# Entrepreneurs: Definitely not your ordinary business owner

## Insights into characteristics and behavioural traits of entrepreneurs.

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Entrepreneurs will start with an idea; they will nurture and grow that idea into a viable business. While there will be stresses and successes along the way, their business will thrive with careful planning and strategic partnerships. They will surround themselves with people who can help them grow the business and transition from it to secure their future and the well-being of their family.

Back in 1984, Joe Jackson's horn-infused, jazz-pop song[1] You Can't Get What You Want (Till You Know What You Want) was a fixture on popular radio and riding high in the Billboard charts.[2] While the format and delivery of music has changed dramatically over the last 30 years,[3] for entrepreneurs the message of that song is as important now as it has ever been.

An entrepreneur is much more than just a business owner. An entrepreneur is the driving force in their business; always thinking about it, innovating and making changes so that they and their business can succeed in a big way. An entrepreneur is not locked into a traditional corporate mindset where change may happen slowly and incrementally after numerous checks and balances. In contrast, the entrepreneur knows what is wanted and takes calculated risks to capture emerging opportunities as they appear in order to earn big payoffs. This entrepreneurial spirit provides the entrepreneur with the motivation, resources and financial ability to do what they want.

Entrepreneurs share a number of characteristics: they are highly passionate; they are team builders; they take calculated risks; they have strong leadership abilities; and they use limited resources effectively.

Interestingly, in Six Myths of Entrepreneurship,[4] a lecture from the MIT Open Courseware New Enterprises course on iTunes U, entrepreneurs are defined by the qualities they do not have.

They are not:

- Necessarily the highest-achieving people in their academic programs; instead they are highly passionate about things that specifically interest them and focus on those areas.
- Individualists; they are actually team builders who recognize value in surrounding themselves with the right people.
- Born with an innate talent for business; the skills necessary to be a very successful entrepreneur can be learned, often by trial and error.
- Reckless risk takers; rather they capitalize on their in-depth knowledge, taking calculated risks in the areas where they are more knowledgeable than others and use this difference to gain competitive advantages.
- Just charismatic individuals; rather, entrepreneurs have strong leadership abilities that allow them to effect necessary changes.
- Undisciplined; entrepreneurs use their passion and know-how to take the limited resources they have – especially time – and use those resources effectively.

In summary, an entrepreneur must have the spirit of a pirate and the commitment of a Navy SEAL to be able to realize the success they seek.

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# The challenges entrepreneurs face

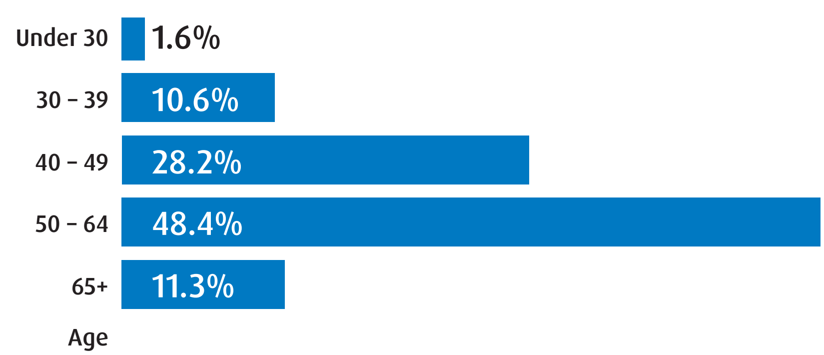
Entrepreneurs tend to be older and have more business experience than the average worker. According to statistics from Industry Canada, almost half (48.4%) of all owners of small and medium-sized enterprises are aged 50 to 64, and only 12.2% are under 40.[5]

The challenge for this 50 to 64 age category of entrepreneurs will be to let go of the reins and transition their business to the next generation. They are likely to pass on their business to the millennials (those born between 1980 and 2000). The good news is that this most educated and least employed generation (with an unemployment rate of 13.4% compared to the national average of 7.0%[6]) is opting for self-employment as an alternative to climbing the long and arduous corporate ladder. Amongst Millennials there seems to have been this paradigm shift where less students are looking for the credentials leading to a full-time job and more students are looking for the knowledge, skills and experience they need to start their own businesses.[7] This bodes well for small and medium-sized enterprises in Canada and even more so for aging entrepreneurs.

