A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT

Harvard Business Review

THE ENTREPRENEUR'S PURPOSE

How EY Entrepreneur Of The Year® Award Winners Outperform and Outlast the Competition

in association with

EY Building a better working world

Building a better working world

Celebrating 30 years of ingenuity in America

For 30 years, EY has honored the fresh ideas and explosive growth that occur when entrepreneurs apply their ingenuity to shape our world. Founded in 1986 in Milwaukee, Wisconsin, the EY Entrepreneur Of The Year® program has grown to 25 regional programs across the U.S. (and 140 around the world) and has recognized more than 9,200 outstanding American entrepreneurs for their vision, innovation, courage and leadership in building and growing successful companies. These award winners have had a profound influence on the way we live, the products and services on which we depend, and the economic vibrancy of our local communities and global markets.

For the first time in the program's 30-year history, we have been able to quantify the combined accomplishments of these visionary men and women and define what sets them apart from other segments of the U.S. economy. Companies led by Entrepreneur Of The Year Award winners are an economic force, in terms of both the jobs they create and the revenue they produce. Yet the impressive numbers on the pages that follow only tell half the story.

Perhaps most noteworthy of all, and most important for the years ahead, our Entrepreneur Of The Year Award winners are purposeful—intentionally leaving lasting legacies for those who come next. They set fine examples for what can happen to employee retention, investment, brand loyalty and competitive results when you tap into the galvanizing power of purpose.

Special thanks to the Parthenon-EY team for the months of research and diligence in quantifying the impact of this award-winning community of entrepreneurs.

THE ENTREPRENEUR'S PURPOSE

How EY Entrepreneur Of The Year® Award winners focus on growth, outperform the market and build trust in business

Winners of the EY Entrepreneur Of The Year Award pumped an estimated $1 trillion* of revenue into the U.S. economy in 2015 and created millions of jobs in the process. Several honorees, including the founders of Amazon and LinkedIn, have used technology to change how industries work and the way people live their lives. And along with their award-winning peers—their ranks number more than 9,200—they have challenged many long-held beliefs about business and entrepreneurship. These entrepreneurs have forged new paths toward corporate success during an era in which market uncertainty can paralyze progress and trust in business is tumbling.

WHAT IS THEIR FORMULA FOR SUCCESS? These award winners often see profit as a measure instead of a goal. For them, profit comes from infusing a company with a compelling purpose that builds trust and attracts more customers and talent than competitors can. To keep that focus front and center, they often rely on self-funding early on and remain at the helm to guide their organizations for many years. And contrary to the image of the fearless entrepreneur, they worry about risk like everyone else. What they do especially well is manage risk and use the resulting knowledge to go on the offensive to pursue new opportunities instead of protecting the status quo.

Entrepreneur Of The Year Award winners can show us the money—they have founded and built some of the world's most successful and enduring companies while outperforming the U.S. market in terms of revenue growth, job creation and longevity. Moreover, these organizations go public at three times the rate of U.S. private companies overall. Through extensive data analysis, a survey and interviews with past winners, this report looks at who they are, what they did and how they did it.

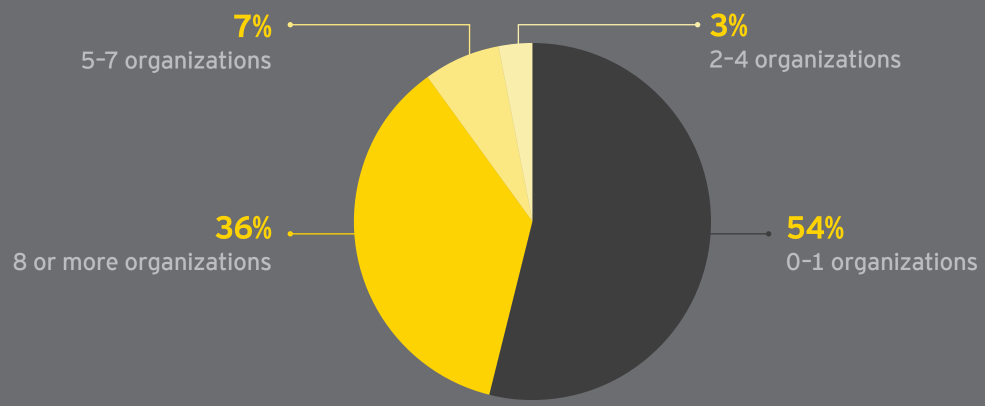
* 2015 figures calculated using average CAGRs for each designated five-year award period; 30-year figures projected using 30-year weighted-average CAGR.

EY Analysis

Figure 1

Nearly half of all winners are serial entrepreneurs

Number of organizations founded

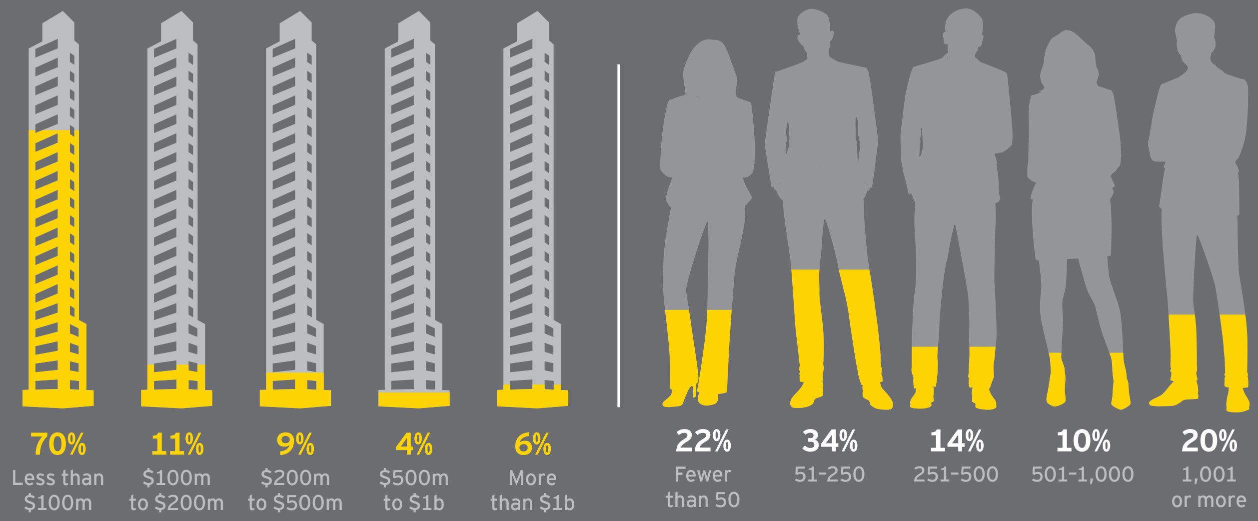


Source: Entrepreneur Of The Year Award Winner Online Survey (n=500)

