

Entrepreneurial Passion: Its Profits and Pitfalls

How to overcome challenges to prosperity

Why do it? Why give up the relative stability and security of a mature company for the long hours, immense responsibility and risk that owning a business entails? If you're like many entrepreneurs, the answer: passion.

Contrary to popular belief, money is rarely the singular driver but rather a symptom of success. Long-time entrepreneur Francois Gossieaux agrees. A partner and co-founder of Beeline Labs, a social media and marketing consultancy, he says, "You're on 24 hours a day. You're giving up vacations and quality time with your family. You're giving up a lot. There has to be a bigger passion [than money]."

For David Brinker, co-founder and chief operating officer of Grandparents.com, the passion for the idea is primary—but the reward does matter.

"It's very easy for entrepreneurs to say they do it solely for the passion. But that passion is, in part, fueled by the reward," says Brinker. "And the reward doesn't have to be money. When Jimmy Wales created Wikipedia, it wasn't about the money and it's still not about the money. What he did was create a way for knowledge to spread that is basically as revolutionary as the book."

The research supports this, according to Dr. Raffi Amit, the Robert B. Goergen Professor of Entrepreneurship at The Wharton School and Director of The Wharton Global Family Alliance. It is a "myth" that entrepreneurs are driven by money, he says. "The truth is they are driven by the desire to lead, to innovate and to realize their dreams. These are far more important."

But what price, passion?

Building a business is an all-consuming task. But, can the non-stop energy and attention it demands come at the expense of life's other priorities?

[Name Removed] has seen business owners so passionate about their work, they neglect other aspects of their lives, including personal finances. Perhaps these entrepreneurs feel similarly to Gossieaux, who says that managing wealth is "not as interesting" to him as growing his business.

The extreme focus and enthusiasm, which is so critical to building a successful business, can impede wealth planning. But creating a sound financial structure for growth is just as important as developing your business's organizational structure. By not doing it, experts from Wharton and [Company X] agree you may be taking on undue risk, putting your personal wealth and your family's financial future in jeopardy.

While every entrepreneur is different, and every situation deserving of a customised approach, there are challenges common to all business owners. In this report, we'll take a look at prevalent hurdles to wealth optimisation and offer guidelines on how best to

overcome them.

Eyes wide shut

“The single thing we see time after time is that entrepreneurs don’t give the same level of attention to their personal financial wealth that they do their corporate wealth,” says [Name Removed], managing director and the head of the [Division Name Removed].

In his experience, business owners don’t think in terms of separating corporate and personal issues. It all gets intermingled. “It’s difficult for a business owner to shift perspective to see the company as part of his total wealth rather than as the source of wealth.”

[Name Removed] advises planning take place early on, including correctly establishing a foundation for wealth by separating personal and company assets from the start.

“Many business owners don’t consider themselves wealthy,” says [Name Removed], who heads up the entrepreneur segment at [Company X]. “This is true even when the company is doing exceptionally well, because they keep too much of their money in the business.” For this reason, she says, they don’t look at how to optimize their wealth—nor do they seek advice on how to do so.

But if you want the best outcome, you have to take an “eyes wide open” view of your wealth, says Christopher Geczy, Professor of Finance at The Wharton School and Director of the Wharton Wealth Management Initiative.

He contends business owners struggle to view their wealth holistically, offering this real-world example: A business owner has a liquid portfolio with a value equivalent to that of his operating business. And although the owner has 400 employees and a management team of 25 looking after the business, there is no one monitoring his personal portfolio.

The owner does have a couple of financial advisors managing a portion of assets here and there, but none are looking at the big picture. Geczy thinks it is a conceptualization problem: “He’s not looking at his financial portfolio as a business that requires the optimal diversification of suppliers and excellent coordination across those suppliers.”

Lack of diversification

Diversification is an enormous challenge for entrepreneurs. “The norm is not to have that diversification. Everything is tied up in the business,” says [Name Removed], which poses a big concentration risk.

As Geczy points out, “Your business is often very exposed to the market. You may not think it has market risk because you don’t buy and sell it everyday. But that is a completely false assumption.” And one, he says, that merits thoughtful consideration and planning.

This lack of diversification is not limited to a portfolio of assets. It can extend to how you fund your business—and even how you structure and manage your organization.