

Innovation Now

A LEADERS conversation with James S. Turley, Chairman and CEO, Ernst & Young, and some of the world's leading entrepreneurs



Editor's Note: In developing our understanding of the impact that entrepreneurs and innovators have on society, LEADERS reached out to James S. Turley, Chairman and CEO of Ernst & Young. Now in its third decade of championing entrepreneurs through its Strategic Growth practice, Ernst & Young is known for its Entrepreneur Of The Year® awards. These prestigious awards have been given to more than 15,000 of the world's leading entrepreneurs at events in more than 50 countries and 135 cities. Jim, in this essay based on our conversation, shares his insights on the critical role of entrepreneurs, as well as the voices of the latest crop of World Entrepreneur Of The Year® national winners.

Innovation matters—now more than ever. When it comes to creating long-term, sustainable growth, jobs and wealth, the world's entrepreneurs will accomplish more than the central bankers and politicians.

In the midst of the worst recession we've seen in decades, it might seem that the worst time to start a business would be right about now. But throughout history, during very difficult times, the best hope for economic growth has come from the often unheralded, unknown, and untested companies led by entrepreneurs. Our research shows that the world's major market indices turn over more than 50 percent every five

years. So the companies that thrive will always innovate – no matter their size.

We are proud of our heritage supporting entrepreneurs. Ernst & Young launched our Entrepreneur Of The Year program in 1986 to recognize entrepreneurs, to encourage them and, importantly, to listen to them. Their ideas are always interesting and inspiring. This past year we heard them talk about how they are coping in the current economic crisis and what the future holds for them and for the rest of us.

When we celebrated with the most recent finalists for the World Entrepreneur Of The Year, we saw a diverse group—no two of them follow the same path to success and each has a unique spark. But in the broad array of their experiences are commonalities: a willingness to try new things even at the risk of failure, a special genius for recognizing an unmet need, and a knack for putting together a team with a common sense of purpose and innovative spirit.

Entrepreneurial Spirit

Whether born or made, entrepreneurs have an inherent ability to think differently, to challenge the status quo and to surround themselves with truly exceptional talent. The impulse to innovate and take risks is hard-wired into many entrepreneurs.



For New Zealand's Michael Hill, the inspiration to start something from scratch came from a traumatic event. *"I played it safe until the age of 40, never really daring to do anything that was over-adventurous. And then we had a massive house fire. As I was standing there, watching the house burn to the ground, I was quite devastated. I took a little visiting card out of my pocket and wrote down that I was going to start my own jewelry business. It was the most hopeless time to have such a dream because I had nothing."* He found a backer, within a year had his own shop and now has more than 200 stores throughout the world.

More than anything else, the world's leading entrepreneurs recognize that in a global information-driven economy, what matters most is fresh thinking about familiar problems. *"This world does not require more factories,"* said Greece's Vassilios Katsos. *"What we need are new ideas. The market starves for innovation."*

At the heart of the entrepreneurial process is the recognition that it's not enough to do the same thing everyone else does. Small businesses become big ones by standing apart and serving the marketplace with a truly unique offering. Sometimes the most innovative ideas can be in the business model—delivering a familiar service or product in an entirely new way.





Matthews Szulik, CEO of US-based Red Hat, decided early that, in software development, the value of putting intellectual property into the public domain—migrating to an open-source model—would carry significant advantages: more customer involvement in shaping the product, a simpler distribution model, and unique relationship with clients. *“People thought that was the dumbest idea they had ever heard because no one had ever done it before. Imagine trying to build a business around ‘free’,”* Szulik recalled. But it worked. *“Most of the people who develop our product don’t work for the company. And in that trust, and through the power of collaboration, it has allowed our organization to achieve unimaginable results in the face of the greatest of competition.”*

Opportunity in Adversity

While some think the best time to start a business is when the economy is robust, that’s not how entrepreneurs think. They aren’t looking for the safe road, the one paved with a steady salary and the seeming stability that comes with a career in a large corporation.

Entrepreneurs see opportunity in a marketplace where large companies are shedding jobs, abandoning emerging markets, and cutting off long-term projects. They recognize that market needs are not being met.