Figure 2

Finding tomorrow's market leaders

Revenue and number of employees at time of award



Source: Dun & Bradstreet; EY Entrepreneur Of The Year database; S&P Capital IQ (n=6,919)

In 2015 alone, it's estimated that these winners created 14.1 million jobs.

WHO THEY ARE

Getting to the specifics: some 9,200 executives in the U.S. have won the award since its founding 30 years ago. During that time, these business leaders have added trillions* of dollars to the economy. These results would rank them number 16 on the list of the world's largest economies, ahead of the Netherlands and Sweden. Additionally, in 2015 alone, it's estimated that these winners created 14.1 million jobs.

Winners over the years have included dozens of high-profile entrepreneurs including Sara Blakely, Steve Case, Michael Dell, Wayne Huizenga, Rebecca Minkoff and Howard Schultz. Their ranks also include serial entrepreneurs such as Steve Papa (founder and former CEO of Endeca), Jon Oringer (founder and CEO of Shutterstock) and Philip Romano (restaurateur and president of Romano Enterprises), each of whom have each founded several companies during his or her career. In fact, nearly 50 percent of the award winners had more than one successful company launch under their belts before they started or joined the organization for which they won the award. figure 1

Most of these entrepreneurs have made their mark by creating highly prosperous growth companies. At the time they won the award, their businesses typically generated about $100 million in annual revenues with 1,000 or fewer employees. A significant number, including Google, Oracle, Southwest Airlines and Salesforce.com, moved on to become formidable global organizations that redefined how the world works. figure 2

THEY STICK WITH IT

Entrepreneur Of The Year Award winners often stick with the companies they founded. Their long tenures challenge the notion of founder's syndrome, a difficulty faced by organizations when founders stay in place longer than is valuable and/or over-infuse their personalities into the corporate culture. Instead of inhibiting change and progress by overstaying their value, these award winners learn from their past efforts and tend to create enduring cultures and long-standing customer relationships that fuel their companies' ongoing success. figure 3

The art of empowering employees has allowed many of these winners to stay at the helm. "We give people tremendous freedom in this company, and I try to stay out of the way," says Fedele Bauccio, a 2014 winner and founder of food service company Bon Appétit Management. "But the founder is important since a professional CEO may not be able to maintain the culture and vision of the company in a way that has real meat."

Calvin Carter, a 2013 winner and founder of Bottle Rocket, a producer of high-end mobile apps, argues that non-founder executives don't always have the credibility to foster change. "The founder effect is powerful, sometimes to a fault, and not always fair," says Carter. "I've been told by executives more experienced than myself at companies much larger than mine that,

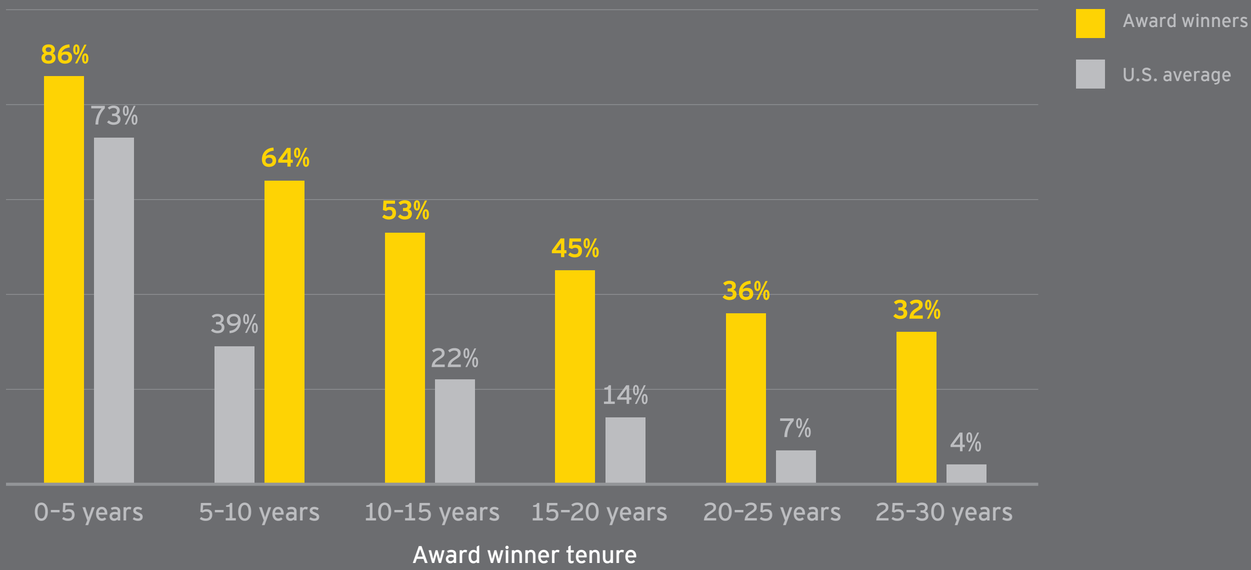
*2015 figures calculated using average CAGRs for each designated five-year award period; 30-year figures projected using 30-year weighted-average CAGR

EY Analysis

Figure 3

Winners stick with their companies

Percentage of CEOs remaining with organization

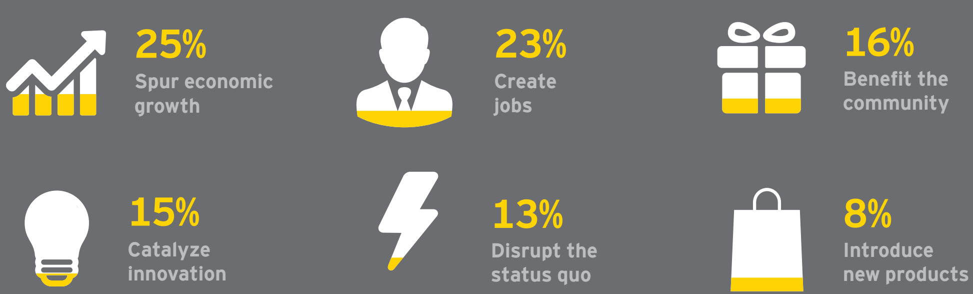


Source: S&P Capital IQ; Dun & Bradstreet; LinkedIn; EY Entrepreneur Of The Year database (n=8,787)

Figure 4

Dedicated to economic value and community

What is the most important role an entrepreneur plays in society?