Furthermore, even though most entrepreneurs are at an age when they no longer have young families, they still have considerable family responsibilities. The sometimes uneasy relationship between business considerations and the needs of the family, where both vie for the time and attention of the entrepreneur, is discussed in the October 2013 BMO Wealth Institute report Are Your Business and Personal Finances on Solid Ground?[8]

> What's most interesting is the number of students who are not looking for a job at graduation.
>
> They want to work for themselves, not for somebody else. They want to be self-employed.
>
> Sean Wise
> Professor of Entrepreneurship
> Ryerson University

**Owners of small and medium-sized enterprises by age, 2011**




Source: Key small business statistics – August 2013, Industry Canada.

One of the things that help entrepreneurs to justify their deep commitment to their business is the amount of income that they earn and the wealth that their business allows them to accumulate. A white paper from the Canadian Securities Institute[9] noted that 49% of high-net-worth households in Canada own a business. This number jumps to 81% for Canadian households with assets in excess of $5 million. Of Canadian households with annual incomes of over $400,000, 72% own either part or all of a business. But this financial success often comes at a cost. Most entrepreneurs work much longer hours than the average worker. According to a survey conducted by the BMO Wealth Institute, 59% of entrepreneurs aged 50 to 59 and 54% of entrepreneurs aged 60 and over work more than 50 hours per week.[10] Interestingly, younger business owners report fewer working hours per week. On average, entrepreneurs under 50 reports only 45.6 working hours versus 53.8 hours for entrepreneurs aged 50 to 59. This compares to only 36.6 hours per week for the average Canadian worker.[11]

Entrepreneurs have a long work week – they work an average of 49.1 hours compared to 36.6 hours for the average Canadian worker.

### Hours worked by entrepreneurs per week, by age group

| | Under 50 | 50 – 59 | 60+ |
|---|---|---|---|
| Up to 50 hours | 69% | 41% | 57% |
| Over 50 hours | 31% | 59% | 43% |
| Average hours per week | 45.6 | 53.8 | 46.7 |

Source: BMO Wealth Institute survey by Pollara, August 2014.

Many of the business owners taking part in the survey also felt that running their business was stressful. This was especially true for business owners aged 50 and over. But despite this stress, 43% of those surveyed stated that they would have a sense of loss if they were no longer able to run their business.

### Percentage of business owners who feel running their business is stressful, by age group


Source: BMO Wealth Institute survey by Pollara, August 2014.

Another challenge that entrepreneurs face is establishing trust and confidence in other people's skills, knowledge and vision to play a role in helping build and contribute to their business. Most entrepreneurs deeply value the inputs of others in helping them make important financial and banking decisions. In fact, 71% of those surveyed reported using this kind of help to make financial decisions. Only 21% reported making financial decisions alone. Yet becoming a valued part of the entrepreneur's inner circle is not easy. Prerequisites for joining the inner circle are having an understanding of the entrepreneur's business and valuable expertise that cannot be easily obtained elsewhere.

