Wealth Insights

If at First You Don’t Succeed...
Mapping Global Attitudes to Adversity
About Barclays

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About this report

This sixteenth volume of Wealth Insights investigates how entrepreneurs, business people and investors perceive failure, and how they learn from setbacks in their professional and financial lives. It is based on two main strands of research.

First, Ledbury Research conducted a survey of more than 2,000 high net worth individuals, all of whom had more than USD$1.5 million/GBP£1 million (or equivalent) in total net worth and 200 with more than USD$1.5 million/GBP£10 million. Respondents were drawn from 17 countries around the world, across Europe, North America, South America, the Middle East, Africa and Asia-Pacific. More than 750 of the respondents identified themselves as entrepreneurs. The interviews took place during the first half of 2012. In the analysis, individual countries with less than 50 respondents have only been included in the regional findings.

Secondly, Rob Mitchell and Fergal Byrne of Longitude Research conducted a series of interviews with entrepreneurs, academics, professionals and other experts around the world. Longitude Research then wrote the report in conjunction with the Wealth and Investment Management division of Barclays. Our thanks are due to the interviewees for their time and insight. We would also like to extend our appreciation to Dr. Emily Haisley of Barclays Wealth and Investment Management, and research consultants Kahlen Qi and Tianyi Zheng, who undertook and managed the survey design and data analysis that informed the report.

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Foreword

As Winston Churchill once reasoned, “Success is not final, failure is not fatal: it is the courage to continue that counts.” These words succinctly sum up a philosophy that few would disagree with, yet adhering to it during peaks of success, and especially in troughs of adversity, can be a different matter altogether.

While, universally, our relationship with success tends to be a simple one, we treat failure with more ambiguity. Indeed, the word itself in isolation is powerfully emotive, and the decision to make it a central theme of the latest report in our Wealth Insights series was not taken without a good deal of debate. However, as we move toward an increasingly global and multicultural business landscape, how we think of and react to challenges in our careers has taken on a greater significance. Some cultures accept setbacks as crucial learning experiences and view them as badges of honour, and yet others perceive failures with greater discomfort: as blemishes on an otherwise good record. We must also consider the ongoing fragility of the global economic recovery and the volatility of markets, factors which might tend to reduce tolerance of failure — when, in fact, the need to encourage and develop entrepreneurs and their ideas is paramount if we are to see a return to consistent growth.

At Barclays Wealth and Investment Management — through our unique investment philosophy and focus on behavioural finance, as well as in our work with entrepreneurs and business owners — we help individuals to navigate both the successes and the setbacks through the course of their lives. By doing this, we understand that those with the perseverance to weather the storm in times of adversity are often rewarded for their resilience. In this edition of Wealth Insights, we therefore attempt to consider the issue of failure in a more objective way, by disentangling the concept from our own visceral reactions to it, in order to explore how we might recover from mistakes and misfortunes in our professional, financial and business lives.

With these themes in mind, we have worked in partnership with Ledbury Research to survey 2,000 high net worth individuals worldwide, 800 of whom identify themselves as entrepreneurs, to develop the sixteenth volume in our Wealth Insights series, If at First You Don’t Succeed... Mapping Global Attitudes to Adversity. In this report, we delve into the psychology and culture of failure and consider how we can approach obstacles as the stepping stones to success, rather than falling down before them.

After all, the better we understand our attitudes to failure, the better equipped we will be to prevail across all of our endeavours.

I hope you find the latest volume in our Wealth Insights report series a valuable and inspiring read.

Thomas L. Kalaris
Chief Executive
Barclays Wealth and Investment Management
Executive Chairman of Barclays in the Americas
Our Insights Panel

Rachel Bridge, former Enterprise Editor for the Sunday Times and Author of How to Start a Business Without Any Money

Will Butler-Adams, CEO of Brompton Bikes

Dr. Greg B. Davies, Head of Behavioural Finance, Barclays

Alexis Dormandy, Founder of LoveThis, a social recommendation application, and a Blogger for the Daily Telegraph

Carol Dweck, Lewis and Virginia Eaton Professor of Psychology at Stanford University and the Author of Mindset: How You Can Fulfil Your Potential

Ben Hunt-Davis, British Rower, Olympic Champion and Author of Will it Make the Boat Go Faster

Will King, Founder of King of Shaves

Michael Mauboussin, Chief Investment Strategist at Legg Mason Capital Management and Author of The Success Equation: Untangling Skill and Luck in Business, Sports, and Investing