Source: Entrepreneur Of The Year Award Winner Online Survey (n=500)

> "Today's entrepreneurs are focused on more than generating revenue. They are also developing and honing leadership skills and focusing on the impact their companies can have on their communities."
> Carolyn Saacke, Chief Operating Officer, Capital Markets, New York Stock Exchange

because they didn't found the company, they had to work harder than I did to gain people's trust. And they could lose that trust faster than I would, because I was the founder."

Longevity as CEO is the linchpin of credibility for Nina Vaca, a 2005 winner and chairman and CEO of Pinnacle Group, a company she started 20 years ago. She has stayed at the helm of this provider of workforce and staffing solutions ever since. "I've been the sole shareholder for the past 20 years, and we continually reinvest our profits in the organization," she says. "Customers and employees know I'm in it for the long term and that I'm betting on their success."

A MINDSET THAT SETS THEM APART

These entrepreneurs see themselves as important drivers of both economic and social value creation in their communities. When asked about the single most important role of an entrepreneur, these winners cited spurring economic growth and creating jobs. Benefiting the community at large is also high on the list. "Today's entrepreneurs are focused on more than generating revenue," says Carolyn Saacke, chief operating officer, capital markets, at the New York Stock Exchange and regional program judge. "They are also developing and honing leadership skills and focusing on the impact their companies can have on their communities." figure 4

OUTPACING AND OUTLASTING

Quickly punching above their weight, these companies have proved themselves to be major contributors to U.S. job creation over the past 30 years. figure 5 For example, between 1997 and 2001, these winners' companies have created jobs at more than twice the national rate between the time of their founding and 2015. Similarly, companies established during the tough economic years between 2007 and 2011 beat the rate of U.S. job creation by nearly twofold, doing more than their fair share for the U.S. economy.

These companies also outlast many other organizations, providing long-term economic stability and value to their communities and the U.S. at large. For example, 22 percent of U.S. companies overall are still in business 15 to 20 years after they were founded. figure 6 For Entrepreneur Of The Year Award winners, the number jumps to 40 percent. "These winners are beating the survival rate of other businesses," says Saacke. "It is a true testament to the vibrancy of an entrepreneurial and innovative culture that is alive and well today in the U.S."

Companies founded by these winners also grow faster than other businesses, outpacing annual U.S. GDP growth by as much as 100 percent or more. These organizations enjoy strong compound annual growth rates (CAGRs), with many surpassing 10 percent since winning the

EY Perspective

The power of purpose

Purpose is an accelerator that fuels success and growth. As these Entrepreneur Of The Year winners demonstrate, a well-articulated and integrated purpose will engage and empower employees, build a customer base, increase brand loyalty and, yes, increase the bottom line. As Simon Sinek says, "People don't buy what you do; they buy why you do it."

The market likes purposeful companies too. Purpose-led companies outperformed the S&P 500 by 10 times between 1996 and 2011.

Great leaders are harnessing the power of purpose. Indeed, 64 percent of the 500 award winners surveyed for this report have a defined purpose. If you're in the other 36 percent, it's not too late to start.

First, make sure your people can see the connection between your purpose and your business. Ask your team to imagine what achieving your purpose looks like in their everyday goals and the concept becomes much more concrete. Second, get people engaged at every level of the company. A culture of purpose has to start from the top, but it also has to permeate the entire organization. Third, measure your results. Survey your employees on a regular basis to measure how engaged and committed they feel to their work. Look at your hiring and retention numbers. Most organizations find that both of these numbers go up dramatically—often to all-time highs—once they begin talking more explicitly about their purpose.

For purpose to really matter, it needs to be a central part of an organization's culture—something people feel in their work every single day. Purpose is the motivator that encourages all team members to give discretionary effort, driven by being part of something bigger than themselves.

ey.com/purpose

Companies established during the tough economic years between 2007 and 2011 beat the rate of U.S. job creation by nearly twofold, doing more than their fair share for the U.S. economy.

award. "The success and growth of Entrepreneur Of The Year Award-winning companies is a shining example of why there needs to be a commitment to foster a growing culture of entrepreneurs," says Bob McCooey, a senior vice president at Nasdaq and past regional program judge. "Not only does the successful growth of young companies become a primary source of job creation in the American economy, but these companies also contribute by injecting competition into markets and spurring innovation." figure 7

