Ambitious, adept and agile
How global entrepreneurs are changing the world
Ambitious, adept and agile
Celebrating entrepreneurial success

The global entrepreneur

Today entrepreneurs are born global. It’s a bold statement but it’s true. An entrepreneur sitting in one country can have his research and development done in another country, his marketing handled from another, his product manufactured in yet another, and then have it distributed to customers around the globe.

It wasn’t always like this. Even just 10 years ago, entrepreneurs focused largely on their home markets. The rise of the emerging markets and the mass adoption of the internet have ushered in a new age of globalization that has changed the game for entrepreneurs everywhere.

If anything, these changes have increased the power of entrepreneurs. With their optimism, ability to spot opportunities and sheer hard work, they inspire others and drive positive change. This has never been more important than now, as we emerge from the worst global downturn in generations. Around the globe, we need more jobs to improve sentiment, increase consumer spending and sustain the recovery. Entrepreneurs play a vital role in creating these jobs.

To learn how some of the world’s best entrepreneurs are taking advantage of the opportunities of globalization, while avoiding its risks, we spoke to 300 of them, all of whom have taken part in our Entrepreneur Of The Year program. The results make fascinating reading and I hope you enjoy it.

James S. Turley
Chairman and CEO
Ernst & Young
In our globalized economy, where innovation and agility are vital to success, entrepreneurs matter more than ever. They are the lifeblood of the world economy and deliver growth in a slow-growth environment.

At Ernst & Young, we have long celebrated the spirit of entrepreneurs. Since 1986, our Entrepreneur Of The Year® program has been recognizing and rewarding the people behind many of the world’s most innovative businesses. The program has expanded to more than 135 cities in 50 countries, with over 900 exceptional entrepreneurs receiving an award each year.

We are proud to recognize the achievements of these outstanding individuals and remain committed to highlighting and encouraging entrepreneurial activity around the world.

These are some of the world’s best entrepreneurs sharing their view on globalization.

Matthew Szulik (US), Chairman of Red Hat Inc., the world’s largest supplier of open-source software to business.

Aurelio Montes (Chile), Chairman of the Board, Montes S.A., a pioneering Chilean wine producer whose products are sold in more than 100 countries.

Nizan Guanaes (Brazil), Chairman of Grupo ABC, the largest communications group in the emerging markets and 20th largest in the world.
How global entrepreneurs are changing the world

Countries running our Entrepreneur Of The Year® program
For more information please visit www.ey.com/eoy

James Blakemore (South Africa), CEO of ZEST Electric Group, Africa’s largest supplier of electrical motors and equipment.

Chris Van Doorslaer (Belgium), CEO of Cartamundi Group, the world’s leader in playing cards and related products, with more than 1,000 employees globally.

Aaro Cantell (Finland), Chairman of Normet Group, the market leading manufacturer of specialized underground mining and tunnelling machines, operating in 25 locations in 5 continents.

Hugh O’Donnell (Ireland), CEO of Kentz Group, an engineering and construction business serving the oil industry in over 26 countries.

Narayana Murthy (India), Chairman and Chief Mentor of Infosys Technologies, a provider of “next generation” software solutions to global corporations, with more than 50 offices worldwide.

James Blakemore (South Africa), CEO of ZEST Electric Group, Africa’s largest supplier of electrical motors and equipment.

Richard Elman (China), Founder and CEO of Noble Group, a global supply chain management company with operations in more than 40 countries.

Daisy Poon Wai (China), Chief Executive Officer of Ajisen (China) Holdings Ltd., the biggest chain of Japanese restaurants in mainland China & Hong Kong, with 435 restaurants.

Cao Dewang (China), Chairman of Fuyao Glass Industry Group, the leading auto glass manufacturer in China, ranked fourth in the industry globally.

Dr. Christopher Tsai (Taiwan), Chairman of BIONET Corp., a pioneering company in the stem cell industry and the first to develop genetic diagnostics for prenatal testing.

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Executive summary

The forces of globalization continue to change the world of business. Advances in technology and the seemingly endless appetite of business to seek out new growth opportunities have made us more interconnected than ever before. As we enter a new and uncertain business era, one thing is clear - the most successful companies, regardless of size, sector or location, will be those that understand and embrace these changes and that can create business models that can adapt quickly to the challenges and opportunities the changes present.
Globalization has, without doubt, been a hugely positive force for entrepreneurs. By enabling capital, labor, goods and technology to flow freely across borders, it has increased exponentially the commercial opportunities that are available. And by allowing entrepreneurs to think globally from the outset, globalization has also increased the market size - and the potential rewards.

The rise of the emerging markets has created a more level playing field for businesses. However, the “flat world” of new opportunity and competition is certainly not a straightforward one. Indeed, globalization has vastly increased the complexity of the business environment. As the recent financial crisis has shown, shocks that arise in one corner of the world can quickly be transmitted around the globe. To succeed in this environment, entrepreneurs need perseverance, a level head and the agility to respond quickly to new opportunities and threats.

In many ways, entrepreneurs are ideally suited to this more interconnected, complex world. Globalization has multiplied both risks and opportunities, and this highly uncertain environment is one in which the entrepreneur naturally thrives. Indeed, a strong argument can be made that entrepreneurs now have a substantial advantage over more traditional multinationals, whose governance, decision-making and stakeholder relationships impede quick reactions to new external stimuli. The coming decade could be a golden era for the globally agile entrepreneur.

