Understanding the Older Entrepreneur

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The germ of an idea

The Director's Room at the Institute of Directors in Pall Mall is a busy place. Institute members and their guests occupy the room and it is often so full in the late morning that it's impossible to get a table to sit at. Many of the tables are occupied by up to four people, often gathered round a laptop computer, looking at spreadsheets and speaking into Bluetooth mobile phone earpieces. They are, in fact, looking in many cases to start up businesses, buy in to businesses or develop existing ones. They are entrepreneurs.

On any given day, a simple observation of the room will indicate that many of these entrepreneurs are not exactly in the flush of youth. Many of them have very silver hair and some of them are clearly well past state pension age. They are Older Entrepreneurs.

Given that we know that people are going to have to work for longer under the impacts of increased longevity and inadequate pension provision, I fell to wondering how much we knew about this group and whether entrepreneurship could be a valid continuing career option for those approaching state retirement age. Whilst much good work on employment of older people has been undertaken by bodies such as the International Longevity Centre, The Age and Employment Network, Age UK and others, a web search revealed very little about Older Entrepreneurs. Who are they? How many are there? What motivates them? What are their characteristics? Is entrepreneurship a valid option for continued employment in later life?

This paper seeks to address these, and other, questions. First, however, we must put this study in its policy context.

The ageing population and pensions

In 1948, when the Basic State Pension as we have it today was first introduced, average male life expectancy was just 66, compared to a State Pension Age for men of 65 (Office for National Statistics 2004). Many, perhaps most, blue-collar workers simply did not live long enough to collect their state pension. Those who did, could expect to live much less time retired than today's population, where the average male life expectancy today is 79, and a male reaching age 65 can expect to live another 19 years on average (Office for National Statistics 2008).

We need to recognise that the assumptions that went behind the design of the State pension system in the 1940s can no longer be applied. In other words, the system was simply not designed to cope with today's circumstances, where most people will get to state retirement age and will live a long time after it. This applies equally to private pension provision, whether employer-led or individual. By the time student debt has been paid off, a car acquired, perhaps the deposit for a house amassed, people are typically well into their 30s. Indeed, according to the Council of Mortgage lenders (2009), the average age of a first-time house buyer is 31, while the average age of a first time buyer who does not receive monetary assistance from parents today is 37. Put simply, it is unrealistic to be able to adequately fund a prospective 30 year retirement based on a 35 year working life. The struggle to keep up with large mortgage payments in the early years may mean that for many households, there may be little opportunity for meaningful saving before the age of 40. A 25 year run up to 65 would require savings of 20% of net income per annum (based upon the old adage of the optimal pension contribution being half your age at outset) to stand a fighting chance of a replacement rate of 50% of pre-retirement income in a Defined Contribution (DC) pension scheme. For many people, this figure will just be a pipe dream. According to the National Association of Pension Funds (NAPF), the average combined employer and employee contribution to a DC scheme last year was just 12% of salary (NAPF, 2010). This total is far too low – other than for employees saving consistently throughout life from the age of 20, perhaps, which will be a rare thing indeed. Even if worthwhile savings can be made into a pension, the pressures of longevity and low gilt yields mean that annuity rates are at historically low levels and are unlikely to increase any time soon. Indeed, the application of the Solvency 2 Directive from the European Union will likely require more capital being allocated by way of reserves for annuity business, which will have the effect of decreasing rates further, perhaps by as much as 20%. The Turner Commission (2005) suggested that 7 million employees were either saving nothing for retirement or an inadequate amount (Pensions Commission 2005). More recent estimates suggest that there may be up to 10 million saving nothing at all.

So, the inadequacy of saving, and the poor returns available at retirement mean that an impoverished "retirement" will await many in generations "X" and "Y". Stopping work altogether and tending the garden will not be an economic option for substantial numbers.

The policy response to these impacts has been three pronged.

First, state pension age is rising to 66 for men and women, under current plans, from 2020. It is scheduled to rise to 68 later in the century, but most commentators believe that this increase must now come sooner, and higher, towards 70.

Second, all employees will be required to be automatically enrolled into pension saving, starting in 2012. Whilst a start, the low level of combined contributions at just 8%, and the as yet unknown level of opt-outs, do not guarantee a decent level of privately saved retirement income by any stretch of the imagination.