HOW THEY DID IT

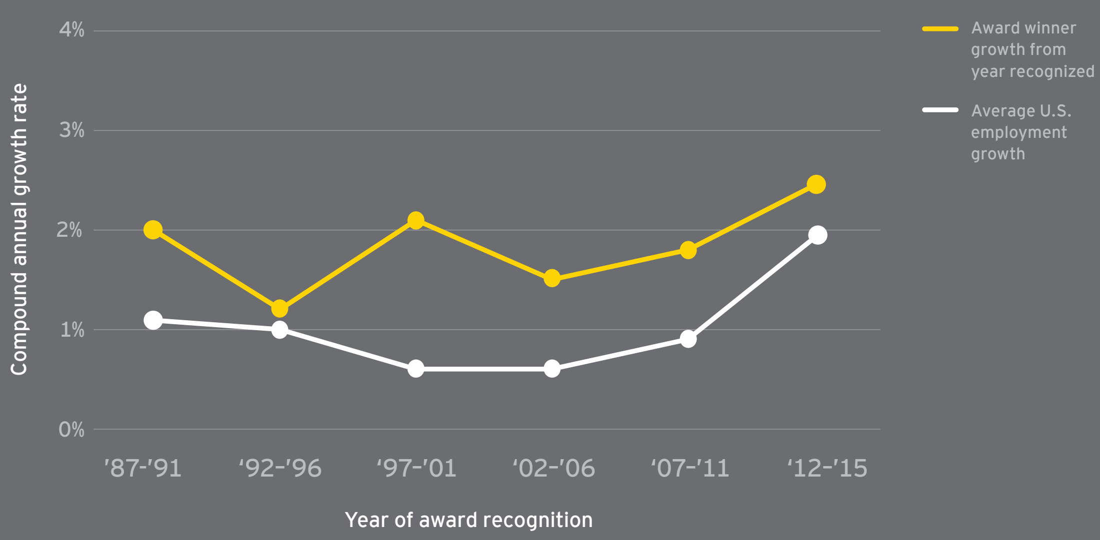
The bottom line: Entrepreneur Of The Year Award winners have faced some of the toughest business challenges of the 21st century and come out on top. As many company leaders watch employee engagement and customer trust sink, these entrepreneurs have retained a focus on

EY Analysis

Figure 5

Job creators

Annual job growth from award year to 2015



Average employment CAGR through 2015 calculated as an unweighted average of the designated five-year periods
Source: S&P Capital IQ; Dun & Bradstreet; LinkedIn; The World Bank; EY Entrepreneur Of The Year database (n=8,787)

EY Perspective

Want to know what's next? Follow the money — venture capital, that is.

Over the past 30 years, venture capital has fueled the success of entrepreneurs looking to shake things up. EY Entrepreneur Of The Year winners such as the founders of Google, Dell and LinkedIn created whole new categories; venture capitalists bought into their vision and helped make their foresight reality. Venture capital also found superstars, like the founders of Starbucks and Whole Foods, who would change the game in more traditional industries. The investors proved their eye for talent is not limited to the novel, but extends to those who improve upon existing concepts and ways of doing business.

Typically, a venture firm's investment cycle lasts for a decade—they are looking far into the future at all the ways our world may evolve. This ability to peek around corners offers remarkable insight about the ways in which our society is about to change. In the 1980s, it was personal computers and the beginning of biotechnology. In the 1990s, it was software and the internet. Next came e-commerce, social media, and the next iteration of biotech and health care. All these innovations, propelled by venture financing, have totally reshaped our economy—and our lives.

If you want to know what tomorrow will look like, watch where venture investors are placing their bets today. Areas like artificial intelligence, machine learning, virtual and augmented reality, digital health, fintech, and the technology underpinning self-driving cars are receiving quite a lot of funding.

We will all be excited to see the many ways these innovations will redefine our world 30 years from now.

ey.com/venturecapital

economic growth, jobs and their communities. That focus often translates into a galvanizing purpose that influences decision-making, inspires employees and customers, and builds trust—an increasingly essential ingredient.

"If you don't have a broader purpose, you are going to have trouble attracting and keeping employees and customers," says Steve Case, a 1994 winner, author of *The New York Times* best-seller *The Third Wave*, and co-founder of AOL and venture capital firm Revolution. "Just as important, companies with a broader purpose are attracting a new generation of entrepreneurs and investors."

Purpose in Action

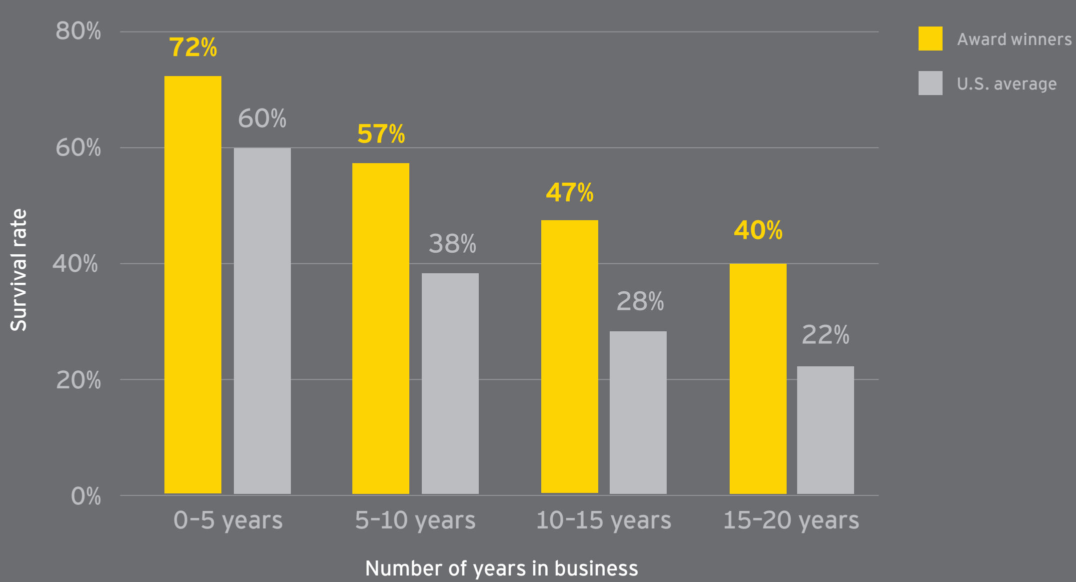
Sending a 1,000-pound baked Alaska to the U.S. Capitol steps to protest oil drilling in that state and creating a phony company claiming to make dairy products exclusively from cloned cows are but two examples of how Ben & Jerry's has drawn attention to its purpose. A major part of the company's global success is its dedication to fair trade, sustainable materials and social activism.

In fact, founders Ben Cohen and Jerry Greenfield, who created Ben & Jerry's in 1978 and won the award in 1991, started with the belief that businesses should have a purpose beyond profit. They then decided to apply that ideal to a company making unique flavors of ice cream. To keep the company focused on its purpose, Cohen and Greenfield eventually established a

EY Analysis

Figure 6

Award winners' companies have staying power



Source: U.S. Bureau of Labor Statistics; S&P Capital IQ; Dun & Bradstreet; LinkedIn; EY Entrepreneur Of The Year database (n=8,787)

EY Perspective

What's at the heart of a successful growth strategy?