This report examines how the world's best entrepreneurs are responding to these challenges. It features insights from a survey of almost 300 entrepreneurial business leaders from around the world and is informed by a series of in-depth interviews with leaders who have been recognized with an Ernst & Young Entrepreneur Of The Year Award. Here's what they told us:

**Key findings of the report**

1. **Globalization will drive the age of agility**
   In a more globally connected world, entrepreneurs are looking to outdo established multinationals by building globally agile businesses that respond more quickly to change and opportunity. An internationally experienced management team with an ability to understand and adapt to different cultures will be a key ingredient of success.

2. **Entrepreneurs will drive global growth**
   The world’s best entrepreneurs are not likely to waste the shake-up of the economic downturn. While many multinationals see a downturn as a time for caution, organizations with an entrepreneurial mindset are planning international expansion and seeking M&A deals in new markets around the world.

3. **New competitors and new rules are emerging**
   Globalization has opened the door to new and unforeseen competitors. Fast growing businesses from the emerging markets are set to challenge the established Western leaders. As new competitors enter the scene domestically and internationally, the world’s best entrepreneurs are responding with greater innovation to ensure that they can rise to the challenge of the new competitive landscape.

4. **Globalization is driving - and changing - innovation**
   Entrepreneurs are always seeking new ways to develop their ideas. Greater involvement of clients and suppliers and a focus on supply chain innovation are helping entrepreneurs stay ahead of the curve. However, a more decentralized approach may offer opportunities to learn from the more progressive multinationals, which are already developing products and services in their fastest-growing markets.
Thriving in the global village

Entrepreneurs have been a driving force behind globalization for centuries. Ever since the earliest traders traveled to unfamiliar lands to exchange surplus goods, there has been a cadre of pioneering risk-takers who have sought to expand the boundaries of commerce beyond existing frontiers. Over time, these geographical barriers to business have fallen away and today, entrepreneurs think globally from the outset.

The characteristics of entrepreneurs make them well suited to take advantage of globalization. In his 1921 work Risk, Uncertainty and Profit, the economist Frank Knight defined an entrepreneur as someone who was willing to assume the risk and profit involved with the uncertainty associated with a particular situation. In today’s business environment, when there are major structural shifts under way in the global economy and companies are still reeling from the worst financial crisis since the 1930s, there is no shortage of uncertainty. But rather than see this situation as a threat, entrepreneurs tend to focus on the opportunities that more risk-averse businesses may be reluctant to seize.

Globalization has offered entrepreneurs the opportunity to gain rapid access to a global market, especially in sectors that inherently span national borders, such as technology. “Today’s entrepreneurs, by definition, have to look at the entire globe as their arena,” says Narayana Murthy, Chairman and Chief Mentor of Infosys Technologies, a provider of “next generation” software solutions to global corporations.

The ability to operate globally is no longer restricted to businesses that have attained a certain scale. Indeed, even early-stage companies can set out to be global from their inception. “Global entrepreneurs look at the total addressable world for their product even before they start developing the intellectual property and certainly before anything is commercialized,” says Derek Goodwin, head of the Global Entrepreneur Program at UK Trade and Investment. “When they establish a business, they are thinking from day one about global markets.”

There is a strong consensus among the entrepreneurs who took part in our survey that, on balance, globalization has been a positive force. Three-quarters agree that it has been good for their business, and a similar proportion agree that it has had a positive impact on overall growth (see charts 1 and 2). Other factors, such as the ability to access low-cost materials and human resources, are seen as less important, which suggests that perceptions of globalization have shifted toward a focus on market potential rather than merely seeking cost arbitrage.

“In the past, there was skepticism about globalization and the benefit it brings,” says Ireland’s Hugh O’Donnell, Chief Executive of Kentz, a global engineering specialist solutions provider. “Today companies truly understand that in order to be successful it pays to be global in their outlook.”

The ability to access global markets goes hand in hand with an increasing role for entrepreneurs in applying themselves to solve problems, such as climate change or water shortages, that are global in nature. “Globalization has exacerbated a range of transnational problems, such as climate change, that traditional state actors have either been unwilling or unable to address,” says Stephan Chambers, head of the MBA Program and Chairman of the Skoll Center for Social Entrepreneurship at Saïd Business School, Oxford University. “There is a huge opportunity for entrepreneurs to step in and provide alternative solutions.”

No wonder, then, that the current “hot” sectors for entrepreneurs – such as green technology, cloud computing and biotechnology – take no account of geographical boundaries. “There are definitely no borders to our industry,” says Christopher Tsai, Chairman of Bionet, a biotechnology company based in Taiwan. “There is only one way to go and that is global.”

The same characteristics that enable entrepreneurs to thrive in an era of globalization also make them well-placed to deal with the aftermath of the economic crisis. Their willingness to take risks when others will not provides impetus to stagnant economies, while their lateral-thinking approach can provide a fresh perspective on seemingly intractable problems. “Entrepreneurs should put their entrepreneurial spirit into full play and leverage their foresight based on the situation in their countries and actively contribute and participate in driving the recovery of the global economy,” says Cao Dewang, Chairman of Fuyao Glass Industry Group, an automotive glass manufacturer based in China and the Ernst & Young World Entrepreneur of the Year, 2009.
Chart 1: Please rate your agreement to the following statements. Scale: strongly agree, agree, neutral, disagree, strongly disagree. (Percentage that strongly agree and agree)

Globalization has been good for business

- Competition has increased due to globalization: 78%
- Overall, globalization has been good for my business: 75%
- Globalization has opened the door to new and unforeseen competitors: 67%
- Competition in our local market is increasingly coming from non-domestic companies: 51%
- Global, rather than domestic, regulation would make it easier for my business: 46%

Chart 2: In which of the following ways has globalization had a positive impact on your business over the past three years?

