Beyond the Hype:
Insights into Entrepreneurial Life in Australia

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Summary of Findings

Research Project
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Moving beyond the hype

Much of the hype around entrepreneurship today focuses on 'hero entrepreneurs' – the stereotypical image of Virgin founder Richard Branson and his extroverted, risk-taking personality. Yet this picture doesn't accurately reflect day-to-day life as an entrepreneur. It doesn't tell us about the way ideas are born or the networks, systems and skills – not to mention plain luck – on the road to success.

The aim of this project was to provide insights into the entrepreneurial ecosystem by unmasking the day-to-day realities of being an entrepreneur in Australia today[1]. The research busts the myth that entrepreneurs succeed because of inherent personality traits – because they are born that way.

This research focuses instead on the impact of 'incubators', the genesis of entrepreneurial ideas, the common patterns of learning and skill development, and the variety of pathways that can lead someone to being dubbed an entrepreneur.

Encouraging innovation and entrepreneurship will be vital to the next wave of economic growth, now that the commodity prices boom is over[2]. We need a deeper understanding of the role of entrepreneurs in technological change and innovation, but as importantly, the realities of entrepreneurial life in Australia.

The study

This research project used a qualitative methodology, combining semi-structured interviews with observation and documentary analysis, to allow deeper questions to be asked of entrepreneurs and to complement existing macro-level surveys.
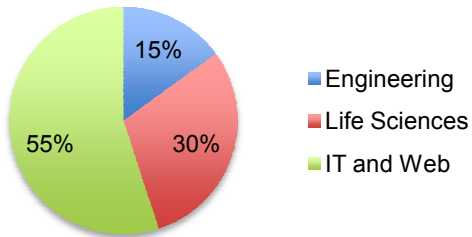
The research was conducted between July and December 2013 with entrepreneurs at Australia's leading technology incubator, Australian Technology Park Innovations (ATP Innovations). This preliminary investigation traced the journeys of a diverse sample of 20 start-up firms (23 founders in total). The selection of firms was designed to provide as diverse a sample as possible, across industries, age, gender and stage of development.

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[1]   This project is inspired by the work of Jones and Spicer (2009) 'Unmasking the Entrepreneur' who go beyond the heroic allusions of entrepreneurship and consider the realities of the entrepreneurial struggle, stress, debt and failure, and suggest the need to innovate around the concept of entrepreneurship itself. Jones, C. and Spicer, A. (2009). *Unmasking the Entrepreneur*.UK: Edward Elgar.
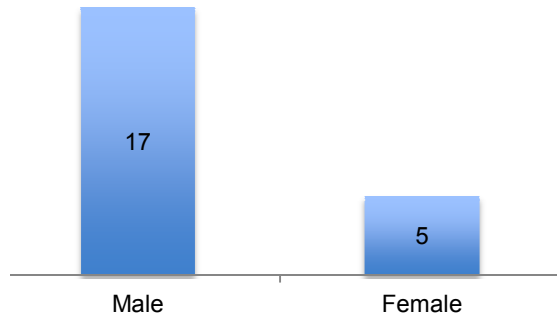
[2]   Green, R. and Logue, D. (2013). Innovating Australia: How we measure up. In '*Australia Adjusting: Optimising national prosperity'*. Committee and Economic Deve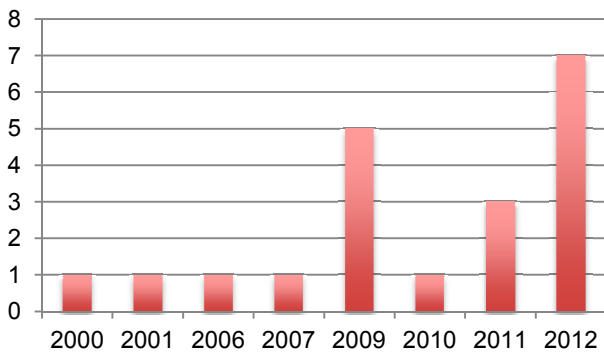lo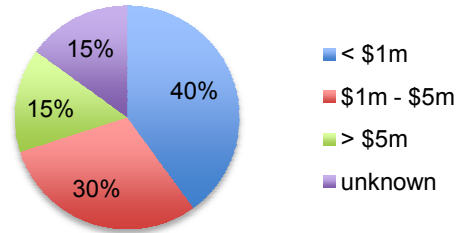pment of Australia (CEDA), November 2013. Accessible at: http://www.ceda.com.au/research-and-policy/research/2013/11/austadjusting.

Demographics

Industry sector

- Engineering 15%
- Life Sciences 30%
- IT and Web 55%

Gender of interviewees

Male	Female
17	5

Year of founding

2000	2001	2006	2007	2009	2010	2011	2012
1	1	1	1	5	1	3	7

Estimated value of start-up

- < $1m — 40%
- $1m - $5m — 30%
- > $5m — 15%
- unknown — 15%

Key findings

1. Becoming an entrepreneur

"I am a scientist, not an entrepreneur."

"I've always had … that sort of inquisitive mind to build, to make and to sell."