Third, the proposed abolition of the Default Retirement Age of 65 will mean that employers will no longer be able to require an employee to retire; they will be entitled (rather than the current "request" system) to carry on working for as long as they want to. Issues around performance and competence of the older employee will require sensitive management if equality legislation is not to be breached, or to have alleged to have been breached.

But will there be enough jobs to go around? The current slow-down has brought this into sharp focus. For the professional and managerial classes, redundancy can trigger a period of "consultancy", which can fill the gap on a C.V. whilst keeping the individual active and visible in his or her market. For older employees in this group, as we shall see, this transition can be more permanent and can lead to other, unpredicted, opportunities.

Entrepreneurship can occur at all levels of society, for example an employed joiner can start their own firm, or a formerly employed hairdresser can become self-employed and, by number, this group might well constitute the largest proportion of older entrepreneurs. This examination will, however, focus on the professional and senior managerial classes.

Methodology

The research sample was recruited from the Institute of Directors' Policy Voice database of some 2500 people at the date of sampling, with initial response from 1,479 people. Of these, 558 were classified as older entrepreneurs using a definition of "a person aged 55 or over running their own business, be that as a company, partnership or on a self-employed basis, with a view to generation of income or capital value". We asked the respondents some prepared questions, with some specifically for the older entrepreneurs to answer. Some "verbatim" information was gathered where the question set out answer options which included "Other – please explain". We also asked the older respondents if they might be prepared to answer three more open ended questions in a little more depth. Two hundred indicated they would be prepared to do so, and a high proportion of this group did just that. These open ended questions were:

- Q1 – Tell us about WHEN you became an entrepreneur and WHAT event(s) catalysed the transition?
- Q2 – Tell us about the business(es) you started. Were they in a field you had worked in previously?
- Q3 – Many of you have told us that you became entrepreneurs because you had always wanted to run your own business. What are the most important lessons you have learned along the way?

The survey was conducted by e-mail. The initial questionnaire might be described as "quantitative" in nature in containing closed questions only, the subsequent follow up more "qualitative" with the inclusion of the open ended questions above, allowing interviewees to express themselves more fully.

Research findings

There are a couple of comments worth making before presenting the result of the research. The first is that the Institute of Directors (IoD) Policy Voice database has an 85%/15% male/female membership, and this seemed to be broadly reflected in the response. The second, that nearly 25,000 IoD members are over 50, representing over 50% of total membership, with just over 10,000 being over 60, just over 20% of the membership as whole. This could tell us two things; that, for some reason, the IoD forms a natural "home" for older entrepreneurs, or that we were always going to get a higher response rate to a topic like this. None the less, the high level of initial response indicated we had touched some kind of nerve.

How many older entrepreneurs are there?

The response indicating that the interviewee fits the definition of "older entrepreneur" suggests that just over 21% of the database consider themselves to be in this category. Extrapolated to the entire IoD membership, including those on the database, suggests that nearly 1 in 5, or around 8,600 people might be in this category. Extrapolating again to the private sector workforce as a whole, we might get a figure of over 4 million! Clearly this is probably an extrapolation too far – as indicated earlier, there is a bias towards greater age in the IoD membership as a whole[1]. However, we are talking about surprisingly large numbers in the total workforce based on the definition used. This would tend to indicate that many older people are turning to being in business for themselves as a valid choice when considering earning in later life.

What motivates people to become an entrepreneur?

This question was asked of the older entrepreneurs and the response initially surprised us. Figure 1 below gives the reported motivations in percentage terms.

We had expected the leading motivation, intuitively, to have been redundancy from paid employment. However, the responses to the follow-up questionnaire showed clearly that whilst redundancy may not have been the motivation, for many it was the trigger to becoming an entrepreneur – the life event which made them make the jump. Once there, the motivations were different. The open ended responses to the follow-up question reveal common threads. “To build something substantial and worthwhile” and “want to be my own boss, in charge of my own destiny” were typical of the responses. Strong desires to do things better, and to do work that is interesting, came through, with almost a sense of altruism in some cases.