Globalization helped drive growth

- Overall growth: 72%
- Profitability: 51%
- Access to materials: 39%
- Access to human resources: 32%
- Ability to innovate: 30%
- Investment opportunities: 29%
- Access to finance: 16%

John Ferraro
Chief Operating Officer – Ernst & Young

“Despite a brief pause for breath during the global economic recession, further globalization is inevitable over the longer term. The exchange of ideas; culture, people and capital is a force for good. It creates a dynamic business environment ripe with new opportunities, innovation and fresh thinking – and one in which entrepreneurs will continue to thrive, wherever they are in the world”
“While markets can quickly gain geographical scale, it takes longer to create a more diverse workforce that reflects the variety of markets in which the company operates.”

Strength through cultural diversity

The speed with which entrepreneurs can now attain global market scale is impressive, but it can lead to a mismatch with other aspects of their business. One example of this is the composition of the management team. While markets can quickly gain geographical scale, it takes longer to create a more diverse workforce that reflects the variety of markets in which the company operates. Entrepreneurs may find themselves running a global business with a management team that has been left behind in terms of its cultural diversity.

More than six out of ten respondents say that less than 5% of their management team are nationals of another country. There is a danger that this could result in a lack of cultural diversity, which in turn could lead to “groupthink” that fails to take the breadth of markets in which the company operates into account. “Management teams can come up with better and more innovative answers when they can get different perspectives around the table” says Richard Elman, founder and Chief Executive of Noble Group, a global supply chain management company based in Hong Kong. “In a more globally connected world, businesses with boards lacking in international or cross cultural experience are going to fall behind the rest.”

For many entrepreneurs in our survey, international expansion has, over time, led to a more diverse management team. Among the respondents with operations in more than 11 countries, just 30% say that less than 5% of their management team are nationals of another country (see Chart 3). There is also a general willingness among respondents to broaden international representation. Half of the entrepreneurs questioned say that they expect to increase the proportion of senior management that are nationals of another country over the next three years.
International diversity is an important characteristic of a global business, but Matthew Szulik, Chairman of US-based Red Hat, the world’s largest supplier of open-source software to business, also highlights the importance of developing a global mindset among individual entrepreneurs and managers. “Educational institutions face the challenge of producing young people who have the curiosity, interest and passion to learn about new cultures and be able to export that brand of innovation into those markets,” he explains. “When done successfully and correctly with great respect to local cultures, it can be an economic boost and a strategic advantage to your company.”

Management teams may have limited geographical diversity, but international experience can help to give leaders a more global view and the ability to adapt to different cultures. “The executives that I have recruited – whether it be the Chief Financial Officer or the General Counsel – all have extensive international experience,” says Mr. Szulik. “They must have lived in international markets or have spent a large part of their professional careers working internationally. That’s a prerequisite now.”

Global mindset, local knowledge

Post-crisis, global entrepreneurs must take stock of how the economic landscape has changed. They must recalibrate their strategies to take account of factors such as an economic shift in weight from West to East and the contrasting potential of developed and emerging markets. This requires them to make rapid decisions over where in the world to allocate capital and resources, while at the same time ensuring that they have a clear understanding of local customs and operating conditions.

This global mindset will be crucial to the success of entrepreneurial businesses over the coming decade. “When you have a global mindset, you automatically begin to look for the best global way of doing things,” says Mr. Murthy. “So you pick the best aspects of the business from wherever in the world they have the best and most effective methods. This means that we end up working toward the best in everything we do. Therefore, we will provide the best global products and services even for the local markets.”

As entrepreneurial businesses grow, they must strike a balance between a nuanced understanding of local cultures and the need to maintain universal, global values. “Every business must understand and identify with the local market, culture and values,” says Mr. Murthy. “You have to understand how to adapt to these local conditions and how to graft universal values onto local considerations. Once you leverage the power of the values linked to a local market and combine them with universal values, you excite people. You create enthusiasm among your employees of all nationalities.”

The application of universal values depends on a sense of responsibility and a mutual understanding between the business and the markets in which it operates. “You must impress on the local community that you intend to behave, act well and be a steward in support of their local communities and culture, regardless of how you choose to distribute your products,” says Mr. Szulik. “You must behave correctly and ensure that you’re serving customers in alignment with the local culture.”

This combination of a global mindset and local application – sometimes called “glocalization” – requires companies to strike a delicate balance between realizing economies of scale and remaining relevant to customers in local markets. “There are some things that need to be done locally, but there are others that need to be done centrally and finding this balance is, of course, always an exercise that we need to spend quite some time on,” says Chris Van Doorslaer, Chief Executive of Cartamundi Group, a playing cards manufacturer headquartered in Belgium.

Technology can play an important role in providing the tools that are necessary to square this circle. “The new globalization is having international tools, international knowledge and international networking to make local decisions,” says Nizan Guanaes, Chairman of Grupo ABC, the largest communications group in Brazil.