Growth is the top priority for CEOs today. Three words sum up why: innovate or die. So how are some companies more successful at harnessing innovation to accelerate—and sustain—growth than others?

They align their internal capabilities around their growth strategies to determine where and how they will invest and compete. This approach goes beyond the traditional focus on customer, people, systems and processes to address a number of other key operational processes. After decades devoted to advising, guiding and recognizing the world's fastest-growing organizations, we have codified our observations into a strategic framework called the EY 7 Drivers of Growth.

- Customer
- People, behaviors and culture
- Digital, technology and analytics
- Operations
- Funding and finance
- Transactions and alliances
- Risk

In our experience, to execute on a growth strategy, CEOs need to maintain a balanced focus across all these drivers. Together with their leadership teams, they consider where they are today and where they would like to be within the next two to three years for each of these key drivers. They then enlist a trusted business advisor to help overcome imbalances or gaps. A good advisor shares relevant benchmarking data and leading practices to close those gaps and help the organization achieve its unique goals.

By focusing on these 7 Drivers, companies can strategically accelerate growth and, importantly, make it sustainable.

ey.com/acceleratinggrowth

> “The disruption force of startups that become Entrepreneur Of The Year winners propels them to achieve more in the early stages of their business lives, and provides them with the staying power to sustain their growth long beyond the typical startup.”
>
> Bob McCooey, Senior Vice President, Nasdaq

mission department to oversee their social efforts. Professionals across the organization are charged with making sure their areas of the business are living up to the company’s purpose.

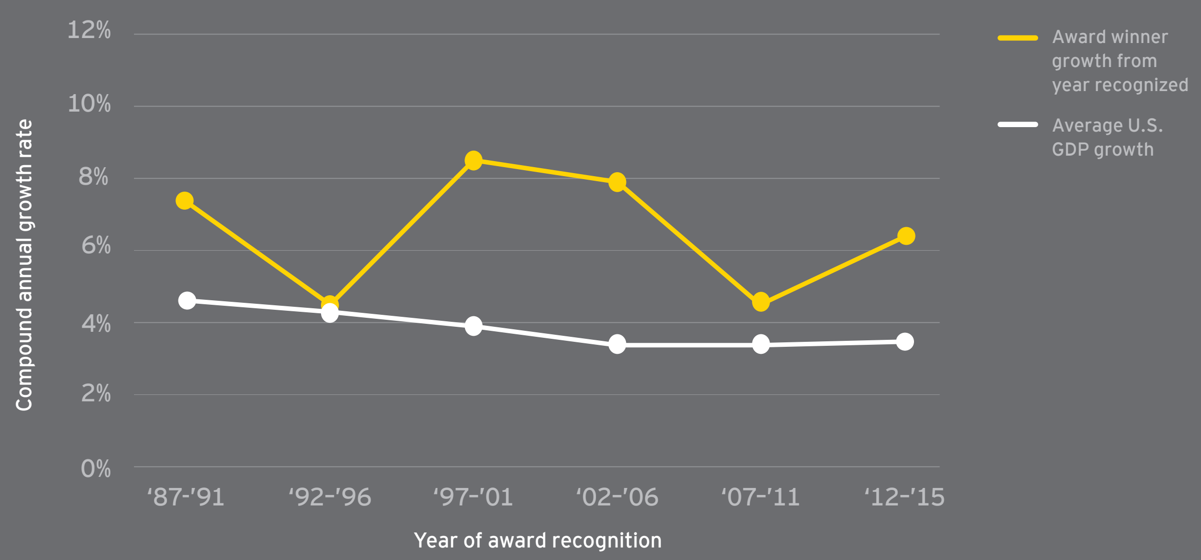
Kowalski’s Markets, whose leaders won the award in 2016, is another example. With 10 locations in the Minneapolis–St. Paul area, the company operates in the intensely competitive retail grocery business. Their upscale clientele expect an outstanding customer experience and community engagement to differentiate the business [or company] from national competitors. Delivering and improving that customer experience demands highly engaged employees and managers who can work together to solve problems quickly and creatively.

EY Analysis

Figure 7

Beating U.S. GDP growth

Annual revenue growth from award year to 2015



Average GDP CAGR through 2015 calculated as an unweighted average of the designated five-year periods
Source: S&P Capital IQ; Dun & Bradstreet; LinkedIn; The World Bank; EY Entrepreneur Of The Year database (n=8,787)

EY Perspective

Wherever your business is headed, your people are essential to get you there.

The future of work is closer than ever. New technology chatbots, robotics and AI for example—is changing the way we do business by the minute. But although tomorrow's business models may feel uncertain, you can be confident of this: you will always need great talent.

Talent is the glue that holds an organization together. Our EY Entrepreneur Of The Year U.S. alumni told us that finding the right talent was the largest challenge they faced when launching their companies. An even greater number told us it would be the biggest challenge they'd face running a high-growth organization today.

An effective talent strategy isn't just about targeting recruits with relevant skill sets; it's about finding and retaining people with the right qualities. Tomorrow's best businesses will be held together by talent with critical-thinking skills, global mindsets and the ability to adapt. And your people will have to function in lockstep across your organization to achieve a clear and connecting collective vision.

Furthermore, tomorrow's most successful organizations will feel different from the inside out. Strong business leaders will foster inclusiveness, value differences and encourage innovation. Great managers will embrace entrepreneurship and inspire risk-taking on their teams. Employees will prefer contract "gigs" with several smaller-sized companies. (In EY's recent *Global generations 3.0* study, roughly half of 3,200 "Gen Z" teens noted a preference to work for smaller companies.) High performance will be the standard for all employees, and talent strategy will be integrated seamlessly with business strategy.

ey.com/fwn

While Kowalski's relies on a high degree of empowerment and teamwork, it doesn't leave it at that. The company's leaders have devoted themselves and the company to fostering civic democratic principles. Partnering with the Minnesota Active Citizenship Initiative, Kowalski's has trained all of its employees—some 1,500—in the essentials of being a good citizen, including timely issues such as understanding vested interests and managing to achieve a common goal. Employees bring these skills to bear at work with a vigor that comes from being part of something bigger than themselves. They also bring these skills to the community by volunteering in local organizations and helping them to achieve their goals.

