

ENTREPRENEURIAL ACTIVITIES OF
INSEAD MBA GRADUATES

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SUMMARY

The purpose of this pilot study was to find out to what extent Insead MBAs had been entrepreneurially active since graduation. A short questionnaire was sent to one-fifth of the MBAs who graduated in 1965, 1966 & 1967; a 92% response rate (69 replies) was obtained.

Despite the relative simplicity of the approach and the small number of replies, the high response rate (& the initial sample selection) permits certain affirmations to be made with confidence. The study also suggest some original aspects of entrepreneurial behaviour which should be investigated further.

1. During the 15 years since their graduation, 50% of the Insead MBAs in the sample have been "Entrepreneurial" in a wide sense (broadly including any owner-manager situation), 26% having created their own businesses. 36% of the MBAs are currently active owner-managers.

2. There is a strong correation between Entrepreneurial Activity and age at graduation. Of the 21 younger MBAs (25 or under at graduation), 52% have created their own business and only 24 % reported no entrepreneurial activity : of the older MBAs (over 25 at graduation), only 15% have created their own business and 65% reported no entrepreneurial activity.

3. The entrepreneurial patterns of the younger and older MBAs are sharply different. The younger MBAs averaged 7 years from graduation to start-up, thus creating their own businesses in their early 30s and during a period of economic growth. The older MBAs averaged 12 years from graduation to start-up, creating their businesses in their early 40s and during a period of economic crisis. While both groups are motivated by their desire for independence and by their inability to "fit" in larger companies, the younger MBAs also put the accent on the business opportunity and a desire to innovate, while older MBAs cite family and personal reasons as well as the financial rewards.

4. Most of these new companies are small, or even personal, and are in service activities (software, marketing, etc.). However, a certain number may now be considered as "medium-sized": the five largest of the new creations (i.e. 30% of the total) are estimated to have combined sales of about US\$ 100 million and to employ close to 500 persons.

5. Although it appears that about 21% of Insead MBAs have family business backgrounds, less than a third of these are still active in their family businesses 15 years after graduation. Half of the remainder have created their own businesses.

Further study will be needed to show whether other generations of Insead MBAs (and of the other post-graduate Business Schools) exhibit similar patterns. Such work may help to show the relative impact of the external environment (boom or crisis), of personal age (early 30s or early 40s), of initial studies and of nationality and/or residence on entrepreneurship by MBAs. They may also help to explain the very different entrepreneurship patterns of the younger and older MBAs.

I. INTRODUCTION

In general, Business Schools are not considered to be good training grounds for entrepreneurs. Popular opinion - even among businessmen - considers that higher education and entrepreneurship are incompatible. Yvon Gattaz, who went from a "grande école" to creating his own business and is now President of the French "Patronat", calculated that, although about 15% of the students in the top French engineering schools were capable of creating and running their own business, only 0.3% actually did so (1).

Closer inspection of the limited information available suggests such views may be distorted, in part by the sheer scale of the entrepreneurial phenomenon. In Europe today, there is one firm for every 25 people : on average, one man in 15 is a new business creator. In such a mass activity, it is easy to underestimate the presence of the minority who have been through higher education. A study in 1976 of 66 recently-founded French industrial companies showed that 37% of the founders had continued studying after their "Bac"⁽²⁾. This is hardly a small percentage and it is several times the national average. Similarly, a current study by the author suggests that about a third of the owner-managers of small French industrial companies (10-50 employees) have a higher education qualification.

If entrepreneurs with a first degree are in a minority, it is not surprising that those with an MBA are rare, especially in Europe where there is only about one MBA per 1000 companies. Equally, most studies of MBA career performance have equated success with senior executive positions in large companies and thus have neglected the clear trend towards smaller or new companies. That significant numbers of MBAs are in smaller companies can be judged from the following data :

- (a) 16% of Stanford MBAs graduating in 1961-1963 are now "owner-managers"⁽³⁾.
- (b) 19% of London and Manchester MBAs graduating around 1970 joined small or family firms by 1977 (4).
- (c) 30% of French MBAs graduating from Insead in the mid-1960s joined small or family firms by 1974 (4).