Aaro Cantell, Chairman of Normet Group, a leading manufacturer of mining and tunneling equipment in Finland, says the pause in economic growth makes for a particularly opportune time for fresh investment. *“You have more time to develop the business, develop processes, develop new offerings and develop customer relations. When business was booming, everyone just wanted products delivered as quickly as possible, and we didn’t have the time to do that. The problem, very often, is that during a downturn you don’t have the money to invest heavily, but now you should be courageous and invest the money.”*

Belgium’s Chris van Doorslaer of Cartamundi, the number one provider of playing cards worldwide, told us how the crisis has given his business an increased focus on innovation: *“We have a Chief Innovation Officer. It’s a new function we created when the whole crisis started. We still have people dedicated at looking at new products.”*

Periods of economic challenge also can drive entrepreneurs to sharpen their focus on the services they offer to determine how to stand out from the competition and review what is absolutely necessary in the budget. *“This is a*



good time to reorganize the house, and maybe certain costs that you weren’t looking at before you will look at closely now,” said the Netherlands’ Ronald de Waal.

The Role of Government

Throughout my many years of working with innovative companies and entrepreneurial leaders worldwide, I’ve found that there are a number of steps policymakers can take to spur innovation and the creation of entrepreneurial companies – promoting open economies; resisting protectionism; allowing for failure by aligning tax, accounting and legal systems; cultivating confidence in capital markets; and streamlining regulation.

Entrepreneurs are predictably wary of governmental involvement in the economy. They tend to resist or resent large organizations with market-making size. Yet natural hostility to

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government regulation is not absolute: World Entrepreneur of the Year country winners tell us they recognize that in an economic crisis partially brought on by uneven or ineffective government regulation, one of the most essential steps is to rebuild confidence in fair and stable markets, and to reassert the value of fair regulations.

There is a fear of future inflation from current stimulus being applied globally, though entrepreneurs we spoke to recognize that it is an essential step. Singapore’s Sunny Verghese told us: *“The patient is in Intensive Care Unit (ICU) and the first objective is to keep him alive. If he is dead, then there is no point in considering any of your options.”* But, Verghese added that resuscitating the patient is just the first step. *“Some global supervision and regulation is a must but a wholesale reregulation would be counter-productive. Entrepreneurs would like a level playing field; they would like transparency so that they can, by their wit and their innovation and their ingenuity, compete.”*

Although many of the entrepreneurs welcomed the coordinated approach to fiscal stimulus from governments, they also observed that there is still more to do. Hiroyoshi Ishibashi from Japan, founder of Weathernews, told us: *“Money alone does not mobilize anything. If we really want to activate business, the spirit of the business people needs to be activated and that cannot be done just by supplying more money into the market.”*

The government’s proper role, entrepreneurs told us, isn’t to pick and choose which innovations should be tested, or to push people to innovate when they aren’t ready. *“The state can*



never really decide whether you should start a business,” said Austria’s Wolfgang Kristinus.

What’s next?

In our conversations with the World Entrepreneurs Of The Year participants, they said the opportunities created will more than make up for the losses incurred. Michael Hill of New Zealand summed it up this way: *“It’s like a big storm that’s coming through and it’s clearing all the weak trees away, and it’s just leaving the strong ones.”*

Entrepreneurs cite significant evidence that major innovations tend to lead economic recoveries—and that losses felt among large multinationals may merely make room for companies with that innovative spirit. *“Cycles come and go, and they will come again at some point,”* said Aurelio Montes of Chile. *“So I’m not too concerned about this. I’m sure this recession*

will go away; it will pass and be part of our history. I believe a lot in the power and the role of the entrepreneurs of the world. We are the creative ones; we are the ones that are producing new things, inviting customers to discover new products.”

Entrepreneurs recognize that the success they enjoy is immediately translated into the communities where they and their employees work and live. New jobs and new hope create a platform for future growth and a responsibility for the entrepreneur to the community.

Innovators routinely expressed a sense of responsibility to the community and emphasized the importance of giving something back to the community. Said China’s Cao Dewang, Chairman of Fuyao Glass Industry Group: *“The true spirit of being an entrepreneur is to be able to stand up to the challenge and give something back to society. An entrepreneur needs to understand his own responsibilities to the community.”*

For Anil Agarwal, exploring how to use the nation’s natural resources became a question of how to create wealth and opportunity for his native India. He said: *“It was a burning desire. We have said whatever we are doing we are going to give back to society.”* His company helps thousands of children get fed, go to school, and visit doctors. Agarwal has traveled to the West, where he saw firsthand the opportunities created when a strong business can grow, generate jobs and produce wealth for an entire community. And so he said: *“That was the vision, and that’s why I keep doing it.”* ■