"The style of research that is being done in academia didn't suit me compared to the research done within companies, [which is] very team-focused with a set goal."

The entrepreneurs in this project wanted to solve problems and to use their technical expertise to develop creative solutions. What was their typical career journey? Many of the younger cohort emerged from university, mainly from technical (science and engineering) faculties, to further develop – at first, at least - their own technologies.

Most created start-ups later in their careers, after seeing a problem in their industry and identifying a solution but being unable to implement it within an organization. The notion that entrepreneurship is a high-risk/high-reward activity was not prominent. Leaving full-time employment for a start-up is risky, but many do so having been successful in their careers and with the security of a strong professional network and a fall-back position.

The study's participants were determined, resilient and passionate, as well as being sufficiently open to risk to be able to give up a full-time job. However, they were also aware of the need to acquire stronger marketing, networking and social interaction skills – skills they weren't born with.

"For me personally, I was a pretty small kind of outfit, I am pretty good from the technology space, I'm a good planner and I now have now built a business, but I am not very good at networking and hitting the streets every day..."

They needed to learn how to articulate a value proposition, how to understand the needs of the market, how to pitch and sell an idea, and how to persuade investors of the merits of an idea. This skill set was important, and this could be developed and acquired.

2. Co-working spaces: sharing the struggle

In a 2013 global survey on co-working, 71 percent of participants reported an increase in creativity after moving into such a space, 62 percent said the standard of their work improved, and 90 percent said they grew in confidence[3].

> *"...I like it, and I think it's a group of entrepreneurs that have the same sort of basic struggles. So there is no denying that the struggles that each entrepreneur has to go through, so we don't have to pretend that we're so successful...It's straightforward: I have to do this, my goal is that, and we're all in the same boat. I enjoy that struggle in life and sharing that with colleagues."*

> *"...we got to know each other well because we were co-locating. We joked about working together and it became reality when he came back because it was obvious that it was a good fit…So that's how we kind of got together."*

> *"Most of the time we have our heads down but casual corridor conversation during which we ask each other what is happening, particularly around things like government grants because we're always chasing up grants, so talking to the other CEOs about how's it going, is there anything else going out there?"*

When entrepreneurs talk about the ecosystem of the incubator, the social elements and advantages of being co-located with other start-ups are often referred to positively, although they are not always very specific about what exactly constitutes these social elements in the ecosystem. It is seemingly mostly about a sense of being in a place with a certain atmosphere or 'buzz' and being surrounded by like-minded people.

> *"For me it's the tangibles and the intangibles. Tangibles are stuff that [is] easy to advertise, 'Hey we have cheap desks and free Wi-Fi', and I suppose that gets people here … In my experience what keeps you here is the intangible stuff."*

> *"It is difficult to quantify, it is this nebulous thing that comes about being in the space and putting a whole bunch of people together."*

3. Measuring and communicating success

As there is no single identifiable pathway to success, measuring growth or progress presents difficulties. It's not always clear to those on the entrepreneurial journey whether they are moving in the right direction.

Determining progress can take a number of forms and is an unstructured process. Very early on progress is measured by getting investors on board; then it is about making progress with the technology, taking the product to market, finding customers and achieving positive cash flow. For start-ups in the life sciences, more obvious measures such as clinical trials are important milestones. When talking to investors, especially those from the US, another communication style needs to be developed:

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[3] http://www.fastcompany.com/3004788/future-coworking-and-why-it-will-give-your-business-huge-edge

"There was a bunch of things that we got picked up on straight away. First of all was the way we spoke... as in the words we used. In Silicon Valley it is very much about hard-hitting, tell me what you want, tell me know, I'll decide whether I am going to speak to you or not. Whereas that is not how I communicate with people, not how Australians tend to do it either. That was a bit of a shock and an eye-opener, we got pulled up on that a few times. It is learning how to communicate with them, with investors. The other big thing over there is that they don't seem to care too much about revenue, it is more about the idea, the team and the potential. If you have more users, they get more excited..."

Although communication between entrepreneurs themselves can be quite straightforward, financial metrics are often avoided and replaced with indicators such as staff count or customer numbers.

"We're all open-book in here, because it is a bit of an emotional rollercoaster as well - they see how you are going, they ask you what's wrong."

"It comes down to how you want to appear. If you want to show off it might be nice to say that you send 15 million emails a month. I would judge other entrepreneurs on how much revenue they're doing … No one ever discloses these things, but I would use that, or get a feel for that … I would think the savvy ones would judge me the same way."

"... we chat frequently and they say 'how many customers have you spoken to today or this week, how many new signups do you have?' Everyone is really customer focused and I think that is the correct way of doing it."

4. The art of valuation

The science and the art of entrepreneurship comes to the fore in the way a start-up is valued. The art is in making the valuation appear as scientific as possible – difficult in such an early-stage, untested market. This might be done by working backwards from the size of the market opportunity, or by using commonly accepted measures such as multiplying the revenue of the company or the investment made in the business. While entrepreneurs in this study generally regard this as a not very precise process, those with external funding say it is a very important process, because the entrepreneur can easily give away too much of the company to investors too soon.