## Only the strongest and most determined survive as entrepreneurs

The odds of a new business surviving over the long run in Canada are relatively low. Industry Canada statistics indicate that only about half (51%) of small and medium-sized businesses survive to the five-year mark,[12] and that the odds of survival fall each year thereafter. But there is plenty of room for optimism, as some of the most famous entrepreneurs in history have had their own business missteps along the way. Ed Mirvish, trailblazer in the world of discount retail and live theatre, had several business failures before he opened his flagship Honest Ed's Bargain House in Toronto in 1948.[13] Colonel Harland Sanders worked in many different businesses before the creation of his KFC restaurant brand.[14] Sir James Dyson went through over five thousand prototypes over many years before inventing the technology that made his vacuum cleaner brand famous.[15]

Successful entrepreneurs test out new ideas, and are always trying to adapt to changes that are occurring in the world and the business environment around them. The majority (75%) of the entrepreneurs surveyed by the BMO Wealth Institute are geared toward making improvements in their business operations and more than half (56%) are seeking to grow their businesses aggressively. Even with these ambitious goals and the challenges ahead of them, entrepreneurs are generally unfazed when it comes to making difficult business decisions. Only one-fifth (22%) reported ever feeling any fear or anxiety over business decisions that they have had to make.

The survival instinct slowly becomes a drive to continue and prosper with each year of success that the entrepreneur achieves. When asked when they might exit their business, a significant number (16%) of entrepreneurs had no plans to ever quit. Of those that did, the expected exit date varied with the respondent's age. As businesses survive and grow, it seems their owners tend to keep pushing out their expected exit dates.

Most entrepreneurs make financial decisions themselves but will accept guidance from their inner circle of professionals.

This may partly be the result of a fear of the idea of retiring. The r-word is often not spoken among entrepreneurs and members of their inner circle. With so much invested in their businesses — emotionally, through their own hard work, and financially — many entrepreneurs envision themselves working until their last day and dying with their boots on, much as Errol Flynn's character did in the similarly named 1942 movie classic.[16] The idea of dying with their boots on is further reinforced by the fact that a large majority of entrepreneurs (69%) do not have a formal written succession plan. Yet the survey indicated that having a succession plan helps more entrepreneurs (90% versus 77%) to feel more positive about their progress towards their business objectives. Retirement is seen by many entrepreneurs as the result of running out of energy, ideas, and passion for their businesses. In contrast, many entrepreneurs who instead choose to exit their businesses early see the change as an opportunity to pursue new challenges and interests that they may not yet have had time to explore.

Looking forward, entrepreneurs are not going to simply keep the status quo but instead plan to improve and grow.

**Top considerations for the proceeds from the sale of the business**

- Use for personal fulfillment
- Retirement/pension
- Make alternative investments
- Keep it in cash
- Invest in real estate

Source: BMO Wealth Institute survey by Pollara, August 2014.

Only one in three business owners has a formal written succession plan.

**Average age when entrepreneurs plan to exit their business, by age group**


Source: BMO Wealth Institute survey by Pollara, August 2014.

## The importance of the inner circle

Entrepreneurs typically have a trusted circle of family, friends, partners, key employees, professionals and other experienced business associates from whom they seek counsel. This inner circle of confidants can be a fundamental key to the success of a business.

Entering the inner circle requires recognition of value provided and trust earned, not just once, but regularly over the long term. Loyalty is the key to joining the entrepreneur's inner circle. Being there when needed to provide expertise to the entrepreneur — and doing it well — is vital. Making it less painful and time-consuming to achieve the entrepreneur's desired outcomes, and helping the entrepreneur get what they want goes a long way to earning trust and ultimately becoming a valued member of the inner circle.

