

Ivey Entrepreneur

Championing Entrepreneurship in Canada

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What the markets think of entrepreneurship

The research of **Brian Anderson** shows that investors reward companies for being entrepreneurial, but only to a point

It's become a drumbeat in the business press: firms have to be entrepreneurial to survive and thrive. A large body of research supports this notion for start-ups and small firms, but what about large and diversified businesses? What does being entrepreneurial mean for these organizations, and how does it affect different aspects of performance?

Ivey professor Brian Anderson focuses his research on "corporate" or "macro" entrepreneurship – how large companies pursue entrepreneurial strategies to improve their competitive positions. In a recent study he and colleague Jeff McMullen from Indiana University explored entrepreneurship from the perspective of investors. They asked the question: does the market reward entrepreneurial strategies and initiatives?

To conduct the study they reviewed every Fortune 500 company for the period 1999 through 2009, with the exception of banks, insurance and financial service companies. Their sample consisted of 578 firms, for a total of 4,060 "firm year observations."

Anderson used a simple model to determine whether a firm had an entrepreneurial orientation. He looked for three distinct behaviours: innovation, proactiveness, and risk-taking. Innovation means coming up with new products, processes, or business models. Proactiveness is the entry into new markets. Risk-taking is the willingness to commit resources to projects with highly uncertain ends.

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Institute Buzz

By Stewart Thornhill,
Executive Director, Pierre
L. Morrissette Institute for
Entrepreneurship

Inflection points indicate that there's been a change in a growth trajectory. It's a term sometimes used by executives to explain why earnings weren't as strong as forecast; the implication is that things are about to get much better. In our case at the Entrepreneurship Institute, the inflection signals a pause in the incredible growth we've experienced in the past three years. During that period, we've added new faculty every year, Ivey has grown its HBA program by three sections, the M.Sc. program has joined the curriculum and Entrepreneurship has become part of our EMBA curriculum. And that's in addition to the tremendous participants in our New Venture Project since Ron Close became our John Currie Executive Entrepreneur in Residence and built a stellar team of Virtual Entrepreneurs in Residence to work with our students. Also worth mentioning is the Ivey Entrepreneurs Index, Powered by KPMG Enterprise.™ This semi-annual economic bellwether, which surveys Quantum Shift Fellows, was released for the third time earlier this month and we celebrated the launch by opening the markets for trading at the TSX.

As we progress through what will be our penultimate year in the "old" Ivey building, the feeling is one of taking a deep breath in preparation for even greater effort. Once we complete the move to the new building on Western Road, we'll have our programs, faculty, and staff together under one roof and, for good measure, we'll add yet another HBA section to bring the total to eight. So we're not done growing, but we are taking a brief rest before the next stage. And this gives us an opportunity to streamline our programs, refresh our materials, and get ready to continue our mission of growing Canada's next generation of entrepreneurs.

None of these elements on their own constitute an entrepreneurial strategy: it's the interplay of all three. "For example, it's not an entrepreneurial strategy just to take on risk," says Anderson. "Lehman Brothers was excessively leveraged, but it wasn't entrepreneurial."

Anderson assessed the entrepreneurial orientation of each firm in his Fortune 500 sample through a content analysis of their 10-K reports. These public reports, required annually by the U.S. Securities and Exchange Commission, give a summary of the firm's performance and business activities. Anderson reviewed the reports to see how companies were communicating with investors about innovation, pursuing new markets, and issues of risk.

It came as no surprise that certain companies, such as Apple, Boeing, Nike and Google, displayed high levels of all three behaviours. At the other end were firms like Walmart and Burlington Northern. But Anderson was also struck by how most firms fluctuated from year to year. For example, General Electric and The Walt Disney Co. oscillated frequently between entrepreneurial and conservative strategies during the study period. "The vast majority of companies go through periods where they're really entrepreneurial and then more conservative, and so on," says Anderson. "It's hard to stay entrepreneurial all the time."