"We have an exceptionally high retention rate among employees because they can't find other places like this to work," says Kris Kowalski Christiansen, the company's COO. "By bringing these skills to the community, we have also built a great deal of trust with our customers. By combining that trust with an excellent customer experience, we enjoy a significant advantage over competitors."

Another case in point is online retailer zulily. Founded by 2014 award winner and CEO Darrell Cavens, zulily sells collections of clothing, home décor, toys and gifts. It needed to differentiate itself in the fiercely competitive online retail market. To achieve that differentiation, it rallied the organization around a purpose that would capture the hearts and minds of thousands of employees. "One of our values is that we 'work for mom'—every conversation is about doing things for mom," says Cavens. "Mothers are a big part of our market, and we think in terms of what mom would want in everything from what we offer to how we present products on our website."

Cavens has instilled this value across the organization's approximately 3,200 employees in multiple locations. For example, when he spends time at zulily's fulfillment centers, he fills orders in the shipping department to understand its challenges. He was once packing a box with items that didn't fit perfectly. He asked someone working near him, who didn't know he was CEO, if the package was OK. The employee quickly snapped back: "Would you send something like that to your mother?"

Pinnacle Group's Nina Vaca leverages a powerful commitment to workforce development and women entrepreneurs to build employee engagement and deepen relationships with customers. As a steadfast promoter of entrepreneurship, Vaca supports women entrepreneurs within her own organization. A Presidential Ambassador for Global Entrepreneurship appointed by the Obama administration in 2014, she has helped several women staff members set up their own companies. To make sure the new companies get off the ground, she makes Pinnacle a major customer of the budding enterprises.

Phil Romano, a 2014 winner and founder of several popular restaurant chains, including Fuddruckers and Romano's Macaroni Grill, puts the lessons learned about purpose succinctly: "You need to focus on a purpose such as giving people what they want," he says. "When you do, you can make twice as much as you would if you focused only on profit."

Self-Funding Avoids Diluting the Purpose

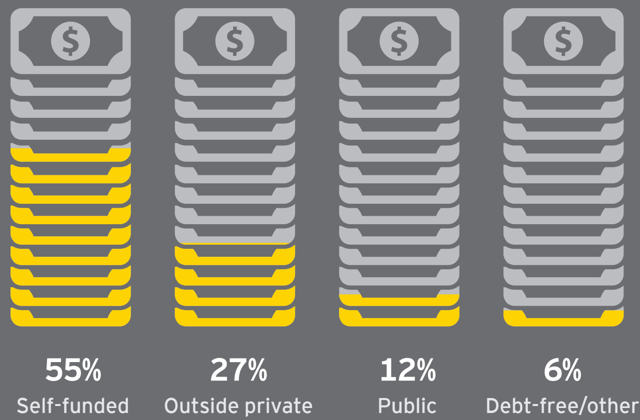
In 1993, award winner Steve Tanger took his North Carolina-based factory outlet chain and shopping mall investment company public. The IPO was 30 times oversold and gave the company what Tanger calls a "fortress balance sheet." But Tanger didn't start that way. "We began with a partnership with someone who had the land," he recalls. "We then 'dialed for

EY Analysis

Figure 8

Deciding on outside capital

Primary funding source at time of award



"Self-funded" includes donations and grants
Source: Entrepreneur Of The Year Award Winner Online Survey (n=500)

dollars' by calling local banks in the Yellow Pages until we found some that were willing to loan us money." Tanger is typical of his breed. More than half of Entrepreneur Of The Year Award winners launched and built their companies largely with loans, retained earnings and other sources of self-funding. figure 8

"Many entrepreneurs may have had few other options if they weren't in a sector or geographic region that was a hot spot for investors," says Steve Case. But self-funding also provides the entrepreneur freedom to follow their chosen path while holding the reins to keep the organization's purpose squarely in everyone's sights. For example, Fedele Bauccio says he knew it would take time for his commitment to sustainably sourced foods to catch on and become highly profitable. "Outside investors might have pushed us to cut costs or follow other traditional routes to increase profit," he says. "We needed a long runway, and self-funding was the way to get it."

Ben & Jerry's began with bootstrapping, which provided a great deal of discipline, according to co-founder Ben Cohen. "It's important not to have enough money when you start," he says. "If you have a lot of capital, you can easily end up wasting it because you have it to spend." When the company needed money to grow, it didn't turn to venture capital. It offered Vermont residents an opportunity to buy stock, which allowed the company to stay true to its purpose by sharing the wealth with the community that supported it.

However, if a new business idea is ready for prime time and the company's purpose isn't likely to be diluted by the expectations of outside investors, equity capital can significantly accelerate growth. Consider Payal Kadakia, a 2015 winner and professional dancer who founded ClassPass. The company sells subscription-based passes that allow customers to attend fitness classes of their choosing at a number of studios and gyms. To expand across the country, Kadakia turned to venture capital. "We knew we had a national product," she says. "Venture capital put fuel on the fire needed to get into all markets and help achieve our dream of people fully living their lives."

Entrepreneurs have many more funding opportunities today that enable a founder to maintain a commitment to purpose. In contrast to C-corporations and S-corporations, for example, B-corporations are growing in popularity in the U.S. The B-corp company charter and governing documents include commitments to social and environmental goals and reporting on progress in meeting them. "B-corporations didn't exist 10 years ago," says Case. "Now several states offer them, and many mainstream investors are comfortable with them. The momentum is pretty strong and will continue to grow."

De-Risking Risk

Despite the popular image of a visionary entrepreneur staring down risk with steely courage, these winners don't treat risk lightly. "I'm not the kind of guy who likes to jump out of airplanes or bet the entire farm," says Darrell Cavens. "What we do is quickly iterate with a lot of ideas to see what works, and then forge ahead with the best ones." Like Cavens, many winners have implemented sophisticated risk-monitoring systems ranging from advanced analytical modeling to company-wide town hall meetings designed to identify and discuss risks looming on the horizon.