"It's all essentially made up. It just has to be justifiably made up … You can make up any multiple you want but at the end of the day your business valuation is how much money someone puts in … All that changes is how much of the company you give away at the end. If they are conservative with their valuation, you give away more of the company."

"It's all posturing. Basically you can run all sorts of models, whether it is DCF [discounted cash flow] or whatever, [but] they are all rubbish … In some of the interactions with treasury, they expect people to value entities before they can be valued. How can you value dreams and blue sky? Valuation is a process of understanding what the customer values."

5. Help wanted

Early and ongoing customer engagement is a priority for entrepreneurs, but they also benefit from close ties for professional and personal support through what can be an emotional roller coaster. Many also actively cultivate 'weak ties'[4] to stay across new ideas and developments in their industry, as well as developments in other industries that may spark ideas or provide solutions to their problems.

	Most frequently consulted sources
1	Colleagues (inside your firm)
2	A firm you collaborate with
3	A (possible) customer

	Most helpful sources of information
1	A (possible) customer
2	Colleagues (inside your firm)
3	A (possible) investor

	Top types of Information required
1	Strategic
2	Networking
3	Product Development

6. Stay or go

The entrepreneurs in this study do travel back and forth between Australia and the United States, in particular, to raise funds but also to practice pitching and, consequently, to gain valuable feedback on their products and ideas.

"[Australia] is a good environment to incubate technologies to a point where you can prove that they work … the quality of the research done here is on par with anything else, and we can get things done pretty efficiently here ... Having said that though … if I could replicate it in a North America or an Asian environment … it gives you scale, it validates your business model"

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[4] The "strength of weak ties" is a term proposed by Granovetter (1985) to theorise the spread of information in social networks. For entrepreneurs, we refer here to the value that can accrue by having social networks that provide many connections to diverse groups. See: Granovetter, M. (1985). Economic action and social structure: the problem of embeddedness. *American Journal of Sociology*, 481-510.

Australia's conservatism was frequently commented upon, in the sense that there is little risk taking, a small pool of investors, scepticism about new and big ideas, and a sense of things moving slowly.

> *"In the US, their valuation there would be 2 or 3, up to 4, times higher than in Australia. Same company, same product, same stage."*

> *"In the US you have a big idea they go 'wow, that's huge - how can we make that happen?' Here, 'oh that's scary, that's too big, it's too hard. So we end up creating this little niche, little products, a little bit of funding, make a bit of revenue."*

> *"... the attitude from them over there is 'ah, this is something new, we'll have to give it a shot otherwise I'm an idiot, I'll get left behind.' Whereas here, the attitude [in]...Australia is very much 'how long have you been around for? Why can I trust you?' Not that they're invalid questions, but if you are a week old it is much harder to answer those questions..."*

A prominent concern was taxation, equity and employee share ownership plans. Entrepreneurs regard employees having an equity position as a good thing, saying it helps to attract the smart minds they otherwise couldn't afford, as well as providing those people with an incentive to work hard because they have 'skin in the game'. The entrepreneurs were unanimously negative about the way the Australian Government approaches employee share options, saying they penalize start-ups by taxing them based on valuations that have not yet materialized.

> *"It seems to be crazy, absolutely ridiculous, to expect an entrepreneur who's taking effectively all salary in shares to get taxed on something he never received and may not ever receive. If he gets the benefits he can pay taxes, absolutely fine, but I think the government should make it much clearer and easy for early-stage start-ups to find the best brains."*

7. Australian universities – in the game?

Entrepreneurs tend to regard Australian universities as bureaucratic, uncooperative and difficult to access, although some changes in intellectual property arrangements are improving relations.

> *"I'd like to be able to walk onto the campus and say 'Here's my idea, I really need that bit of equipment, I really wouldn't mind using that that academic over there … There needs to be a lot more open engagement."*

> *"I want them to do that more with IP, that's my first one. The second one is to create an environment where you can leverage the skill sets and facilities on campus much better, and to encourage entrepreneurs to want to work in a campus environment … To encourage that you want to invite entrepreneurs to create start-ups on campus, to have that exchange. And thirdly there is a cultural issue that universities need to deal with: to encourage, from a cultural perspective, an entrepreneurial engagement, to allow them to engage better with start-ups and SMEs."*

8. Do you need to go to business school?

There is, of course, tension around the need for entrepreneurship education - and the question of whether it can be taught at all. While going to business school wasn't essential for many, for some it was helpful in fast-tracking their understanding of finance, marketing and the language of different stakeholders. Several entrepreneurs found that having an MBA was essential for legitimacy, in dealing with potential investors and their own board as the company scaled. University, including business school, was also a way of meeting potential co-founders.

Thank you

More information

If you would like to discuss the results of the study further, please contact the Chief Investigator: Dr Danielle Logue, UTS Business School Danielle.logue@uts.edu.au; Twitter: @LogueDanielle

If you would like further information on ATP Innovations, please contact: CEO Hamish Hawthorn, h.hawthorn@atp-innovations.com.au