[1] Other obvious caveats to the IoD membership is that it tends to represent successful entrepreneurs, and therefore these analyses are unlikely to include older entrepreneurs whose businesses did not succeed. Furthermore, the membership may also underrepresent leaders of smaller one-person businesses.

What did people do before becoming an (older) entrepreneur?

We asked this question of respondents of all ages, and of the older entrepreneurs separately. Every occupation imaginable was represented here, from Civil Servants and academics though to former CEOs of FTSE 250 and Fortune 500 companies. Amongst the respondents as a whole, there was something of a trend for Accountants, Finance Directors and other Finance professionals to pursue the entrepreneurial life. Management Consultants also showed a strong presence, as did ex Marketing Directors. The older entrepreneurs by contrast contained more respondents identifying themselves as CEOs, Managing Directors and Directors at operational level, with a strong representation of Directors with technical specialisms which they could sell back into the market, or use to set up specialist businesses.

What will make older entrepreneurs retire, when they eventually do?

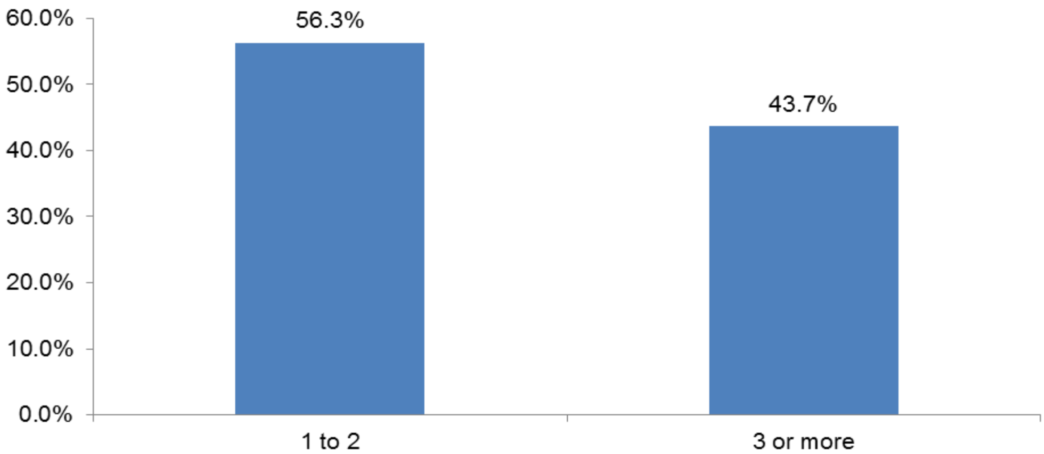
We were interested to see what would finally make older entrepreneurs retire. It was clear from the verbatim responses to this question that the commonest response was "when I stop enjoying what I do" which could, presumably, be quite a long time if physical and mental health sustain. Quite a number were explicit is saying they would never wish to retire, even if they had the means to do so – they just enjoy being in business too much; for example, "I will only retire when I am no longer any use to my clients" was a not untypical response. "I do not see myself retiring completely – I will cut back my involvement but retain some interests" was another. "I would not know what to do with myself if I wasn't working or hatching a plan or making one work" represents another common theme. Ill health was one concrete reason quoted for retirement in full, but this is clearly a group which gets a life-affirming thrill from the chase. This confirms my empirical observation in the IoD Directors Room referred to at the beginning. Age is no barrier to entrepreneurship, and may suit older people through its flexible nature – you are, after all, your own boss. Overall, this looks like a group that will be claiming the minimum in retirement benefits from the state, and paying more in taxes, for quite a long time. Or at least, that is the stated intention. Events can move those intentions quite radically.

How many businesses have (older) entrepreneurs been involved in starting?

It is evident from empirical observation that entrepreneurs are likely to have been involved with more than one business in many cases, so we tried to get a handle on this topic, comparing entrepreneurs of all ages with those over 55.

Figure 2 below gives the results for all entrepreneurs.