# The balancing act of being an entrepreneur

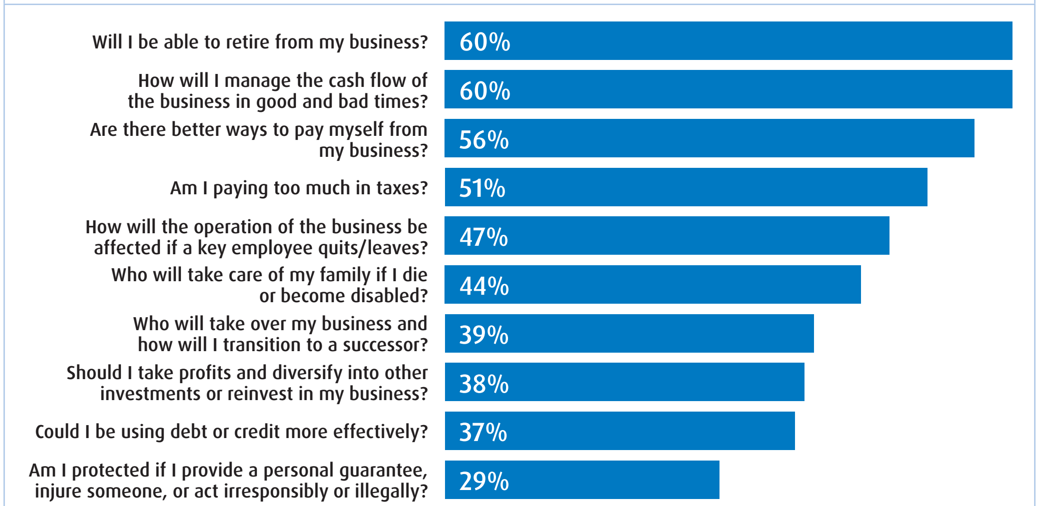
With all the hours that dedicated entrepreneurs invest in their businesses, the issue of work-life balance is often a potential sore spot for their families. Yet, family garners the highest consideration by 80% of the entrepreneurs surveyed when making future business decisions. Other stakeholders such as customers (68%), business partners (61%) and employees (61%) are important, but not at the same level as family.

When business owners were asked what's keeping them up at night, most of their concerns related to business issues. The following chart is taken from the BMO Wealth Institute report Are Your Business and Personal Finances on Solid Ground? published in October 2013.[8] This report emphasized that entrepreneurs need to integrate their personal goals with the needs of their business as they journey though the stages of the business life cycle and their own personal life cycle.

Family comes first when making future business decisions.

One of the concerns raised by 44% of those surveyed is the worry about who will take care of the family should the entrepreneur die or become disabled. Entrepreneurs that have a formal written succession plan feel much more financially prepared (89% versus 59%) in the event of a health issue than those that do not have a plan. Similarly, those entrepreneurs with a succession plan also feel that their businesses are much more prepared (80% versus 50%) than those that do nothave a plan.

### What's keeping Canadian business owners awake at night?




Source: BMO Wealth Institute survey by Research Now, September 2013.

# Wealth management

Professionals such as wealth management advisors and business banking professionals can provide advice on a wide variety of financially related topics that can help the entrepreneur with both business issues and personal concerns. Areas in which entrepreneurs have been satisfied with the financial advice provided by their financial institution's wealth advisor include saving for a child's education (79%), managing taxes (73%) and investment management (71%), and financial planning (68%).

When financial professionals such as wealth management advisors and business banking professionals work together to build a wealth plan for the entrepreneur, many options open up and become more accessible. A well-thought-out wealth plan will identify the business and personal needs and priorities of the entrepreneur, and will address issues such as the following:

## Income options

Being paid by salary, dividends or a bonus has different implications for the entrepreneur and the business. Depending on the province, there may be tax rate advantages in being paid a salary, but tax-deferral opportunities may be lost. Large payments to the entrepreneur may deplete assets and affect lending covenants.

## Minimizing taxes

Entrepreneurs benefit when personal and business taxes are considered in combination. Leaving funds in an incorporated business can help to minimize taxes, especially if the small business deduction applies, resulting in very beneficial tax-deferral opportunities. This strategy may limit the growth of personal investment assets, but it may have advantages for the business, including reducing the reliance on seasonal lines of credit. It is important to balance personal and business needs for the entrepreneur's greatest benefit.

## Insurance needs

Determining the best method to protect the entrepreneur, the family, and the business requires specialized knowledge of risk and of insurance-based strategies. In some circumstances it may be advantageous for insurance to be held by the business rather than personally.