The difference is how these entrepreneurs view risk. Many traditional corporate leaders assess the risks their companies face and then try to protect the status quo against them. These award winners, on the other hand, come up with opportunities to pursue and decide which to follow based on their knowledge of the risks each poses. And because of their ability to monitor and manage risk, it wasn't at the top of these entrepreneurs' challenges when they founded their companies. Even fewer, about 15 percent, say it is a major concern today. figure 9

"Many corporate executives are defenders," says Case. "Entrepreneurs are attackers. They are still focused on what might go wrong, but put their attention on making sure more things go right."

The inevitability of change is the biggest risk facing businesses, according to Romano. As a restaurateur, he knows how fast the public's tastes can change and leave restaurant owners high and dry. To confront the risk of change head on, he founded Trinity Groves, a plaza in Dallas that incubates new restaurant ideas. "I'm incubating restaurant concepts for millennials," he says. "This is an important new market." The incubator is currently testing about 20 different restaurant concepts. Romano and several fellow investors have put up $15 million and award $500,000 to concepts that seem to have promise. If the restaurant concept catches on, Trinity Groves gets half ownership.

Romano's incubator fills what Dr. Francois Nader, former CEO of biotech firm NPS Pharmaceuticals (which was sold to Shire in 2015 for $5.2 billion), says is a major gap with most companies—they have no plan B. "I advise CEOs and boards," he says. "And it amazes me how few have any plans in place in case a major disaster occurs."

Nader, a 2013 winner, also sees a business leader's grit when managing a crisis as the essence of ability to deal with risk. He knows from experience. When he took the helm of NPS in 2008, the company had placed all its bets on a single medicine that management was sure would receive

FDA approval. It didn't. Nader had to shrink the company from several hundred employees to only 17, fundamentally changing its business operating model to avoid collapse. "A crisis is a risk that has materialized, and those crises will happen," he says. "When a crisis hits, the ability to navigate it is as important as understanding the risk itself. "

Pamela Morris, a 2007 winner and CEO of CareSource, a nonprofit health insurer serving Medicaid patients, stresses that government regulations can be a major source of risk in dozens of industries. To gird her organization against regulatory risk, she builds partnerships with elected and government agency officials. Those relationships put her in good stead when a federal regulation capping Medicaid recipients to 75 percent of a plan's enrollment threatened to force CareSource out of business. "Our local congressman actually discussed our challenge with President George H.W. Bush on Air Force One," she recalls. "I found out years later that the president sent a fax urging Congress to give us a waiver so we could keep our focus on Medicaid patients."

Focusing on Talent Long Before It Became a War

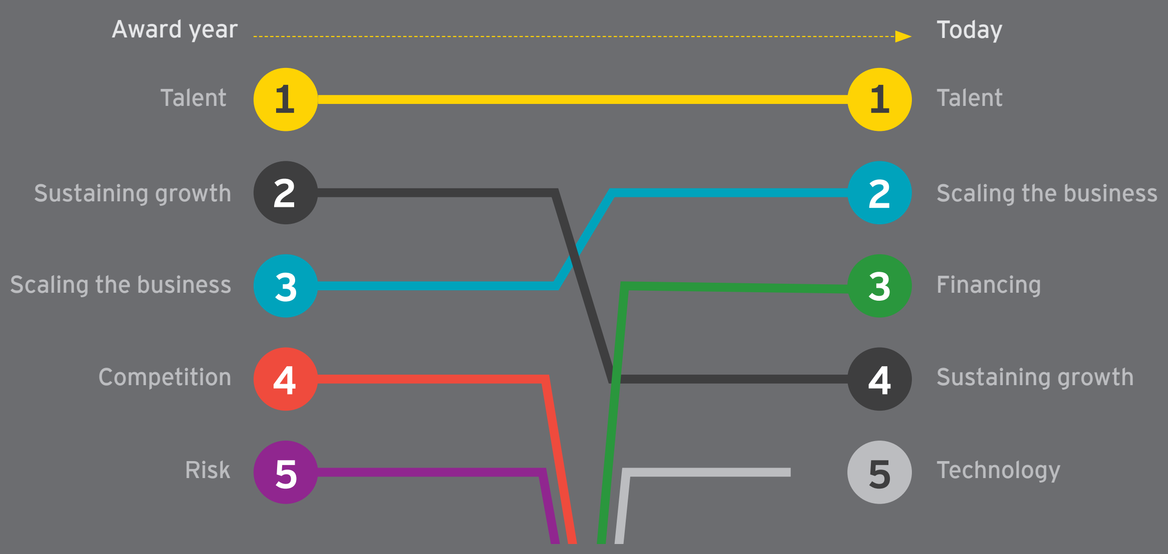
From the beginning, these award winners understood that talent was the number one challenge when they founded their companies, often long before the war for talent was being waged. It remains their number one challenge today as talent markets tighten. figure 9

EY Analysis

Figure 9

Overcoming the obstacles

What are the biggest challenges in launching an organization?



Count of respondents answering 6 or 7 on a scale of 1 to 7 where 7 = "Extremely Challenging"
Source: Entrepreneur Of The Year Award Winner Online Survey (n=500)

For many of these entrepreneurs, company culture helps attract and engage employees. Romano goes so far as to say that a company culture should have the characteristics of a friend. "When you build a company, you create a personality," he says. "That personality should be as appealing as that of a friend and have the same characteristics, including honesty, integrity and responsibility." To give these characteristics oomph, Romano has made them into what he calls a bill of rights that all employees can rely on.

Nader took a similar tack and has created a set of nonnegotiable principles that govern the company's culture. The principles are similar to Romano's bill of rights: integrity, respect, excellence, accountability, teamwork and fun. To give these principles teeth, he included them in performance reviews. He has also personally dismissed top-level executives for failing to live up to the standards of the company's values.

Recognition and compensation are also important. Nader, for example, made a point of meeting and shaking the hand of every new employee. "For many people who work here, it is the first time they personally have met a CEO," he says. "It is amazing how much employee engagement you can build from seemingly small gestures of recognition."