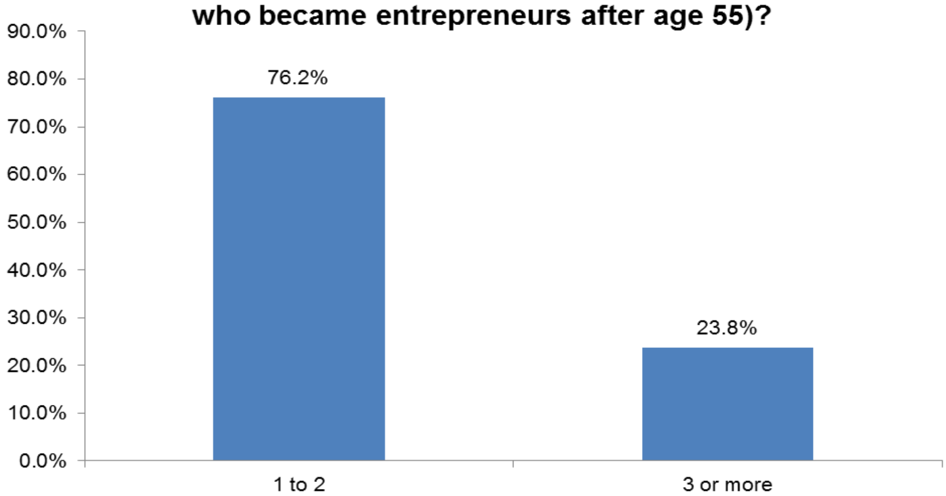
Figure 2: How many businesses have you been key in establishing since becoming an entrepreneur?



Interestingly, there was a long "tail" to this result, with just over 3% of respondents having been involved with 10 or more start-ups! This probably reflects the greater time span over which they have been entrepreneurs, simply giving them more opportunity to do so. Many appear to be "serial" entrepreneurs and they may also, as we shall see later, work on two or more businesses in parallel – "portfolio" entrepreneurs.

The comparative results for those who became entrepreneurs after the age of 55 are shown in Figure 3.

Figure 3: How many businesses have you been key in establishing since becoming an entrepreneur (those who became entrepreneurs after age 55)?



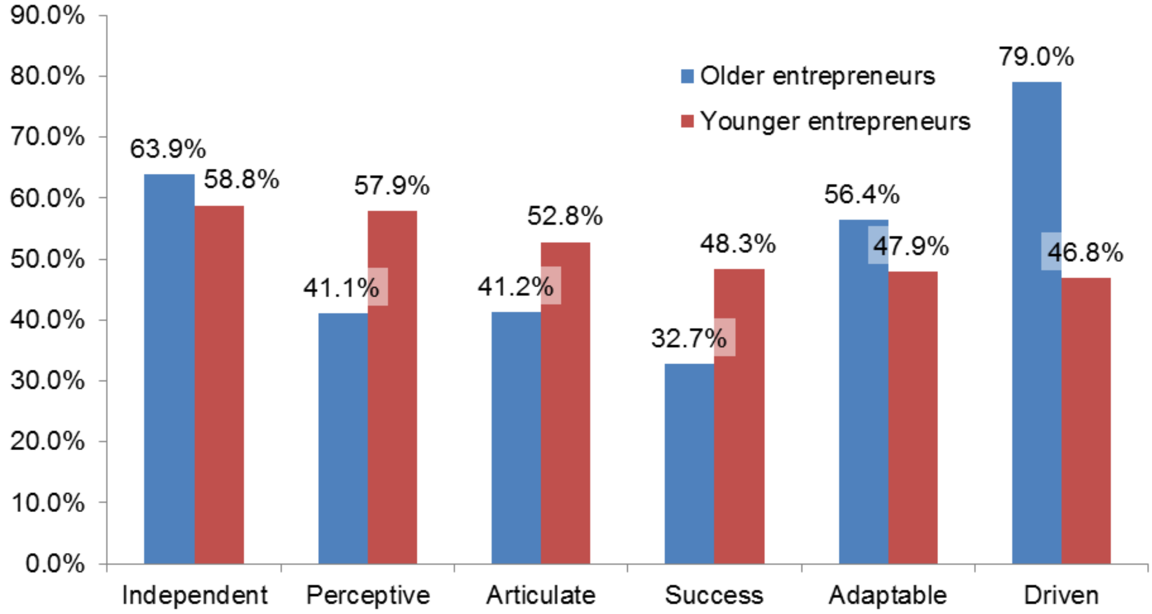
We can clearly see that older entrepreneurs are far less likely to become involved in multiple businesses, and no respondents reported themselves as involved with more than four, unlike younger entrepreneurs. Again, this may be a time issue, as older entrepreneurs simply have less of it before retiring. It may also be related to a tendency for them to start businesses closely related to their fields of expertise when in employment, and their relative seniority when setting up in business compared with younger people. The number of businesses started can be important from the risk diversification point of view; the greater the number of businesses created, the greater the likelihood of at least one of them being a significant success.