For entrepreneurial businesses that expand rapidly, the transition from a company that operates in multiple markets to one that is global can be difficult. “One of the challenges that we face is to be a truly global company and not a union of local companies all over the world,” says Aaro Cantell, Chairman of the Normet Group, a Finland-based manufacturer of specialized underground mining and tunneling machines. “I don’t have the answer to that, other than ensuring that people work together and cooperate as we go along.”
Survival of the quickest

A key advantage of entrepreneurs over multinationals is their agility. In general, they can make decisions quickly and change direction in response to a new opportunity or threat. “If an entrepreneur spots an opportunity and he is still in the entrepreneurial mindset, he can quickly reshuffle and reorganize the firm to take advantage of it,” says Davide Sola, Associate Professor of Strategy and Director of ESCP Europe’s London campus. “In a multinational, on the other hand, any new strategic direction will require quite a lot of discussion in order to be accepted, because there are a lot of constituencies, including the board and shareholders, that need to be in agreement.”

But in an age of globalization, agility is no longer a given for an entrepreneurial business, particularly for those that have scaled up quickly and have operations in many countries. As an entrepreneurial business expands, new layers of reporting can be introduced that hamper the ability to make quick decisions. Since agility and rapid decision-making are seen as a key advantage of the entrepreneur over a traditional multinational, this is something that must be avoided at all costs. “It’s not the big beasts that eat the small players, it’s the nimble ones that eat the slow,” says Mr. Murthy. “As long as a company focuses on openness to new ideas, meritocracy, speed, innovation and excellence in execution, then it will have a fair chance of catching up with bigger companies and beating them.”

Tony Fernandes, Chief Executive of AirAsia, a low-cost airline, credits agility as being key to his company’s rapid growth. “The single most important thing that has kept us alive is the ability to adapt and change very quickly,” he says. “The ability to seize opportunities through innovative thought has been the bedrock of AirAsia.”

In our recent publication Redrawing the Map, Donald Sull, Professor of Management Practice at London Business School, drew a distinction between agility and absorption. He said that the former is essential for spotting and exploiting new opportunities, while the latter allows firms to weather shocks with a protected core market, diversified cash flow, a strong brand or long-term customer contracts. “To me, the striking thing is how fast agility can trump absorption,” he added.
“It’s not the big beasts that eat the small players, it’s the nimble ones that eat the slow”
The engine of global growth

The days when globalization was a one-way street of Western multinationals seeking out low-cost materials and labor have long gone. Today, commerce travels in every direction, and companies from emerging markets and developed countries mix with each other and sell across the full range of global markets. “Globalization means that we have direct access to customers all over the world,” says Mr. Cantell. “It has been a huge opportunity for us.”

The process of globalization means that entrepreneurs derive a growing proportion of their revenues from non-domestic business. Red Hat provides a good illustration of this broader trend. “Almost 60% of our sales come from outside the United States,” says Mr. Szulik. “In five to 10 years, I would think that would be 70% or 80%.”

Among the respondents to our survey, 42% derive more than one-quarter of their revenues from international customers. But the respondents expect that in three years’ time, 55% will reach that benchmark. At the other end of the scale, the proportion of respondents whose companies derive less than 10% of their revenues from international operations is expected to fall from 40% to 18% over the next three years (see Chart 4).

Entrepreneurial businesses that have already embraced globalization tend to benefit from a “positive feedback loop” of deepening international integration and continuing growth. Among respondents whose companies derive more than a quarter of their revenues from international clients, 86% say that globalization has benefited them in terms of overall growth, compared with 53% of companies that attribute 9% or less of their business to international customers (see Chart 5).

![Chart 4: What proportion of your company revenues are currently derived from international clients / customers? And what do you expect in three years?](image)

![Chart 5: In which of the following ways has globalization had a positive impact on your business over the past three years?](image)
An important factor behind the ability of entrepreneurs to expand internationally has been the steady erosion of trade barriers. Under the auspices of the General Agreement on Tariffs and Trade and its successor, the World Trade Organization, there has been a significant reduction in the number of trade tariffs and subsidies. Progress on trade integration has slowed recently, with the Doha round of negotiations yet to be concluded and the threat of protectionism re-emerging during the recent financial crisis. But as we demonstrated in the Globalization Index, which formed part of our Redrawing the Map publication, the movement of goods and services will increase between 2010 and 2013, despite a slowdown during the financial crisis. “The removal of barriers and the lowering of borders has made it much easier to access outside markets,” says Mr. Murthy.

The Globalization Index also highlighted how technology has played a vital role in driving greater global integration of trade, capital and labor. This has helped to give entrepreneurs greater insight into global markets and the information that they need to pursue opportunities. “Communications have opened up new avenues of opportunity to find customers and suppliers across our patch,” says James Blakemore, Chief Executive Officer of the ZEST Electric Group, Africa’s largest supplier of electrical motors and equipment. “I have a database that will tell me about any mining projects in Africa. In the past, we would have had to read about things in the newspaper or talk to contacts in the industry. Globalization has made finding out about projects and sourcing products far easier.”

**Opportunity in a crisis**

Enthusiasm for risk-taking and an inherently contrarian streak mean that entrepreneurs often see opportunity where others see threat. In the wake of the global financial crisis, many multinationals remain wary of large-scale international expansion. Although growth is once again back on the agenda, big cross-border M&A deals remain the exception rather than the rule, and foreign direct investment (FDI) is a long way from regaining the heights that were scaled in the previous decade. According to the World Investment Prospects Survey 2009-2011, published by the United Nations Conference on Trade and Development, only 22% of respondents said that they expected to increase FDI expenditure in 2010.

The entrepreneurs in our survey are more confident in their plans for international expansion. Almost three-quarters say that they will increase the number of countries in which they have a physical presence – with a quarter of respondents planning a significant increase. The remaining quarter plan to maintain their presence, and none are planning a retraction.

