when you can be using this to develop and grow your business?" says Mr Robinson. "Co-working spaces can be helpful in enabling entrepreneurs to work collectively and collaboratively, sharing ideas and growing together."

4. Find the root cause
According to Ms Wheaton: "When entrepreneurs embed social impact into a business venture – they need to make sure that they deeply understand the issue(s) that they are grappling with and the system it operates in; or find people who do. So often we see social enterprises tackle the symptoms [rather than root causes] of the problem with no lasting change; it's a waste of energy, passion and talent," says Ms Wheaton. With this in mind, and given the increasing importance of skills in today's dynamic economy, entrepreneurs may need to consider further education or training either around specific themes or global megatrends.

5. Grow your networks
Building on the foundation of education and training, for Ms Wilson developing sustainable business practices "is also about supporting entrepreneurs develop as growing businesses through connecting, signposting and scaling of global networks."

Sustainability partnerships can help social entrepreneurs to find targeted mentoring support as well as networking opportunities by matching them with companies in relevant fields. "We do due diligence to make sure we are finding the most impactful entrepreneurs, with new ideas and innovation that can be benchmarked. We also look for entrepreneurs who are looking at the root causes of issues and not just symptom factors… The Ashoka Fellowship is highly regarded in the industry and offers validation around the impact of their work."

6. Start local, go global
"Today, an increasing number of small businesses are being set up specifically with the aim of addressing global challenges," says Mr Robinson. "Focusing on three areas – future skills, sustainable networks, and sustainable finance – enables a more structured response to disruptive global megatrends such as globalisation, urbanisation, the onset of AI and machine learning and climate change."

"Consumers and the public at large are becoming more aware of things like pollution, plastic wastage, and ethics in supply chains. These influence their buying decisions and ultimately determine which businesses they choose to buy their products and services from, or indeed associate themselves with."

"Getting your own house in order is therefore a must, especially if you are looking to build your business model, products and service around sustainability. Some initiatives cost little or no money. Simple efficiencies in how you operate, such as reducing paper and turning to digital ways of working are good examples. Other simple examples include turning down your thermostat by 1 degree, or closing windows and doors when the heating or air conditioning is operating. Other initiatives do require a capital outlay but often have a good ROI."

Business exits: the final chapter or new beginnings?

Entrepreneurs are often defined by the start of their story; the ground-breaking idea, the funding secured or the growth trajectory achieved. Yet for many, it is not the first but the last chapter which matters most.

With two in five entrepreneurs having a clear intention to sell or exit their business in the future, the exit moment provides entrepreneurs with an opportunity to redefine their futures – their contributions to family life, commercial pursuits and wider society.

The route to sale

Our research indicates that while many business owners intend to sell their ventures, this often remains a distant eventuality. In fact, 61% of entrepreneurs who intend to sell their enterprise, plan to do so in a timeframe greater than 10 years.

Russell Prior, Head of Family Governance, Family Enterprise Succession and Philanthropy at HSBC Private Banking, believes that regardless of the timeframe for the intention to sell, owners should constantly consider what their business looks like to a potential buyer. This, he asserts, makes owners better prepared to deal with unexpected situations which may arise and that could impact business success or even the business exit.

"Most entrepreneurs are thinking about what the end game is, even if that is someway off" he remarks. "But that does not necessarily translate to being well-prepared. Entrepreneurs should understand the value of their business, and be constantly on the look-out for where potential buyers of their business are. They should be thinking about it as their businesses develop as most business sale processes start for unplanned, rather than planned, reasons. Not doing so can put you at a disadvantage."

