Debunking myths about entrepreneurs

Successful entrepreneurs are a rare breed because they face a myriad of obstacles. But one fundamental flaw in the system makes it even harder for entrepreneurs to realise their dreams.

According to Joe Tabet, managing partner of Melcion, Chassagne & Cie, a group of international senior business advisors dedicated to helping entrepreneurs, many highly-motivated entrepreneurs would have trouble working with institutional investors – which is counterintuitive because these investors are usually seen as primary financiers.

Entrepreneurs have the hunger for creating businesses, but also a strong need to be flexible and in control of their destiny. This naturally generates tensions with investors who need predictability and accountability, which often creates problems.

"Most investors do not realise that there is a disconnect between investors and entrepreneurs; they end up fighting with the entrepreneur, saying that they are impossible to manage, which results in destroying value for everyone. We do believe there is a philosophical and cultural mismatch to start with," Tabet told INSEAD Knowledge on the sidelines of the Global Entrepreneurship Forum held recently at INSEAD's Europe campus in Fontainebleau. Tabet is also the author of 'Hors Piste!,' a book that debunks many myths about being an entrepreneur.
2 men in business wear in a heated arguement - INSEAD Knowledge

For example, Tabet thinks entrepreneurs should not be obsessed with raising capital from prospective venture capitalists (VCs). Rather, his advice is to avoid overfunding the company from the start, because it's a recipe for disaster. According to a Harvard study on the Inc. 500 (fast-growing companies ranked by Inc. Magazine), less than five per cent have raised VC funding, and 67 per cent have less than $50,000 in capital. Entrepreneurs should look for financing in a much broader sense, tapping into other sources such as clients or suppliers, before giving away any equity.

"If you look at the VC model, from the entrepreneur's perspective, it looks more like gamble, and the chance for the individual entrepreneur to make money once they enter the VC game is probably as low as winning the lottery."

"We have observed that many entrepreneurs are kicked out of their own company in the year following a major investment round; all this makes the chance for the individual entrepreneur to succeed in that game quite tiny … In many cases, it's pretty much like Russian roulette… entrepreneurs often get 'killed' by investors because of this mismatch."

Another myth Tabet debunks is first-mover

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advantage. Citing e-Bay and Google as examples of companies which were not the first to move in their space, he says they were still able to achieve phenomenal success despite not being "new" as such.

He also gives kudos to Swatch, which he says was not that innovative from a pure product perspective; it just tweaked the formula and made wearing watches made of colourful plastic very hip.

"I like the notion of small giants; those are companies who identify a niche market, who secure their place in their eco-system, pretty much like the Blue Ocean strategy concept – you don't want to be where everyone else is."

Tabet's advice is to find a niche market and focus on customers. "I think the more you understand your customer and your eco-system, the more likely you will succeed as a new company."

"If you have the right people with the right mindset, who are smart enough and open-minded to adapt to the market needs, you come up with solutions that are faster to generate revenue. This is how entrepreneurial companies gain an advantage over larger firms," he adds.

In fact, Tabet says his firm has noticed a correlation between companies which do not have VC funding and higher levels of creativity. "They struggle, but they end up finding better, more robust and sustainable solutions than funded companies … In my opinion, the real competitive advantage that entrepreneurs have to secure their success, is to focus on what the money cannot buy; whatever money can buy, is a commodity."

While he is not against the idea of entrepreneurs teaming up with external investors, he says it is important that both sides understand their own strengths and weaknesses –and anticipate conflict.

VCs, for example, are very good at investing in innovation and fast-growing companies; what they need to realise is that they are not always on the same side as the entrepreneur.

Entrepreneurs, on the other hand, are very good at starting up businesses. But they are quite bad at mastering the capitalistic game. Tabet says there is one part of their life cycle they do not manage well: "Very few entrepreneurs manage their own personal exit and anticipate it; those who don't do it - unfortunately in most cases, will see it happen to them without them being in control anymore."

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