This finding suggests that, rather than choosing to ride out the storm of the downturn, entrepreneurs are looking to take advantage of international opportunities that more risk-averse businesses shun. As Dr. Tsai says: “This downturn is a once-in-a-lifetime opportunity to increase our market share.”

Among those respondents whose businesses currently operate in 11 or more countries, 37% say that they will significantly increase the number of countries in which they operate over the next three years (see Chart 6). Having already reaped the benefits of globalization, these entrepreneurs with an international mindset are keen to deepen their presence into new markets even further.

Julie Teigland
Strategic Growth Markets Area Leader for Europe, Middle East, India and Africa — Ernst & Young

“In this more connected world, huge opportunities exist for ambitious companies with the desire to go global. Although entering into new, unchartered territories can be challenging, the rewards can be immense. The world’s best entrepreneurs regularly rise to this challenge. They respond quickly to new opportunities, but never enter a new market with their eyes closed. Instead they make sure they understand the new environment, appreciate the cultural differences and focus time and energy on finding the right partner.”
The joint venture remains the most popular cross-border entry strategy among entrepreneurs seeking access to new international markets. Three-quarters of respondents say that they will increase joint ventures or partnerships with non-domestic companies over the next three years (see Chart 7). “A lot of Western companies are making joint ventures with Asian companies because everyone feels that Asia is the place that will shine and be much stronger in future when it comes to the global economy,” says Dato’ AK Nathan, Group Managing Director of Eversendai Corporation, a leading specialist structural steel contractor from Malaysia.

Entrepreneurs can also be expected to lead a revival in cross-border M&A activity. With notable exceptions, such as Kraft’s acquisition of Cadbury and Prudential’s planned purchase of AIA, large cross-border transactions remain few and far between. Yet among the entrepreneurs questioned for this survey, 60% say that they plan to increase levels of cross-border M&A over the next three years (see Chart 7).

Despite these high levels of optimism, constrained access to credit will remain a drag on cross-border activity for some companies. Market expansion will be limited to those entrepreneurs who can gain access to finance or who are in a cash-rich position. Ajisen, a fast-food operator based in China, is one company that has been able to take advantage of its strong balance sheet. “The global financial crisis has left many enterprises under distress because of insufficient capital,” says Daisy Poon Wai, founder and Chief Executive of Ajisen. “We are very fortunate to have sufficient cash with almost zero debts. So we would like to utilize existing capital for new areas of growth.”

Dr. Tsai of Bionet points out that investors are still looking for opportunities, which means that attractive companies can enjoy preferential access to finance, despite the financial crisis. “Investors are still looking to target companies, but there are very few that qualify for their risk assessment,” he says. “With very few good targets, there will be a lot of money finding its way into a limited number of good companies. That is why we accelerated fund-raising during the crisis.”

Entrepreneurs may be risk-takers who are keen to push the frontiers of business, but this does not mean that they rush into new markets without first doing their research. “There’s a limit to where you can expand to, and that limit is usually your understanding – or lack thereof – of the local market,” says Mr. Guanaes. “I’m just opening a head office in New York, and some people have asked: ‘Why don’t you do that in China?’ Well, I don’t know the market in China.”

“Investors are still looking for opportunities, which means that attractive companies can enjoy preferential access to finance, despite the financial crisis”
Market knowledge is a cornerstone that must be in place prior to an international investment. Mr. Van Doorslaer points to an investment that Cartamundi recently made in Mexico as an example. “We made several visits to Mexico,” he explains. “We visited the potential customers and competitors and tried to understand the market as well as possible.”

Aurelio Montes, owner of Viña Montes in Chile, highlights the importance of gaining a strong appreciation of the cultural differences among international markets. “You have to understand the people to whom you are selling your product,” he explains. “So I would say that we have a slightly different approach to every country in which we introduce our product.”

Armed with this local knowledge, the next step is to identify and join forces with a partner – either through a joint venture or through outright acquisition. Here, entrepreneurs rely on their ability to build networks with like-minded individuals. “There are financial and market criteria to consider, such as the presence of the potential partner in the market and whether they have a good brand, but the most important factor is whether we will be able to work well together,” says Mr. Van Doorslaer. “Although cultures are different around the world, we need to find people who are as passionate as we are about this market and who want to develop the business as much as we want to develop it.”

Despite their strong focus on international expansion, entrepreneurs do not forget their domestic market. Asked about the categories of countries that represent the best opportunities for growth, respondents are most likely to cite their local or domestic market (see Chart 8). Entrepreneurs in the world’s fastest-growing markets, such as India and China, are particularly positive about the prospects for their local market. “While the US and the European markets continue to be important for us, the Indian market is growing rapidly,” says Mr. Murthy. “The base is small right now, but the growth rates are huge. As we move forward, we will have a more balanced portfolio between the developed markets and the developing markets.”

**Best opportunities for growth**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of 4 or 5 scores</th>
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<tbody>
<tr>
<td>Local / domestic market</td>
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<tr>
<td>Developed markets</td>
<td>66</td>
</tr>
<tr>
<td>Emerging markets e.g., China, Brazil</td>
<td>56</td>
</tr>
<tr>
<td>New emerging markets e.g., Indonesia, Vietnam</td>
<td>34</td>
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*Chart 8: Which of the following categories of countries will offer the best opportunity for your business to grow over the next three years? 1-5 scale with 1 = least important for growth and 5 = most important for growth.*

**International expansion: a practical guide**

Entrepreneurs throughout the world are thinking and acting more globally. Ambitious businesses, regardless of size or sector, are looking at new ways to grasp and embrace the opportunities presented by an increasingly inter-connected world. Expanding internationally is a great way to accelerate growth and doing it for the first time can be a major milestone for growing business. However, in a fast changing business environment, the opportunities for success are often matched by the risks getting it wrong. From new legislation, cultural differences and increased competition to the challenge of leading a more diverse and widespread workforce and managing a more complex infrastructure, when your business goes global, things naturally get more complex.