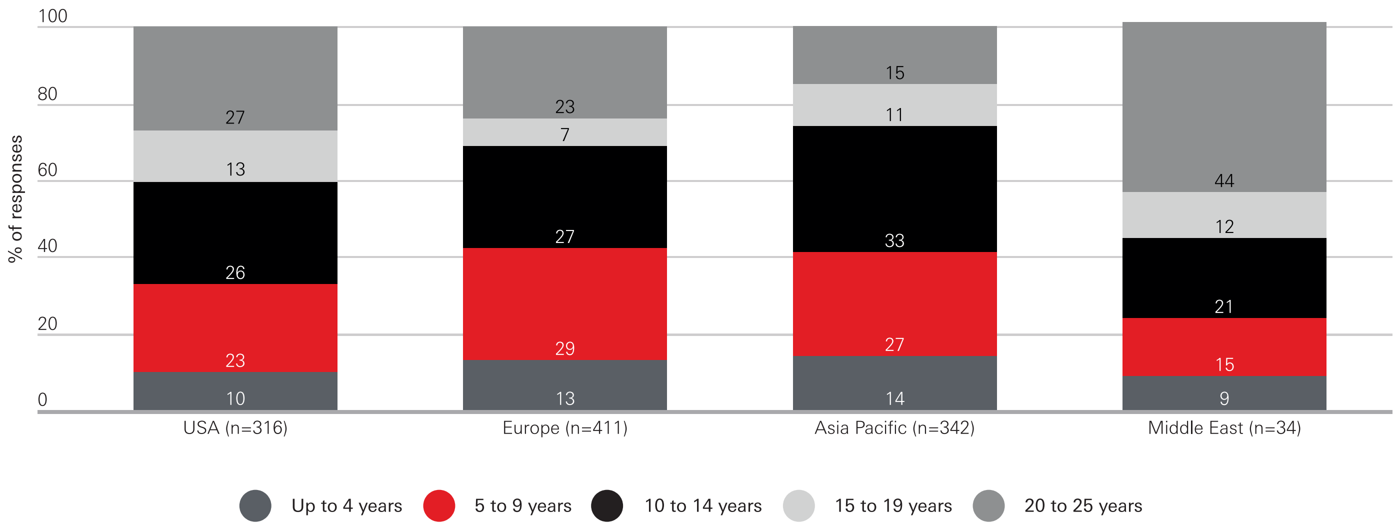
Throughout the business lifecycle, owners will be considering whether the business is well organised, if it has a clear strategy, how relevant the products or services are to the market, and what is needed to support future growth.

As the story of Laura Harper-Hinton confirms, selling a stake in a business does not always signal an entrepreneur's desire to leave the firm, but may signal their aspirations for growth.

"When we first came to the UK we realised there was a fantastic opportunity in the coffee space," she recalls. "High street coffee shops had done a great job at taking espresso-style coffee to market but there was no one doing the Antipodean craft coffee and the all-day dining experience that we knew so well." Initially a coffee roastery based in London's Kings Cross, Caravan now comprises of a number of restaurants across the capital.

"We put in every penny we had to start our first restaurant but it reached a point in our growth where the money we had was not enough to fund our aspirations. We had two really exciting projects that we wanted to do and we needed to get some growth capital into the business. It had been the three of us for eight years and we felt an outside perspective would be valuable."

Question: In what timeframe do you intend to sell your business?



Ms Harper-Hinton argues that finding a flexible, long-term private equity partner was critical to their decision. "We didn't sign up for any particular business plan – we didn't want to be in a situation where we were bound to running the business in a certain way. That was really important to us."

Regardless of when the exit process may start preparation and planning are vital.

Life after exit

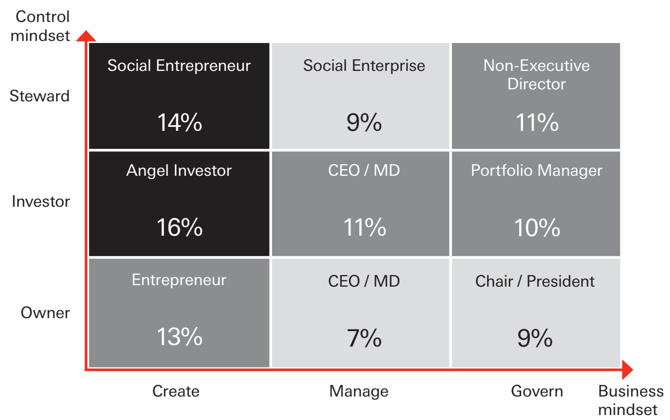
On a personal level, an entrepreneur's exit often means dealing with the past as well as exploring new opportunities and passions.

Many entrepreneurs will have some continuing involvement in their former enterprise post-exit, often as part of the sale deal, although for many this gets harder and harder the longer this period lasts. But entrepreneurs are also keen to make their mark on the world in a new context; 60% of owners envisage a future career for themselves post-exit.

Mr Prior indicates that these future roles typically fall somewhere along two axes. The first reflects the business mind-set of the entrepreneur – whether they are a creator, manager or would prefer a governance role in an enterprise. The other reflects the degree of control they would like to have in their new role.

According to our research, almost half of entrepreneurs who perceive a future role for themselves post-exit anticipate, in business mind-set terms, that they will sustain their creative energy whether in a role as an entrepreneur, angel investor or social entrepreneur. Interestingly in terms of control mind-set, the largest proportion see themselves in an investor role.

Yet these responses vary regionally. In Asia Pacific, 20% of entrepreneurs who desire a role after business exit anticipate cultivating the business ideas of others by becoming an angel investor. Meanwhile, stewardship appears to be a popular concept in the Middle East, with 20% of the region's entrepreneurs indicating they intend to become social entrepreneurs and a further 20% indicating that a role as a non-executive director would be desirable.