Paul Ormerod, Economist and Author of Why Most Things Fail: And How to Avoid It

Henry Petroski, Engineer and the Author of To Forgive Design: Understanding Failure

Richard Phelps, Head of Barclays Corporate & Employer Solutions

Navi Radjou, Independent Strategy Consultant and Co-Author of Jugaad Innovation

Tali Sharot, Neuroscientist and Author of The Optimism Bias: a Tour of the Irrationally Positive Brain

Donald Van de Mark, former CNBC Correspondent and Author of The Good Among the Great: 19 Traits of the Most Admirable, Creative, and Joyous People
Introduction

In 1879, the prolific inventor Thomas Edison fitted a carbon filament into an incandescent light bulb and perfected a technology that numerous inventors had struggled with for around 75 years. According to accounts from the time, Edison experimented with 1,000 different filaments before finding success with carbon. When a journalist subsequently asked Edison how it felt to fail 1,000 times, the great inventor is reported to have replied: “I did not fail 1,000 times. The light bulb was an invention with 1,000 steps.”

Some historians have doubted the truth of this story, but it does contain important lessons about our relationship with failure and success. There is no reward that comes without persistence and a willingness to take risks, but there will almost inevitably be some temporary setbacks along the way. Entrepreneurs, business people and investors who have achieved great success are rarely strangers to some level of failure in their past. In fact, learning the right lessons from these experiences has been a key ingredient of their future success.

The list of business people who have experienced failure is long and illustrious. Henry Ford’s first company, the Detroit Automobile Company, went out of business in 1901 without selling a single car because of disagreements between Ford and his investors. Legend has it that when Walt Disney was seeking funding for his Disney theme park, he was turned down by no fewer than 302 banks before finding an investor. Even Microsoft founder Bill Gates experienced the pain of a money-losing operation. Before founding Microsoft, Gates launched a company called Traf-o-data which built a prototype to collect traffic information and pass it to local authorities. Although the prototype worked, the company failed to find any customers and folded after achieving a net loss of USD$3,500.

Staying the course over thousands of prototypes or bouncing back from failed ventures or investments takes persistence, optimism, a tolerance for risk and a degree of good luck. It also requires a willingness to learn from mistakes and to see failure, not as an outcome, but as one step in a long process. This is as true for financial investors as it is for entrepreneurial ones. At some point, every portfolio will experience periods when it performs poorly. The key for investors is to respond in the right way, learn from the experience and move on.

In this report, we explore the concept of failure and show how a better understanding of behaviour and psychology can help entrepreneurial and financial investors make the right decisions at a time of considerable uncertainty. We explore cultural attitudes to failure, and look at how courage, persistence and optimism helps individuals draw valuable lessons from their mistakes and turn those setbacks into successes.
Executive Summary

**Tolerance of failure is essential for growth.** The process of “creative destruction,” whereby old ideas, technologies and business models become obsolete as new, stronger entrants grab market share, is essential to economic progress and job creation. Overall, 74% of high net worth individuals agree that viewing failure positively is essential for an economy to grow. A slim majority also have a positive view of their own failures, with 51% agreeing that past failure in entrepreneurial endeavours increases the chance that a new business will succeed.

**Emerging entrepreneurs catch up.** The most dynamic, fast-growing economies of the world have the highest tolerance for failure. For example, an average of 51% of respondents from the Middle East and Asia believe that the recent financial crisis has provided them with opportunities, compared with an average of 43% of respondents from the U.S. and Europe. These fast-growing economies are also more likely to value persistence in the face of failure or setback than those in many developed markets. Entrepreneurs in these fast-growing economies are used to dealing with constraints, high levels of bureaucracy and a challenging business environment. This experience makes them highly adept at overcoming obstacles and solving seemingly insurmountable problems, which will be important advantages as they compete head-to-head with entrepreneurs in developed markets.

**Entrepreneurs bounce back.** Almost six out of ten wealthy individuals say that they have experienced some form of career failure, while a similar proportion have experienced setbacks with their investments. But their capacity to bounce back from these failures depends on their background. Respondents who classify themselves as entrepreneurs find recovery from setbacks easier than those who say they are non-entrepreneurs. Among the entrepreneurs, 34% say that failure encouraged them to try again, compared with 19% among non-entrepreneurs.