Of course, none of this will deter the best entrepreneurs. To help business leaders make the most of the global market place, Ernst & Young has created a new guide that explores the critical success factors in expanding across borders with a focus on fast-growth companies operating in Europe, the Middle East, India and Africa. Designed to help businesses enter new markets with confidence, it examines how to manage the strategic and operational issues a business faces when growing across domestic borders. From alignment with the broader business strategy and choosing the right market to addressing the more day to day to issues such as IT operations and supply chain management, this guide will help identify the opportunities and critical success factors when considering expanding internationally. This report will be released in July 2010.
Competition redefined
Globalization has undoubtedly created new opportunities for entrepreneurs, but the flip side of this is that competition has also increased. Greater access to markets, ongoing trade liberalization and the shift of economic weight from West to East have opened up new channels for international competitors to expand across borders and grab market share.

This is the “flat world” that Thomas Friedman described in his 2005 book The World is Flat, and that Mr. Murthy sees as the key characteristic of the contemporary business landscape. “A flat world is one where there is opportunity for every nation to bring its best products and services to the global bazaar and compete to find the best value for money to the customer,” he explains. “And it is a world in which every nation has a good chance of succeeding at something as long as it is willing to play by the rules of the game.”

More than three-quarters of the entrepreneurs who took part in this survey agree that competition has increased as a result of globalization. The nature of the competition is changing, too. Just over two-thirds indicate that globalization has opened the door to new and unforeseen competitors, while 51% agree that competition in their local market is increasingly coming from non-domestic companies (see Chart 1).

“Globalization has broadened the competition,” says Mr. Blakemore. “It is now easier for our clients to connect with companies that provide the same services we do. It’s far more of a push-button exercise to be able to access a competitive price.”

Entrepreneurs in developed countries find that they must contend with a new generation of competitors from fast-growing markets. “Twenty years ago, our competitors were European,” says Mr. Blakemore. “Today, the bulk of the competitors come from China.”

Leading companies from fast-growing markets are outgrowing their origins as low-cost alternatives to Western brands to become globally recognized brands in their own right. In our recent report Redrawing the Map, we described how China’s leading mobile device maker, ZTE, which only began foreign operations in 1997, is set to overtake Sony-Ericsson this year to become the world’s fifth-largest device maker. “We no longer see ourselves as a Chinese company,” explained He Shiyou, Executive Vice-President of ZTE. “We see ourselves as a global company.”

The increasingly global scope of competition highlights the importance for entrepreneurs to take advantage of international opportunities. Those who do not will increasingly find themselves at a disadvantage to companies that have more readily chosen to grow their international business. “They will compete with countries that produce cheaper products and services, they will have to get talent from wherever it is available and they’ll have to go to stock exchanges where they can best raise their money,” says Mr. Murthy. “They may not do well in the beginning in such a globally competitive world. But they must persevere with a mindset that says: ‘I will compete with the best global company.’”

Entrepreneurs whose companies have the most internationally diversified operations are particularly conscious of the increase in competition. Among those respondents whose companies derive more than one-quarter of their revenues from international operations, 84% agree that competition has increased as a result of globalization, while only 71% of respondents that earn less than 10% of their revenues from non-domestic operations agree with this statement (see Chart 9).

One possible explanation is that entrepreneurs who focus internationally are more familiar with the changing competitive landscape worldwide, while those who focus on domestic markets are less aware – and will therefore be unprepared for the shift in dynamics.
Although competition from foreign markets, and particularly fast-growing markets such as Brazil, China and India, is on the rise, this is not to suggest that local competition is abating. Asked about the category of countries that will offer the greatest competition to their business, entrepreneurs still see local companies as the biggest threat (see chart 10). As Harold Sirkin, James Hemerling and Arindam Bhattacharya argue in their book Globality, the business world is “competing with everyone from everywhere for everything”.

Increased competition creates new challenges for entrepreneurs, but it also has a positive impact on overall levels of innovation and the choices available to consumers. As markets open, competition intensifies and the pace of innovation increases. This forces companies to innovate in order to keep up with the increased level of competition. The result is better products and services. “Fierce competition and differences in culture can foster corporate innovation,” says Ms. Poon Wai.

Competition also increases the pressure on companies to maximize efficiency for similar reasons. “A key attribute of an entrepreneur is to maintain self-control,” says Haryanto Adikoesoemo, President Director of PT AKR, a trading and distribution company based in Indonesia. “Even though the market is good, we have to be very strong in our discipline and self-control to monitor continually the return on assets, working capital and return on capital.”

Mr. Montes agrees and says that the downturn encouraged a much greater focus on efficiency in his business. “We learned that we have to be prepared for crisis in any time of life,” he says. “So we became much more prudent in our approach to the business, much more austere. We asked ourselves and our employees in our company to be much more efficient.”
Entrepreneurship in Asia

Ten years ago, entrepreneurs in Asia had limited opportunities to build a successful business in the region. Although the local population was large, GDP per capita rates were low, which meant that the available market was limited. Entrepreneurs also had to contend with sometimes-stifling government regulation, a lack of available finance and inadequate skills.