II. THE WILLIG STUDY, 1970

The origins of the present study date back to 1970, when Jean-Claude Willig published a study on the career aspirations of European MBAs (5). Roughly 60% of the 800 respondents were Insead MBAs, the balance being principally from major US Business Schools. At a time when small was not yet beautiful and other studies were underlining the success of European MBAs in salary and promotion terms, this study was surprising in predicting that the MBAs did not intend to climb to the top of Big Business. The following table shows that, within 15 years of graduation, 61% planned to be in a small business or on their own :

	<u>Now</u>	<u>in 5 years</u>	<u>in 10 years</u>	<u>in 15 years</u>
Wish to work in :				
. A big company	39%	26%	23%	22%
. A small or medium company	43%	42%	25%	17%
. Their own company	12%	26%	43%	44%
. A non-profit organization	6%	6%	9%	17%
	----	----	----	----
	100%	100%	100%	100%

Subsequent studies have not endeavoured to compare MBA career paths with the MBAs original aspiration, although studies of MBAs early career movements in large firms support Willig's findings.

Thus Whitley, Thomas & Marceau drew the following conclusions: "In general, then, the early careers of business graduates in Britain and France show a move away from large firms to small firms and self employment and, for the French, a return to the family business." (4, p. 163).

III. THE INSEAD MBA SAMPLE

In order to investigate the above trends with more precision, a random sample of 75 names was selected from the Insead MBAs graduating in 1965, 1966 and 1967. Every fifth name was taken from the alphabetical list of each year. The questionnaire (Appendix I) was mailed to each graduate in September 1981 and various reminders were used to obtain a virtually total response : in all 69 replies (92%) were obtained over a 6 month period. Appendix II shows the variations in the responses over time and the importance of obtaining a high response rate : the initial replies were relatively less "entrepreneurial".

IV. CHARACTERISTICS OF THE INSEAD ENTREPRENEURS

The major question was formulated in the following manner :

"Since graduating as an MBA, have you (at any time) :

A - created your own company ?

B - acquired your own company ?

C - been a significant, minority partner in a creation or acquisition ?

D - been a member of the controlling group of a company (e.g. in a family business) ?"

(The term "your own company" was specified to include effective control as well as direct ownership.)

The overall responses were as follows :

	<u>Principal answers</u>		<u>Secondary (multiple) answers</u>	
A	18	26% (of 69)	1	1% (of 69)
B	-	-	3	4%
C	8	12%	6	9%
D	8	12%	6	9%
None	<u>35</u>	<u>50%</u>	<u>-</u>	<u>-</u>
Total	<u>69</u>	<u>100%</u>	<u>16</u>	<u>23%</u>

(Note : Principal answers refer to companies described further in later questions ; secondary answers refer to other ventures.)

It will be seen that half of the Insead MBAs have been involved in Entrepreneurial Activity taken in a wide sense (i.e. including minority owner-manager situations and possibly passive roles in family businesses). A quarter of the MBAs have actually created their own company. Multiple entrepreneurial activity is also the rule, as may be seen by the number of secondary answers : several respondents also indicated that they had created more than one company.

The lack of response "B" was surprising : while the "management buy-out" vogue is very recent, excellent opportunities for taking over small companies have been generally available over the past decade.

In the following analysis, the term "Entrepreneur" refers exclusively to respondents whose primary answer was "A" and the term "Owner-Manager" to those responding positively to at least one of the four possibilities ("A" to "D").

Age at INSEAD

(Number)	<u>25 or less</u> (21)	<u>26 or 27</u> (29)	<u>28 or more</u> (19)
Entrepreneur	52%	10%	20%
All Owner-Managers	76%	38%	37%

The "age-effect" is very striking : the "under-25s" at graduation from Insead represent only 30% of the total, yet they include 61% of all Entrepreneurs and only 14% of non-Owner-Managers. All five "under-23s" are Owner-Managers.

It is not clear why there should be such a sharp cut-off at 25 : analysis by year of birth does not give such a sharp boundary. It should be noted that the (albeit random) selection of those graduating in 1965 may contain an age-bias : 7 out of 23 were 25 years old on graduation; 4 have founded their own business, 1 joined his brother's business and 2 did not respond to the questionnaire.