Bauccio uses his company's higher profitability to pay restaurant workers more than the going rate in an industry plagued by high turnover among frontline staff. He also fosters career growth: many of the company's chefs started as prep cooks or even dishwashers.

CONCLUSION

HOW ARE YOU TACKLING THE REALITIES OF 21ST-CENTURY BUSINESS?

Many of Entrepreneur Of The Year Award winners take a different approach to measuring success than others do, according to the survey and interviews. Profit alone is not their strategy. In fact, many of these winners believe that profit by itself is unlikely to sustain a business in today's competitive market. They focus on customers, employees and purpose as powerful drivers of results. This single-minded purpose is becoming the most powerful tactic in their management arsenal to attract both customers and employees.

In addition, although these winners are as concerned about risk as anyone else, they and their organizations aren't paralyzed by it. These business leaders are experts at assessing risk and using that knowledge to forge ahead instead of preserving the present. Equally important, the companies that these winners founded outlast many of their competitors, providing jobs, stability and growth to the communities that support them.

If your company uses profit as a goal instead of a measure and you manage risk to protect the present instead of charting a clear path into the future, your organization may be falling behind the increasingly stringent expectations of customers and employees. Taking heed of how some 9,200 of the world's most successful entrepreneurs approach 21st-century business may yield some great clues to future-proofing your enterprise. And that future can be very promising—these winners consistently beat the market in terms of revenue growth and job creation, even during the most troubled economic times.

The Ewing Marion Kauffman Foundation is one of the world's most prolific producers of research into entrepreneurship. Emerging entrepreneurs are of particular interest because they represent the early stages of successful business formation. The foundation's research seeks to better understand common characteristics of young high-growth firms, challenges faced by the entrepreneurs who lead them and the supports they use to overcome these challenges.

The Future of Young, High-Growth Firms

Included in EY's awards program are emerging entrepreneurs—those leading companies that are less than five years old. We know that these are prodigious companies. When they are recognized by EY, these young companies typically have an average revenue of $16.8 million. This number already puts them within the top 5 percent of all U.S. companies.[1] How do these young prodigies fare over time?

Analyzing data from 1,349 of the emerging (five years old or younger) companies recognized by EY, the Ewing Marion Kauffman Foundation discovered these companies largely not only survive but thrive.

Higher Survival Rates

At five years old, the companies of EY award winners are more likely to survive than other firms.

- Over the past 30 years, only 2.3 percent of EY emerging companies went out of business. This is similar to the Inc. 500 (3 percent),[2] and far outlasts the national average, where approximately one-quarter to one-third of similar companies went out of business.[3]

Likely to Scale

These young firms have demonstrated exceptional growth in subsequent years.

- The typical emerging Entrepreneur Of The Year company has a revenue of $16.8 million at the time of winning, which grows into $41.6 million 10 years after receiving the award, and to $101.6 million 20 years after winning. For reference, less than 0.1 percent of all U.S. companies founded in a given year reach a revenue of $100 million or more.[4]

1 Kauffman calculations from EY median revenue. Kauffman calculations from Survey of Business Owners, 2012. Only 5 percent of all U.S. companies have revenue of $1 million or more.

2 Rice, Murray; O'Hagan, Sean B; Tiwari, Chetan; Lyons, Donald; Green, Milford Bennett; and Oppenheim, Vicki. Defining the Record of High-Growth Firms by U.S. Metropolitan Region: What Happens to the Inc. 500? (April 26, 2016). Available at SSRN: https://ssrn.com/abstract=2767157.

3 Kauffman calculations from Bureau of Labor Statistics. Dataset BD. Employer establishments between five and 10 years old.

Ewing Marion KAUFFMAN Foundation

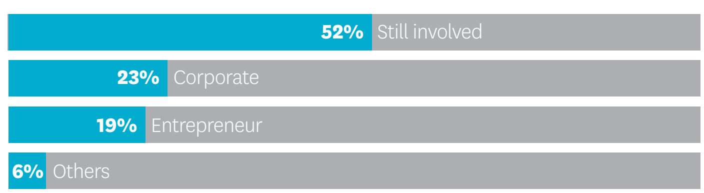
Tenure of Leadership

Just over half of these entrepreneurs are likely to remain involved in their businesses.

- The slight majority of emerging entrepreneurs stay on with their businesses through their growth, but about 40 percent of founders go on to do something completely different, like start another company (19 percent) or go to work for another business (23 percent). figure 1
- In part, this may be due to the fact that approximately one in three of the award winners have been involved in a merger or acquisition.

FIGURE 1

Just over half of entrepreneurs stay with their businesses.



Note: 225 firms did not have data on the current role of their founder.
Others include: Deceased (1.87%), Investor (2.32%) and Retired (2.23%).

4 All numbers based upon median revenues in EY data. Number of $100 million firms from Kedrosky (2013) http://www.kauffman.org/~/media/kauffman_org/research%20reports%20and%20covers/2013/05/companiesthatmatter.pdf. Kauffman calculations of approximately 400,000 new employer companies per year.

EY Entrepreneur Of The Year® Award 30th Anniversary

Celebrating its 30th anniversary, the EY Entrepreneur Of The Year program was founded in 1986 to honor and support leading entrepreneurs in the U.S. Through an annual competition with open nominations and an independent judging process, the award is given to leaders of U.S. companies that are at least three years old and have demonstrably outperformed the market in terms of innovation, financial performance, market or niche leadership, balancing opportunity and risk, and commitment to the community. Award recipients have included both founders and CEOs that have transformed the businesses for which they won the award. EY Entrepreneur Of The Year programs are now conducted in more than 145 cities and 60 countries around the globe.

ey.com/us/eoy

METHODOLOGY

Parthenon-EY used publicly available secondary resources, including S&P Capital IQ, the Bureau of Economic Affairs and Standard & Poor's, in conjunction with self-reported data from EY Entrepreneur Of The Year winners to aggregate data for award winners between 1986 and 2015. Additional data was obtained from Dun & Bradstreet. This data was complemented with 500 Entrepreneur Of The Year winners' responses to an online survey that EY designed. Because data was not available on all winners, some projections on company performances were made based on averages from those participants for which data was available.

ABOUT EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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