Today, the situation has changed dramatically. A huge middle class presents an unprecedented market opportunity for Asian entrepreneurs. According to The Middle Class Kingdoms of India and China, a forthcoming publication by Surjit Balla, an Indian economist, the middle-class population in Asia exceeds the middle-class population in the West for the first time since 1700. This huge market potential represents a powerful source of future growth for Asian entrepreneurs, particularly when combined with their ability to access low-cost local talent and resources, and their familiarity with the domestic business environment.

A decade ago, Asian entrepreneurs would have needed to focus on non-domestic markets as their primary source of growth, because their own markets were too small. Today, however, with their domestic economies expanding rapidly, they can supplement their strong export performance with a focus on high-growth business at home. “Initially our market was not as big as Europe or the US, so we had to look abroad to expand our business,” says Mr. Adikoesoemo. “Now, with the Asian economy growing rapidly, not only are we used to selling in overseas markets, but we also have our domestic market, which is growing more quickly.”

Asian entrepreneurs use their familiarity with local markets to take maximum advantage of domestic growth opportunities. This includes penetrating markets more deeply beyond the coastal cities and major population centers. “Instead of just the big cities, we are now moving into the smaller cities and more remote islands,” says Mr. Adikoesoemo. “Once we are established, competitors will find it difficult to enter because the market is not big enough for two.”

Long-standing experience of operating in a challenging economic and business environment also gives Asian entrepreneurs an advantage over their Western counterparts. This is likely to stand them in particularly good stead in the current climate, when the world is still recovering from the global financial crisis. “Chinese and Asian entrepreneurs will be the major forces leading the economic recovery,” says Ms. Poon Wai. “The tenacity and perseverance of Asian entrepreneurs, especially women, and their down-to-earth nature stand for a unique and valuable entrepreneurial spirit.”

The absence of a social security cushion in many Asian countries predisposes populations to entrepreneurship because they may have little other choice. “When people in Asia lose their jobs or get sick, they have to do something to create an income,” says Dr. Tsai. “Other people are forced to set up a business to supplement their income, because salaries are generally lower than in the US or Europe.”
Innovation gives a global edge

The urge to innovate is hard-wired into the entrepreneur’s makeup. Indeed in The Theory of Economic Development, the Austrian economist Joseph Schumpeter said that innovation was a defining factor of entrepreneurship. It was Schumpeter who first used the term “creative destruction” to refer to the process whereby an entrepreneur comes up with an innovation that renders an old way of doing things obsolete.

During times of economic downturn, when many multinationals pull back from risk-taking and cut costs in research and development (R&D), entrepreneurs frequently take the opposite approach. “Companies have to innovate even more during a recession,” says Mr. O’Donnell. “If a business has two or three variables and then two or three more come into play, then the opportunity for innovation increases.”

During the downturn, some entrepreneurs took advantage of a more cost-conscious mood among customers to develop or adapt their products and services accordingly. “We had to create some new things, new challenges and new proposals to the market,” says Mr. Montes. “So we developed some new products that were more in tune with what the market was demanding.”

Although globalization has forced entrepreneurs to innovate because they face stiffer competition, it has not necessarily made the process any easier. Just 30% of respondents say that globalization has had a positive impact on their ability to innovate, which suggests that there may be more opportunities to take advantage of ideas and talent from elsewhere in the world (see Chart 2).

Indeed, the survey suggests that, for now, entrepreneurs tend to conduct their innovation activities centrally within their headquarters. Just 29% of respondents say that innovation is decentralized and takes place in local markets.

This highly centralized approach to innovation is at odds with the global scope of the entrepreneur’s business. With most companies benefiting from a global market for their products and services, it no longer makes sense for development to be concentrated in the domestic headquarters. Increasingly, companies need to take a more open approach to innovation, where the process is decentralized and involves a broader range of stakeholders, including customers, suppliers and partners from around the world. “A one-size-fits-all approach to innovation doesn’t work,” says Professor Sola.

Maria Pinelli
Strategic Growth Markets Area Leader for Americas – Ernst & Young

“As we enter a new and uncertain decade, some business leaders may find it difficult to test and develop a new idea. However, when you look at today’s most exceptional entrepreneurs, this never seems to be the case. As the world’s natural innovators they are always looking to find an unmet need in society and to challenge the status quo within their own business. This unwavering commitment to innovation, an inherent ability to spot an opportunity and the perseverance to keep trying is precisely why, when talk turns to sustainable economic recovery, we should look no further than the world’s best entrepreneurs.”
“Entrepreneurs who adopt a more decentralized approach to innovation are more likely to tailor products to local markets.”
By adopting this more open approach, entrepreneurs can reap the benefits of globalization with their innovation, just as they have with market expansion. “The monolithic approach to innovation, where companies did everything in-house, is threatened by globalization, and that’s a good thing,” says Mr. Chambers. “By combining technology with globalization, companies can gain access to ideas from a wide variety of locations, and that’s a positive development if you are seeking to innovate.”

Redrawing the Map described how General Electric (GE) has adopted “reverse innovation,” whereby product development takes place at R&D centers in emerging markets with local customers in mind and is adapted for sale in the West. For example, GE’s low-cost, portable electrocardiogram (EKG) machine was developed in India to help domestic health care professionals, especially in rural areas. An adapted version was sold in the US to customers who needed a portable device usable at accident sites. In this way, GE can achieve global economies of scale without merely skimming the surface of large, fast-growing markets.