Getting organised for your exit

With so many future avenues available, and many things to think about and prepare for, it can feel as though the chances of orchestrating a successful exit are slim. However, careful consideration and planning around both personal and business objectives, particularly thinking about them separately, can greatly heighten the chances of successfully negotiating the exit process.

While Ms Harper-Hinton's plans to exit her business might seem some way off, she is already laying the groundwork for her departure from the business, whenever that may be.

"If we do decide at some point to pass the mantle on, we've grown a business that is capable of doing something different. What we've created has quite a few angles – coffee, takeaway and the food side of things."

"We are growing a business that someone can look at and take in a different direction," she says. "Creativity and innovation are things that have been central to our business. We call our food 'well-travelled' and that's a really important concept. It gives us flexibility to put what we want on the menu – it means we are not geographically bound and we can follow food trends."

Beyond a clear strategy and path to growth that would potentially appeal to a range of purchasers, crucially she recognises that cultivating a team which shares her values is paramount to making an eventual exit easier – both practically and emotionally.

"I think about legacy in terms of the people within the business," she concludes.

"I believe a business is definitely not about one person or the founder; it's about the sum of its parts. We have an incredible team at Caravan. And, if you have a core team who have been with you on the journey then when you do eventually step away, you know the business is in good hands."

Creating lasting legacies

For any business owner, the 'who, what, when and how' of business ownership transition can be difficult to discern. Yet when enterprises have been sustained over generations, questions of management succession and ownership transition are even more nuanced.

Our research indicates that family business owners create legacies which last by harnessing a unique blend of formal education and immersive learning from their predecessors.

Defining your legacy
Proximity to business-owning family members can deliver practical learnings at key moments in the entrepreneurial lifecycle. Owners with a family business background, who will have likely witnessed the dynamics of their predecessor's business transition, take a more active role in preparing their own departure than first generation owners.

Family business entrepreneurs are more likely to have determined whether they intend to sell their business or transition the ownership of their venture within their family. And, if a sale is anticipated, they are more likely to have started to consider a plan to bring this to realisation.

Yet as Michelle Lau, Head of Wealth Planning Solutions at HSBC Private Banking, describes, thinking through an business ownership transition is markedly more challenging for entrepreneurs within a family business context.

"There is always the option to exit, sell and go," she describes. "But a family business often comes with a legacy that people want to keep. Do you want to split that legacy between children or dissolve it completely by selling the business? Most families want to continue to work as a collective. This is where there is a potential headache as you move down the generations and the family grows."

The three strands of transition
The most effective family business ownership transitions, according to Russell Prior, Head of Family Governance, Family Enterprise Succession and Philanthropy at HSBC Private Banking, will not be perceived as a single moment in time, but as a longer term strategy involving three transitions in management, in ownership and in governance.

In the management transition, the new generation of leadership must prove that they can run the business effectively. "Historically, families would assume that the eldest child would take over the management of the business," comments Ms Lau. "Nowadays, however, they are much more likely to assess who is best suited for the role, based on their credibility and ability to perform."

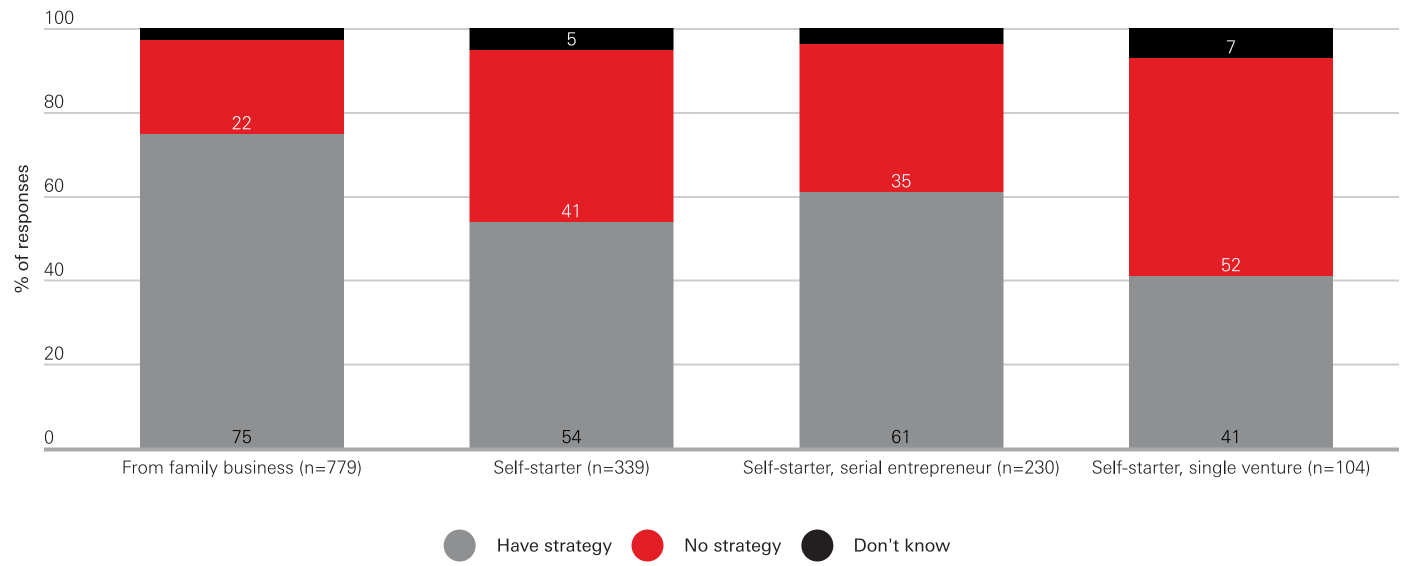
The ownership transition enables other individuals to start to take a stake in the business and the governance transition sees the relinquishment of decision-making power in the enterprise.