Anderson used "Tobin's Q" – the ratio of the market value of a firm's assets to the replacement cost of those assets – to evaluate whether the market rewarded entrepreneurial strategy. Tobin's Q is a well accepted measure of market performance, often used as a broad indicator of how the market assesses the ability of managers to create value from firm assets.

Anderson found that the market positively rewards entrepreneurial strategies. "It's clear that investors like it when you're entrepreneurial," he says. The initial bump in value is short-lived, though.

"As time goes on investors are more interested in what you are going to do next," says Anderson. "An implication for managers is that you have to sustain your entrepreneurial posture in order to reap the market benefits from being innovative, proactive, and taking strategic risks."

He also found that entrepreneurial strategies were rewarded more in some industry environments than others. The market rewarded entrepreneurial strategies more when firms were in a "munificent" environment—where competition was lower and companies generally profitable—than in "hostile" environments with thin profit margins and intense competition. "In hostile environments, investors want you to be entrepreneurial – but not too much," says Anderson. "Investors don't want you to go out too far on a limb."

The same pattern was found in stable industries, as compared with those that are very dynamic and fast paced. "Entrepreneurial strategies are rewarded well when you're in an industry that's pretty predictable, such as retailing," says Anderson. "In really dynamic and fast paced industries, like microprocessors and pharmaceuticals, you don't get as big a bang for your buck. It's still a positive relationship, just not as strong."

These findings came as a surprise to Anderson, because previous research had shown that companies in very fast paced and hostile environments perform better—usually measured by sales growth—when they're entrepreneurial. To be sure of his findings he collected a whole new sample and tested it again, with the same results. "In terms of growth, it really pays to be entrepreneurial," he says. "But when it comes to how the market views entrepreneurial strategies, it pays to be entrepreneurial but only to a point. Growth outcomes and investor perspectives aren't necessarily in alignment."

For managers, who are routinely evaluated on the basis of sales growth, these findings could pose a conflict between what the company wants internally and what the market is prepared to reward. Although it clearly pays to be entrepreneurial, managers need to understand that stakeholder groups in different environments are going to view the benefits of entrepreneurial strategies somewhat differently. "The proponents of grow, grow, grow are always going to push to be more entrepreneurial, but investors tend to be more circumspect," says Anderson. "Investors are weighing how much value managers are going to be able to extract from the resources of the company. If they think managers are gambling too much with those resources, they'll pull back a little."

Existing studies also confirm Anderson's finding that firms fluctuate in their entrepreneurial orientation. With the exception of a few companies like Apple, it's rare for a firm to be entrepreneurial year after year. "It is more common for a firm to stay conservative if they're conservative by nature," says Anderson, "but most companies tend to oscillate back and forth."

This raises an important question for managers: how to sustain an entrepreneurial focus. "Our core research is saying that for large established firms, being entrepreneurial matters," says Anderson. "But what does it take to be entrepreneurial – what kind of resources, what kind of culture, what kind of management style? We're just starting to scratch the surface, but it's important for managers that we figure it out."

about the author



Brian Anderson is an Assistant Professor in the Entrepreneurship Group at Ivey.

Dr. Anderson's research interests lie at the intersection of strategy and entrepreneurship.

Student Watch

Think Big... and Act Bigger



Ronen Benin

Ivey Entrepreneur sat down with HBA '12 candidate **Ronen Benin** to talk about his passion for entrepreneurship, his latest new venture and recent success as a member of Tradyo, the winning team of the inaugural The Next 36 program for promising young entrepreneurs.

What attracted you to Ivey?

I was attracted by Ivey's focus on leadership, so I applied and was accepted to Ivey's Advanced Entry Opportunity (AEO) program. I'd already experienced the challenges and rewards of good leadership through my involvement in competitive swimming both as a National level athlete and coach.

How did you find out about The Next 36?

I was looking to grow my company, Rameco Distribution, through student or school funding and came across The Next 36 on a student awards website. When I investigated in more detail, I discovered that The Next 36 was a robust 8 month program for entrepreneurship-minded undergraduate students from across Canada. I thought 'I won't get in, but what have I got to lose?', so I applied. Was I surprised when I was picked as one of the 36 students for the program!