For many entrepreneurs in the survey, there is some way to go before this more open, global approach to innovation becomes a reality. Only 39% strongly agree that they create products and services specifically for local markets and just 45% strongly agree that applying innovative ideas from local markets is essential (see Chart 11). A slightly higher proportion of 53% adapt products and services to suit local markets, but this still leaves a sizable percentage who do not consider it important to tailor their products and services to local requirements.

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**Embedding innovation throughout the business**

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<td>Maintaining an environment where people can be innovative is critical to future business growth</td>
<td>65</td>
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<td>We believe process innovation is as important as product innovation</td>
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<td>We adapt products and services to the needs of local markets</td>
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<td>Applying innovative ideas from local markets is essential</td>
<td>45</td>
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<tr>
<td>We create products and services specifically for local markets</td>
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*Chart 11: Please rate your agreement to the following statements regarding innovation activities within your business. (Chart shows percentage that strongly agree)*

**Innovation is critical to growth whether centrally or locally driven**

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<td>We create products and services specifically for local markets</td>
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*Chart 12: Please rate your agreement with the following statements regarding innovation activities within your business.*
Entrepreneurs who adopt a more decentralized approach to innovation are more likely to tailor products to local markets. Among respondents with decentralized innovation, 67% adapt products and services to the needs of local markets, compared with 48% of companies with centralized innovation (see Chart 12).

In addition to creating products and services with local customers in mind, some entrepreneurs go one step further and collaborate with customers. Mr. Van Doorslaer describes how Cartamundi is adopting “downstream innovation,” which means engaging with customers throughout the innovation process rather than just focusing on products. “Downstream innovation means getting close to customers and thinking: ‘How can I innovate together with the customer rather than focusing on products?’” he explains.

Although entrepreneurs will be better known publicly for their product and service innovation, process innovation remains a crucial goal, particularly in an economic environment where companies are being squeezed on costs. Among entrepreneurs questioned for the survey, 58% strongly agree that process innovation is as important as product innovation (see Chart 11).

One important area of process innovation is customer service. “We find that we continually need to innovate in terms of the service we give the customer,” says Mr. Blakemore. “The delivery time, support data and software that goes along with the equipment we supply is far better now than a decade ago.”

Mr. O’Donnell agrees and highlights the importance of innovation in dealing with customers to build trust and a strong relationship. “We aim to ensure that expectations and values are aligned with our clients in terms of doing business safely, certainty in project execution and credibility in the delivery schedule,” he explains. “If this happens, then relationships are built on mutual trust and belief in each other’s abilities. Anything that improves that aspect of the business is a worthy innovation.”

Innovation in the supply chain is also seen as vital and draws on the networking skills of entrepreneurs to drive business performance. “Cooperation is key to innovation, particularly in a time of crisis,” says Mr. Van Doorslaer. “It’s about finding partners horizontally, vertically in the supply chain, and with other people in the business and working together with them to say: ‘Hey, we have a customer here. We would like to do something.’”
Successful innovation depends on a careful balance between a uniform approach to innovation and the empowerment of local constituents to suggest and develop their own ideas. If the balance tips too much toward the universal, products and services will not be sufficiently tailored to local markets. But if local empowerment gets too much emphasis, economies of scale can be lost and the company risks losing its overall identity.

On one side of this equation is a culture of innovation that permeates the entire business. According to this approach, innovation is not something that is done by R&D teams, but is embedded in the company’s way of doing business. Two-thirds of respondents strongly agree that maintaining an environment where people can be innovative is critical to future business growth (see Chart 1).

But on the other side of the equation, companies need to empower local employees so that they feel their ideas matter. Only then can products and services be truly relevant to local customers. “We need to try to be as decentralized as possible so that the local people feel entrepreneurial,” says Mr. Van Doorslaer. “You need to give them the opportunity to develop things and run their own business.”

Grafting a universal culture of innovation onto the need for local empowerment can be challenging. Success depends on openness and a philosophy that rewards and respects innovation no matter from where in the business it originates. “You must develop the ability to share ideas without being concerned about who gets credit or who is going to get promoted,” says Mr. Szulik. “You need the ability to respect and understand the cultural differences that lead to good innovation and good teamwork and produce good outcomes.”

Mr. Murthy highlights the importance of a fluid approach to building innovation teams so that the best people from around the world can collaborate on new products and services. “We bring together teams from different parts of the world based on the available talent, and provide the best possible solution so that our customers have the best possible product in the fastest time period possible,” he explains.

As entrepreneurial businesses grow, the innovative flair that made them successful in the first place can be lost in the additional layers of reporting and management. Companies such as AirAsia have taken careful steps to ensure that this does not happen. “We foster a culture that anything is possible, and that ideas are not frowned on, but are welcomed and explored,” says Dato’ Fernandes. In order to promote this culture of innovation, some companies are recruiting a Chief Innovation Officer. This CIO role is a relatively recent phenomenon in the business world, but highlights the importance that companies place on developing the right culture and processes to drive innovation.

In addition to putting in place formal processes and roles to foster an innovative culture, entrepreneurs maintain the momentum for innovation by staying close to the business and its employees. “You need to have good emotional intelligence to understand and get the best out of people,” says Mr. Blakemore. “To get the best out of people, you need to understand what makes them tick. And one person will tick differently from the other.”
How global entrepreneurs are changing the world
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