The characteristics that mark out an (older) entrepreneur

When studying whether an older person should consider being in business for him or herself, it is important to know which personal characteristics might indicate success in this field, and equally, those characteristics which might suggest this is not an option which should be pursued. It is difficult to be prescriptive about this. I have personally seen formerly shy, retiring, individuals blossom into CEOs of valuable businesses at late life stages, but these are, perhaps, exceptions to the rule. It is also instructive to compare the characteristics which mark out an older entrepreneur with those attributed to younger entrepreneurs.

Figure 4 below gives the respondents' view of the characteristics associated with older and younger entrepreneurs.

Figure 4: Characteristics most associated with entrepreneurs (by age group)



The results here accord with what we saw earlier. Older entrepreneurs have the gravitas and experience, as well as the seniority in their former lives, to know people well. The high emphasis on "independence" also resonates with commentary from the follow-up questionnaire. Tired of the internal politics of corporate life, many older entrepreneurs seem to be motivated by the idea of being entirely independent. The relatively low score for “drive” is also interesting; these characteristically senior individuals may appear to have no points left to prove. However, my own experience suggests that older entrepreneurs in their 60s can display the energy and commitment you might expect of a person half their age.

Figure 4 also gives the results for younger entrepreneurs and shows up some interesting differences. “Independent” scores even higher, perhaps reflecting the perception that younger entrepreneurs are “lone wolves” and not necessarily team players. Certainly, the life of an entrepreneur can sometimes be lonely, so a degree of self-sufficiency is required. But the biggest contrast is in the score for drive compared with the older entrepreneur. These people will have points to prove – as well as mouths to feed, if they have a family – so failure is really not an option. They will have to work hard and long to ensure the risks they are taking bear fruit. Not surprisingly, the words least associated with entrepreneurs of all kinds are words like “cautious” “risk averse” “restrained” “inflexible” and “conventional”. Entrepreneurs need to be imaginative, outgoing and articulate if they are to convince investors to back their ideas with hard cash.

Some other themes

The comments left by respondents when answering the questions – and there were very many of them, indicating a high degree of engagement with the research – make fascinating reading. A great deal of unhappiness was expressed by entrepreneurs with the attitude of the lending banks. Bearing in mind the recent banking crisis, it is perhaps no surprise that the banks are nervous of backing unproven ideas with no current cash flow or revenues. However, even where good security was available, the experience of respondents was one of extreme risk aversion on the part of the banks, much worse than even before the crisis.

Following this on the complaints list was the burden of tax, and “red tape”. Those who had built value in their businesses, taking substantial risks along the way, and then sold out, expressed dismay at the quantum of tax paid. Employment law was referred to as presenting a major risk in its own right, with the potential damage to fledgling businesses in parting with an unsuitable employee being cited in particular. The forest of regulations that impact upon entrepreneurs when they become employers would appear to be a major obstacle, with many respondents saying they always “think twice, then twice more” before hiring staff. Working informally with associates or offering temporary contracts only were popular ways round this.

However, there were lots of positives, too. Some respondents expressed pleasure that an interest was being taken in the field of entrepreneurial activity generally, and the older entrepreneur in particular. Others expressed surprise – “Age is irrelevant” – was suggested by more than one. Many wished they had taken the plunge earlier than they had – “Wish I’d done it before” – and it was clear that the vast majority are enjoying what they do and deriving great satisfaction from it, despite the issues above. Money, in and of itself, did not appear to be a prime motivator, though there was a strong undercurrent of “Wanting to create something of value”. Rather, the chance to be in control of one’s own destiny shone through as the single biggest motivator.