Previous Studies

About 40% of the MBAs had studied Science and Engineering, 40% had studied Economics and Business, and 20% had followed other studies (e.g. Law, Languages). There appears to be no relationship between previous studies and creating a new company: however the frequency of other entrepreneurial activity does seem to vary with previous studies. It would appear that a first degree in Economics or Business Studies is a strong pointer for a non-Owner-Manager career (64% of the cases), while an "Other" first degree followed by an MBA is highly likely to lead to an Owner-Manager situation (71% of the cases). Technical studies lead to Owner-Managership in 52% of the cases.

No relationship (neither positive nor negative) was observed between academic performance at Insead and subsequent entrepreneurship.

Nationality

	<u>French</u>	<u>German</u>	<u>British</u>	<u>Benelux</u>	<u>Other</u>
(Number)	(19)	(13)	(11)	(8)	(18)
Entrepreneurs	32%	8%	27%	38%	27%
All Owner-Managers	53%	31%	64%	50%	50%

Despite the relatively small numbers, it appears clear that Germans MBAs are less inclined towards entrepreneurship than those of other nationalities. The British MBAs appear to be more prepared to become minority partners in a new venture.

Mobility and Residence

Insead MBAs are known to be geographically mobile; 30% of the respondents are now resident in a country other than that of their nationality. There is a close relation between mobility and new business creation, 38% of the above 30% have created their own business as against 21% of those who remain in their country of nationality. As expected, family businesses require no mobility.

V. THE CREATORS

The following analysis is based on the detailed replies of 17 out of 18 MBAs who have created this own business since graduating from Insead (one gave no details and individual data are missing in certain other cases).

Company Activity

Not surprisingly, most of the ventures are in the service area. Two are in manufacturing industry (die-castings and electronics) while three are essentially commercial (office equipment, cosmetics and electronics). Within the services, four main areas are covered - software and computer services (3), marketing and advertising (3), management consulting (2), employment and recruitment (2). Leasing and car repairs make up the total.

Timing

The timing of company creation appears to be closely linked to age at graduation. Those who were 25 or less at graduation (the Younger MBAs) creating their company much sooner after graduation than those who were 26 or more (the Older MBAs).

	<u>Younger MBAs</u>	<u>Older MBAs</u>
Company Creation		
- 1967 to 1973	8 cases	1 case (1971)
- 1977 to 1981	2 cases (1977, 1978)	5 cases (1979 to 1981)
Age at Co. Creation		
- 27 to 35	10 cases	1 case (32)
- 40 to 45	-	5 cases
Years from Graduation to Company Formation		
- Average	6.8 years	11.8 years
- Range	2 to 13 years	6 to 14 years

It will be noted that no companies were created in 1974-1976, while 1973 and 1979 were popular (3 each). Equally, no-one created his company aged 36 to 39.

The interval between graduation and company formation shows some surprising results : 5 and 8 years (3 cases each) and 13 years (4 cases) seem curiously popular.

Company Size and Employment in 1981

The companies on which Sales or Employment data are available, may be roughly divided into 3 categories :

- **Personal businesses** : Sales up to about US\$ 300,000 equivalent and/or up to 5 employees.

- **Small businesses** : Sales up to about US\$ 1 million equivalent and/or up to 100 employees (industry) or 25 employees (services/commerce).

- **Medium businesses** : Details of the five larger operations are as follows :

<u>Activity</u>	<u>Country</u>	<u>Creation</u>	<u>1981 Sales</u>	<u>1981 Employment</u>
Industry				
Electronics	USA	1973	n. . .	200
Die-casting	Austria	1972	US\$ 4 million	100
Commerce				
Cosmetics	USA	1967	US\$ 50 million	n.a.
Services				
Leasing	France	1973	US\$ 30 million	25
Computer Appl.	USA	1979	US\$ 2 million	30

The USA confirms its reputation as a home for "high-flying" entrepreneurs : the above three cases are the only creations in North America, the founders are all Europeans.