Tell us about the program and your experience.

The Next 36 raised my expectations across board. I processed and put into practice more info this past summer than I ever thought I could. I felt overwhelmed daily.

My peers were phenomenal – I never felt like I was smartest kid in class – and our Mentors were among Canada's most accomplished business leaders. They shared their personal experiences and mistakes, and we learned that they are average people, just like us, who became successful. Learning from the Mentors was a huge confidence builder. I now have this amazing network of mentors and peers all across Canada.

Teams were assembled by The Next 36 steering committee. My teams' backgrounds included business strategy, international development, computer science, and global finance. We lived in a 5 room suite – 4 bedrooms and an office – where we learned a lot about respect and the need to yield to other people's needs, in addition to figuring out how to build and launch a new venture. I love my team – they're all type-A personalities, all unique. I respect them both as people and as business partners.

As part of the summer venture incubator, we were given \$25,000 cash and \$25,000 in-kind services as seed funding. In addition

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to building our new ventures, we were also required to attend class, sometimes up to 8 hours a day. Our professors were among the leaders in their field from Harvard, Wharton, U of T, Ivey, and Georgetown. They taught us to think big and act bigger! They challenged us to strive for leadership on global scale. It was intense; we were always working.

How did your team come up with the idea for Tradyo?

We searched for opportunities across a variety of industries and had originally selected another idea, but decided to switch at the last minute as the sector was really heating up and big competitors were moving into the space. So, we decided to refocus and look at nascent markets.

A video on collaborative consumption by Rachel Botsman inspired us to develop the concept for Tradyo. Collaborative consumption is a relatively new space and it hit all the marks. We saw growth potential, investment potential and the ability to make a big impact. We all loved it.

Tradyo allows users to use their mobile device to quickly upload items for sale or barter and to see what's available in their own neighbourhoods. Users can mark their favourite traders and continue to communicate with them while building their own customized market place.

What did you learn about yourself?

I learned to go with my gut. I learned to work with imperfect information. I learned to be creative to attain resources not presently under my control. I learned to ask questions, be curious and think critically about the answers I'm given.

I thought I was a good listener, but I'm actually a better talker. I learned that if I'd listened more, I could have avoided some pitfalls. I learned to trust and rely on my team.



The Tradyo Team: Gracen Johnson, Ronen Benin, Eran Henig, Gideon Hayden

What advice do you have for HBA's who are considering applying to The Next 36?

Don't be afraid to do 'something'. People often see opportunities but do nothing. So, just do it – touch it, feel it, try it out. You miss 100% of shots you don't take.

I didn't think I'd get in to The Next 36 – but I made it and my life changed, my network ballooned. My network now includes highly successful, influential and wealthy people, who are willing to spend their time and resources to support the next generation of entrepreneurs.

What's next for you, Ronen?

My team is continuing to grow and develop Tradyo, but I've stepped back from active management and am now working in an

advisory role while completing my HBA at Ivey. I'm still running Rameco Distribution, which imports bio-degradable stationary for distribution to professional offices and secondary school, and I'm working on two new mobile networking apps: one for the consumer market and one for amateur athletes. It's busy.

Any last words of wisdom?

Young people are often afraid of appearing foolish in front of people in power. I want them to know they have nothing to lose by trying to make a connection with a person of influence. If they act, anything is possible; especially now, before they have the responsibilities that come later in life. I did it, and now I get to do something that I'm passionate about.

The Other 36: meet two Ivey students were also part of The Next 36 Program



Danish Ajmeri, HBA 2013

Danish's team developed the Foodstr app – a social dining platform that allows people to meet and network with each other over a family-style meal at a local Toronto restaurant.



Nadeem Nathoo, HBA 2013

Nadeem's team developed the PushPal app – a more effective way for small to medium sized organizations to better communicate with their audiences over a mobile medium through hyper-personalization.