

October 24, 2019

## Entrepreneurs and Entrepreneurship: The Same, Only Different

I write about entrepreneurs and entrepreneurship. Most entrepreneurs fall into one of two paradigms. There are “small business entrepreneurs” and “high-risk/reward entrepreneurs.” Understanding the difference is critical, and not just for entrepreneurs. Governments, economic development organizations, investors and indeed local and regional businesses, and even communities must understand and appreciate those differences if they are going to create business and social environments where both kinds of entrepreneurs can thrive.

The common piece of the entrepreneurship puzzle is a willingness to accept more risk than most other folks in the workforce. But that piece is only a small part of the larger puzzle. On closer inspection, small business entrepreneurs and high-risk/reward entrepreneurs take different kinds of risk, seeking different kinds of rewards, and employ a variety of contrasting strategies and tactics to mitigate those risks and maximize those rewards.

### Financial Goals: Income vs. Wealth

The goal of most small business entrepreneurs is the independence associated with owning and managing a business that can support a good and reliable income. The typical small business entrepreneur may dream about passing her business on to the next generation when she retires, or selling it to finance a comfortable retirement, but her primary financial goal is a steady income.

In contrast, the high-risk/reward entrepreneur focuses on wealth creation, even (and usually) at the expense of a regular paycheck, financial security and management control. The financial goal is dominated by some sort of “exit” transaction that will result in an at least a seven figure payout (most often much more than that), hopefully long before any (age-driven) retirement plans are in play. High-risk/reward entrepreneurs often report a desire to change the world as

### Related Practices

Fund  
Grow  
Sell  
Start  
Venture Capital & Private Equity

well, but on the rare occasion they actually do that you can be pretty sure they also create a lot of wealth.

The different financial and career goals of small business and high-risk/reward entrepreneurs lead to differences in how they think about their businesses in terms of their risk profiles, financing strategies, and human resource policies.

#### Risk Perspectives: Tolerate vs. Embrace

Because their focus is on establishing regular and stable income, and maintaining control, small business entrepreneurs typically look for entrepreneurship opportunities with relatively lower risk and shorter, less capital intensive paths to positive cash flow. The prospective value of the business in a sale transaction over a three to ten year time frame is seldom a serious consideration as against the prospects for steady income and a lifetime of control.

The high-risk/reward entrepreneur is just the opposite, with a primary interest in maximizing the sale value of the business in three to ten years, and a correspondingly reduced interest in generating near-term positive cash flow to support regular income flows to the entrepreneur. With near-term income being a lesser concern, and generating much larger enterprise value being a much greater concern, the high-risk/reward entrepreneur will embrace higher-risk startup opportunities with higher potential for wealth creation. And higher chances of catastrophic failure.

None of this is to suggest that small business entrepreneurs are not risk takers: they very much are. That said, as discouraging as small business survival rates are (which of course helps explain why many folks prefer the felt if not actual security of being an employee rather than an employer) they are significantly higher than the survival rates of high-risk/reward startups.

#### Financing Strategies: Debt vs. Equity

“Being my own boss” is usually a key goal of the small business entrepreneur. Fortunately, the relatively lower risk profile, and reduced capital and time requirements to get to positive cash flow, give most small business entrepreneurs options for financing that minimize ownership/control dilution. Many small business entrepreneurs can cover most if not all of their capital needs by borrowing money rather than selling equity (and with it control) to investors. Beyond traditional bank loans, equipment financiers, SBA lenders, franchisors, and various asset-based lenders (e.g. loans backed by receivables) are among the many options for financing small business startups with little or no need to sell equity and surrender control.

The high-risk/reward entrepreneur is in a completely different situation. Typically, these startups take more capital, and more time, to generate sustainable cash flow. Indeed, they often sacrifice near-term positive cash flow in their search for the kind of scale that can support their wealth creation objectives. Debt is generally not available to the high-risk/reward entrepreneur until well past the startup stage, and even then is usually available as a supplement rather than a replacement for equity. And, of course, taking in equity investors in any material amount almost always involves substantial sharing of control with those investors; often *de facto* loss of control.

#### Human Resources Strategies

My father's generation (born 1928) was pretty much the last that lived in an economy where folks could rationally anticipate working for one company for their entire career (he worked for two). That's ancient

history for most of today's workers. (I've had more than a dozen employers; I've lost count of the exact number.) Still, in a world where real job security is hard to find, you are more likely to find it working for a smaller business than a high-risk/reward business, particularly a small business that has matured past the startup stage. High-risk/reward startups offer less job security at every stage, from launch up to and even past the exit transaction, and are much more likely to miss payroll in the early days than small businesses. (Anna-Lee Saxenien, in her seminal study of Silicon Valley, reported that the average job tenure of a Silicon Valley worker was just two years.)

What it comes down to is this. Small business entrepreneurs look for workers who value stability more than rapid advancement and the prospect for a big payout at the end of some startup rainbow. In the high-risk/reward world, most employees are looking for rapid advancement opportunities more than stable employment, and potential riches rather than maximum current income.

#### Promoting Entrepreneurship: Both Kinds

Small business and high-risk/reward entrepreneurship are different animals, with different care and feeding needs, and different contributions to make in a strong economy. Small business entrepreneurship is the foundation of most local and regional economies, perhaps more than ever today. Even in communities where large businesses dominate the business headlines, smaller firms and the entrepreneurs who run them together employ more folks than their larger cousins. At the same time, high-risk/reward entrepreneurship's role as the growth driver has never been more important than it is today, as the rate of innovation continues to accelerate. We need them both – and if we want both of them to be vibrant, we need to realize their respective needs and contributions are different, and provide both with the public and private spaces and resources they need to thrive.

#### **Related People**

##### **Paul Jones**

Of Counsel

[pajones@michaelbest.com](mailto:pajones@michaelbest.com)

T 608.283.0125

##### **Paul Jones**

Of Counsel

[pajones@michaelbest.com](mailto:pajones@michaelbest.com)

T 608.283.0125