"A clear governance framework as part of the exit strategy is important," Ms Lau attests. "This sets out the principles which will guide the ownership and ongoing decision-making for the business and is designed to reflect the values of the previous owner."

These three strands are reflected in the factors that family business entrepreneurs prioritise when choosing to transition ownership of their business.

While first generation owners highlight personal and family wellbeing when considering an exit, entrepreneurs with a heritage of business ownership reflect the need for both good governance and strong leadership. Re-organising business holdings, ensuring the business legacy and preparing new management are all factors referenced more highly by second generation entrepreneurs than those who have run businesses for the first time.

Question: Do you have a strategy in place for the sale of your business?



These entrepreneurs also have different personal priorities. Whilst self-starters strongly anticipate leaving the business world following an exit, those with a family business background want to continue on the path of innovation. Many anticipate taking a new role post exit, typically creating and developing new business ideas or cultivating new business interests through investment.

Continuing the entrepreneurial spirit

To sustain the family legacy, successive generations must be trained not only in the knowledge required to be a business leader, but also in the shared values which define their family business. Our research highlights that next generation entrepreneurs are being prepared through a blend of theoretical and practical learning.

Entrepreneurs with a family business background are more likely to perceive formal professional development as important in their career as business owners. In particular, they are more likely to have undertaken executive career coaching, professional accreditations and MBAs than self-starting entrepreneurs.

Question: Thinking about your career as a business owner, which of the following activities have you undertaken as part of your professional development?

	From Family Business (n=2379)	Self-Starter (n=1286)
Undergraduate qualification or equivalent	38%	37%
Postgraduate qualification or equivalent	41%	31%
Executive career coaching	35%	28%
Professional body accreditation	34%	28%
MBA or equivalent	36%	24%
Apprenticeship and/or vocational training	27%	25%
Other (please specify)	1%	2%
None of the above	2%	9%

Ms Lau highlights that many educational institutions, especially in Asia, have started to pick up on the nuance between training individuals in both business ownership and management. Increasingly, courses for inheritors of enterprise teach the principles of governance and custodianship, as well as coaching on leadership and management.

Alongside this formal education, next generation entrepreneurs benefit from immersive learning in the family context. In particular, Ms Lau believes that the family has an important role to play in cultivating the spirit of innovation.

On one hand, this trait can allow the next generation to bring new value to the family enterprise. "There are many young entrepreneurs who want to do something different with the family business but they are also very respectful," she describes. "They bring new ideas that won't compete with the core product but will help to build the business in a new area."

It also enables young owners to craft their own path outside of the family context.

"We cannot stop transformation and new ideas," says Ms Lau.

"Families have to encourage entrepreneurialism as it is in their DNA. The succession planning framework has to provide help to the next generation of entrepreneurs with their own businesses."

"Entrepreneurs exposed to the family business have a strong entrepreneurial mind-set from the very beginning", she concludes. "They possess an innate understanding of entrepreneurship whether they are going to turn the family business around, work and grow within it or go it alone and become an entrepreneur in their own right."

It is a combination of this innate understanding of entrepreneurship, careful exit planning and multi-faceted preparation of the next generation, which enable family enterprises to craft legacies which thrive for generations.

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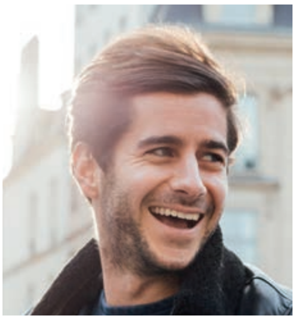

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Realising the Entrepreneurial Spirit

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