Themes from the follow up questionnaire

The three question referred to at the beginning were responded to by over 180 people, some briefly, others at some length. I am grateful to all those who responded, and the insight from this inch and a half thick sheaf of paper would constitute a book in its own right! All I can do here is to take the comments made most frequently in response to the questions, and present these in order.

Q1 Tell us about <u>when</u> you became an entrepreneur and <u>what</u> event(s) catalysed the transition?

In the responses to this question, it became very clear that redundancy from a previous role was the biggest single <u>trigger</u> (as opposed to <u>motivation</u>) to setting up in business, cited by a clear majority of respondents. Other events were common, too. A take-over of the company where the individual was previously employed at senior level often prompted the decision. Similarly, retirement, or early retirement, could not only act as a trigger, but could put the financial "cushion" in place, through the Tax Free Cash element, that many start-up businesses will need. Reaching one's 50s seemed a frequent jump-off point. Underlying the actual trigger was the common theme "I'd always wanted to be my own boss" (ex FTSE 250 Director). Another common response was frustration with large companies and internal politics. The opportunity to effect a management buy-in to a unit or division of a large company was also cited by some, the chance to "do it better" being a prime motivator. One "portfolio entrepreneur" who started in business age 56 said "At 69 I have, of course, not retired. Onward and upward!", which nicely seems to encapsulate the optimism of the Older Entrepreneur. "Age is no barrier" said a former Director of an Oil and Gas services firm." The opportunity to have a go by someone removing the safety net is a powerful driver".

Q2 Tell us about the business(es) you started. Were they in a field you had worked in previously?

For the vast majority, their <u>first</u> foray into the world of business <u>is</u> in a field they had worked in previously. I use the emphases here because it became clear that those who go on to found, or get involved in, other businesses, would often do so out of their area of expertise, applying their hard-learned entrepreneurial skills to other fields. This is less true for the older entrepreneur, as they have less time to learn and being more senior in their previous roles, very possibly have the "brand" in their areas of expertise to see them through to success. Some older entrepreneurs create "portfolio" positions as non-Executive Directors, or as Chairmen, of growing companies in their field of expertise, often acquiring or being given a shareholding. One such Chairman described his role thus – "I open doors for them". A lifetime's contacts have a value all of their own.

Q3 Many of you have told us that you became entrepreneurs because you had always wanted to run your own business. What are the most important lessons you have learned along the way?

This section was absolutely full of insight, but one single lesson stood out clearly from all the others. “Watch your cash flow like a hawk. A simple gap in cash flow can kill a business as the banks just won’t help” (former MD in manufacturing), and this was echoed by a huge number of other respondents. The transition from salaried employment to invoiced entrepreneurship can be financially painful, or even terminal, for the unwary.

“Be prepared to work harder, and longer hours, than you ever dreamed was possible!” commented the MD of a recently-established IT services company. The MD of a management consultancy said “Going it alone is not really viable”. You need support, either from people who join you in the business, or from outside agencies. Government schemes and sponsored bodies will rarely supply this; the bureaucratic overhead outweighs any potential benefits.”

We’ll close with a comment from one older entrepreneur which probably sums things up neatly.

“Once I went “native” with my own business, there was no turning back!”

Conclusions

The option of going into business for older workers facing redundancy or retirement will not be a sound choice for all. There are personal characteristics which will tend to indicate potential success in this avenue, and others which would tend to contra-indicate. None the less, it is a route which surprising numbers of older entrepreneurs are already taking, and we can only expect this number to increase in a “knowledge economy”, especially one under the impact of a down turn. In addition, older entrepreneurs can turn into quite large employers, the largest in this sample employing over 80 people now in just one of his successful businesses. As a group, they will be paying taxes in many cases well past state retirement age, so they are a group to be encouraged rather than the reverse. They are also a cheerful and optimistic group, who are genuinely enjoying what they do; what they do is hugely diverse, from Management Consultancy, through Manufacturing and IT Services to one respondent who is in business as a Funeral Celebrant.

The Older Entrepreneur is alive and well and this is surely something to celebrate in the business life of the UK.

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