## Minimizing risks

Entrepreneurs by their nature try to minimize the risks that they cannot avoid. The use of ownership structures, such as holding companies, family trusts, or more complex share ownership structures can help limit risks.

## Income splitting

There are a number of effective income-splitting strategies that can be used to reduce the entrepreneur's family's overall tax bill. This includes allocating assets or income to a spouse or to other family members. The appropriate use of trusts and other ownership structures, set up in consultation with tax and legal advisors, can be beneficial.

Most (69%) entrepreneurs value guidance of advisors, with 60% currently using a financial planner or wealth management advisor.

## Tax-advantaged savings plans

There are a number of tax-advantaged savings options that can help the entrepreneur plan for the time when they exit their business. These plans include Individual Pension Plans, Pooled Registered Pension Plans (available only in certain provinces), Tax-Free Savings Accounts, Insured Retirement Plans and Group Registered Retirement Savings Plans.

Those with succession plans (89%) feel much more financially prepared in the event of a health issue than those without a succession plan (59%).

## Investment management

If it is appropriate to leave funds in the corporation, it is also possible to invest these amounts. Care should be taken regarding the liquidity and safety of investments, especially if short- or medium-term cash needs are forecasted for the business.

## Credit management

Being able to access credit when needed is the lifeblood of any entrepreneur's business. Both business and personal needs must be considered when ensuring that the business maintains this ability.

## Succession planning

This is the orderly transfer of management and ownership of a business to the next generation of managers and owners. A succession plan prepares the company's employees, its owner, and the owner's family for the day when the owner no longer participates in the business. The survey indicated that over half (54%) of the entrepreneurs planned to sell their businesses to a non–family member when they decide to exit the business. In fact, of those intending to sell to another individual or business, only one-quarter (23%) had found a buyer or completed a valuation of the business (27%). According to research conducted on business owners that took the additional step of listing their businesses with a qualified business broker, only about 10% of the businesses listed were eventually sold.[17] Given the level of financial and emotional preparedness that having a well-written succession plan brings, this is something that should be looked at closely by all entrepreneurs.

80% of those with succession plans feel their businesses are more prepared to deal with health issues than those without a succession plan (50%).

## Estate planning

Even though many entrepreneurs will likely die with their boots on, their businesses will still pass to a successor. Planning for this eventuality means considering cash flow, liquidity, and other factors to make sure that any taxes due on the estate do not compromise the ability of the business to continue to succeed.

## Taking steps to increase the value of advisor relationships

Having a financial plan in place helps give entrepreneurs added confidence about their progress towards their financial goals. The survey found that 40% of entrepreneurs asked had a formal written financial plan. Like those with a succession plan, 91% of the entrepreneurs surveyed that had a financial plan had a positive outlook. Some of the positive feeling can be tied to the fact that a well-written financial plan includes both business and personal assets, so the entrepreneur can see their overall financial picture. Personal and business debts are also part of the picture. When a wealth management advisor and a business banking professional combine their expertise, it is possible to consider all of the entrepreneur's assets and liabilities in combination to help get the best package of services and products for the entrepreneur's personal and business needs.

In addition to financial planning considerations, there are many other reasons to unite your financial relationships and work together with wealth advisors and business banking professionals. These benefits include greater convenience, better service and a comprehensive approach that would not be possible if these professionals were not in regular contact and working together.

Over half (59%) do not have a formal written financial plan.

## Conclusion

The BMO Wealth Institute survey of entrepreneurs shows that there are a number of ways to help entrepreneurs achieve what they want from their businesses and from the relationships that they have built over the years. It is essential to ensure that the members of the inner circle work in harmony, always keeping the needs of the business owner in mind.

We believe that coordinated professional planning and advice go hand in hand. By working with BMO financial professionals who understand the importance of addressing the needs of the business and the entrepreneur as a coordinated unit, the entrepreneur can receive advice that is tailored to their individual and business needs, and can plan for a financially stronger future.

Contact BMO Wealth Management
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# Footnotes

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