<u>Company Size</u>	<u>Nº</u>	<u>Younger MBAs</u>	<u>Older MBAs</u>
Personal	6	3	3
Small	5	3	2
Medium	<u>5</u>	<u>4</u>	<u>1</u>
<u>Total</u>	<u>16</u>	<u>10</u>	<u>6</u>

(Data missing for one company)

The apparently smaller size of the companies created by Older MBAs may well reflect their relatively shorter existence (average age 3 years, compared with 9 years for companies created by Younger MBAs) and also the less favorable economic climate since their creation.

Motivation

A questionnaire is not a good means to collect information on entrepreneurial motivations, and the responses to the question "What lead you into this Entrepreneurial situation" should be taken as no more than indicators for further investigation. This question was answered by eight Younger MBAs and seven Older MBAs. The responses have been grouped under five main headings :

- A desire for independence, generally linked with an inability to "fit" in a big company. Cited 6 times (4 Younger/2 Older).
- A good "opportunity". Cited 5 times (4 Younger/1 Older).
- Family or friendship reasons. Cited 5 times (2 Younger/3 Older).
- A desire to create and/or to innovate. Cited 4 times (3 Younger/ 1 Older)
- Material gains. Cited 3 times (all Older).

The above classification is perforce rather arbitrary and omits certain answers. One such response was "Now or never" given by the oldest Entrepreneur (45 at the creation of his company).

Conclusion

It would be premature to draw firm conclusions from such limited data, but two broad patterns of MBA Entrepreneurs appear to emerge.

1. Those who graduated at or before 25 set up their companies in their early 30s, in a climate of economic growth. They were attracted by the business opportunity, the independence (and their difficulty in working in a big company) and by the possibility of being creative and innovative. Although most opted for service companies, a few chose to start manufacturing operations. A significant minority now have medium-sized businesses.

2. Those who graduated after 25 waited about 5 years longer before setting up on their own in their early 40s, in a period of economic crisis. They are encouraged by family and personal reasons, by the potential for material gains and by a desire for independence. They have virtually all chosen service companies, which (perhaps because of their relatively short existence) are still quite small.

VI. THE MINORITY PARTNERS

The 8 situations where Insead MBAs are (or have been) minority partners in new ventures include 3 "part-time" ventures - two of which were abandoned and the third is now dormant. In one further case the relationship only lasted 2 years. All four of these situations date from the early 1970s and concern very small service company operations (brokerage, importation, licensing and transportation).

Of the 4 situations which are currently active, 2 date from 1975 and 2 from 1979-1980. Three are small/personal service companies, while the fourth is a medium-sized brewery (annual sales US\$ 8 million equivalent)

It should also be noted that 6 out of the 8 situations concern Older MBAs, half in companies which are no longer active and half in currently active companies.

VII. FAMILY BUSINESSES

Although a total of 14 MBAs (21% of all respondents) indicated that they were (or had been) members of the controlling group of a company (e.g. in a family business), for 6 this was a secondary response and a further 2 indicated that their own rôle was passive. Since a further two of the remaining six are no longer active in the family business, it appears that only 6% of the total respondents are currently active in family businesses. These results complement the observations already cited of Whitley, Thomas & Marceau, and suggest that the MBAs "return to family business" is not a permanent career move.

It is interesting to note that, of the six "active" cases, one was a new creation (1976) and concerns the only Younger MBA in this group. Three companies are clearly industrial (the others being financial, R & D and unspecified). In half of the cases the Insead MBA is (or was) Chief Executive.

VIII. FURTHER INVESTIGATION

One of the major lessons of this study is that studies of recent graduates yield little information about entrepreneurship. It was expected that entrepreneurial activity would be low for the first few years after graduation; however, it was not expected that 25% of the new company creations would take place 13 years after graduation, nor that 31% of the creators would be 40 or older !

A second lesson is the importance of a high response rate to ensure meaningful results despite small numbers. Given the population concerned and the desirability of a response rate of around 75%, a sample size of about 100 is probably appropriate. Broadly, four types of further study may be considered :

- Replication of the same study with other Insead MBA generations (or those of other Business Schools), to see if the patterns are confirmed. At present, this can only be done for MBAs graduating before 1970.

- A similar study to test the Younger/Older MBA pattern with more recent generations. This could be carried out for MBAs graduating between 1970 and 1975.

- The main study could be repeated as newer generations "mature". Even with a 20% sample, it would seem undesirable to study any given graduating class more often than once every 4 or 5 years.

- An in-depth study of entrepreneurial motivation could be carried out to endeavour to understand more clearly the difference in entrepreneurial pattern between Younger and Older MBAs.

In addition, as the most recent Insead generations "mature", it may be possible to investigate the impact of the "Creating Your Own Business" elective.

APPENDIX I

Name:

Year of Graduation as an MBA :

ENTREPRENEURSHIP QUESTIONNAIRE

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(please circle relevant answers)

Since graduating as an MBA, have you (at any time):

- | | | |
|---|-----|----|
| A - created your own (*) company? | YES | NO |
| B - acquired your own (*) company? | YES | NO |
| C - been a significant, minority partner
in a creation or acquisition? | YES | NO |
| D - been a member of the controlling group
of a company (e.g. in a family business)? | YES | NO |

If you have answered YES to any of the above questions, kindly answer the questions overleaf. If you have been involved in several 'entrepreneurial' situations, either describe the most significant or use additional sheets of paper.

(*) include as "your own" any company which you have effectively controlled, even if you have not been the majority shareholder.

Company Activity (brief description)

What lead you into this "Entrepreneurial" situation ?

Vital Statistics (Date of Creation/Acquisition; Legal Form; Capitalisation; Turnover; Employment; etc.):

If you are no longer active in this company, please explain the circumstances of your withdrawal:

Your Role in the Company (both in Management and in Share-holding, including major changes over time):

Would you be prepared to share your experience in more detail?
(for example in an interview for a case study or for further research):

Other Comments or Observations

APPENDIX II

A NOTE ON METHODOLOGY

The primary aim of this study was to investigate systematically the entrepreneurial activity of Insead MBAs, and to establish a methodology for successive studies of other graduating classes. Given the potential for systematic bias, the author chose to aim for a virtually total response from a 20% sample of the master population. This approach required a simplified questionnaire and regular follow-up.

The initial selection was made from the alphabetical list of each of the three graduating classes (1965, 1966 and 1967) in the Insead Address Book 1981. Excluding deceased graduates, every fifth name was selected : of the 75 names, no address was available for one and mail was returned "Address Unknown" from one other.

The initial mailing was carried out in September 1981: a 55% response rate was achieved over the following month, reflecting the interest of the subject. The fact that the author was a member of the 1966 Promotion and had been a Course Assistant in 1967 also helped! A second mailing in October 1981 yielded a further 16% for a total response rate of 71% in two months. The author then embarked on a lengthy process of exhortative letter and telephone-calls to collect the remaining answers: the 69th reply (92%) was received in March 1982.

The following tables reflect the response rate by graduating class and the variation in response over time :

<u>Graduating class</u>	<u>Total Number</u>	<u>Sample</u>	<u>Response</u>	
1965	114	23	19 (83%)	1 Address Unknown
1966	130	26	25 (96%)	1 Address Unknown
1967	131	26	25 (96%)	

<u>Principal Answer</u>	<u>First Mailing</u>		<u>Second Mailing</u>		<u>Cumul.</u> (%)	<u>Follow-up</u>		<u>Cumul.</u> (%)
	(N°)	(%)	(N°)	(%)		(N°)	(%)	
A	10	24%	5	42%	28%	3	19%	26%
B	-	-	-	-	-	-	-	-
C	2	5%	2	17%	8%	4	25%	12%
D	5	12%	2	17%	13%	1	6%	12%
None	<u>24</u>	<u>59%</u>	<u>3</u>	<u>25%</u>	<u>51%</u>	<u>8</u>	<u>50%</u>	<u>50%</u>
<u>Total</u>	<u>41</u>	<u>100%</u>	<u>12</u>	<u>100%</u>	<u>100%</u>	<u>16</u>	<u>100%</u>	<u>100%</u>

The above results suggest that non-entrepreneurs respond more readily than entrepreneurs to such questionnaires (despite the obvious demotivating effect of returning a blank questionnaire). It also seems that the "cost-benefit" of going beyond a 70% response rate may well be unattractive.

APPENDIX III

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