**Persistence matters.** Entrepreneurs are typically persistent individuals who use their tenacity to overcome obstacles to success. As well as helping them to bounce back from failures and try again, persistence also has broader psychological benefits. Our survey finds a strong association between persistence and the level of life satisfaction that wealthy individuals enjoy. Respondents who are satisfied in their lives are more likely to consider it important to persist with a failing business endeavour rather than to cut losses and move on.

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Optimism spawns success? Respondents who describe themselves as optimistic are more satisfied with life and more likely to describe themselves as successful than those who are less optimistic. This link between optimism and success has financial as well as psychological value. Among our respondents, optimistic individuals bring in USD$56,000 more in income per year and have USD$620,000 more in net worth. But optimism has its limits. Too much optimism can lead to excess entry into markets when the opportunity does not warrant it, or the planning fallacy, whereby individuals find that projects take much longer and cost much more, than expected.

Entrepreneurs learn from failure. Most people say that they find failure a valuable learning opportunity. But the extent to which different types of people draw lessons from the experience varies. Respondents who classify themselves as entrepreneurs are more able to learn from failure than non-entrepreneurs. They are also more likely to say that failure helped to strengthen their character and that previous entrepreneurial failings increase the chance that a new venture would succeed.

How investors can learn from entrepreneurs. Persistence and optimism can be valuable traits in a financial investment context, as well as an entrepreneurial one. This is particularly true during a time of market volatility. Our survey finds that people who are persistent, optimistic or both, are less likely to have experienced failure in their personal investments than those who do not possess these traits. One reason for this is that they are less likely to react to temporary setbacks by selling low, locking in losses and turning setbacks into failures. This does not mean that entrepreneurs automatically make good financial investors, however. Their strong desire for control can lead them to make bad investment decisions, such as conducting excessive trading activity to compensate for short-term, often random fluctuations, or concentrating risk in areas where they have expertise at the expense of diversification.

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Section 1

Understanding Failure

Shikhar Ghosh, a Senior Lecturer at Harvard Business School, has some sobering statistics about the rates of business failure. In a 2010 working paper, he calculated that the percentage of companies that fail utterly — with all assets liquidated and investors losing all their money — is somewhere between 30% and 40%. If failure is defined more broadly as being unable to meet a projected return on investment, then the rate increases to between 70% and 80%¹.

This does not only apply to start-ups or early-stage ventures. Over time, even companies with a dominating market position can lose it. One study, by the Economic Historian Leslie Hannah, identified the 100 largest companies in the world in 1912, and traced their fortunes over the ensuing decades². Between 1912 and 1995, 29% of those companies went bankrupt, 48% disappeared and just 19% remained in the top 100. Another study by the Consultant and Author Arie de Geus found that one-third of the companies on the Fortune 500 in 1970 had disappeared by 1983, either through M&A, bankruptcy or break-up³.

¹ http://hbswk.hbs.edu/item/6591.html
² http://www.nber.org/chapters/c10235.pdf
³ The Living Company: Habits for Survival in a Turbulent Business Environment by Arie de Geus
Failure can be both personally and professionally devastating for those who are directly affected. But this constant process of entry and exit by new and old companies lies at the heart of economic growth, progress and improved standards of living. The Economist Joseph Schumpeter coined the term “creative destruction” to describe this process whereby old ideas, technologies and business models become obsolete as new, stronger entrants grab market share.

At a time of economic stress, the process of “creative destruction” becomes amplified as companies that are too inefficient, bureaucratic or lacking in innovative ideas find it impossible to compete. Capitalism relies on companies being allowed to succeed and fail. Periods of economic turbulence should not just be perceived negatively as a time when jobs are lost, factories mothballed and companies shut down forever. They are also an opportunity to reallocate resources, capital and talent away from failing companies to ones with greater potential.

For the process of “creative destruction” to be effective, societies need entrepreneurs who are willing to take risks and an environment that is conducive to their efforts. This necessitates not only a strong financial system that is able to provide both equity and debt capital, but also a culture and policy framework that tolerates risk and supports entrepreneurship.

To become successful, entrepreneurs need an environment where it is quick and easy to set up a company, where individuals are willing to invest in enterprise schemes and investment vehicles to provide risk capital, and where there is regulation that supports business growth. For example, in the U.K., investors receive income tax relief for investment in venture capital trusts to encourage investment in support of new business ventures.

Culture matters, too. A society that is tolerant of entrepreneurs experimenting and making mistakes will be more innovative than one where individuals fear the consequences of failure. “We need more risk-taking in the economy because what will determine economic success in the 21st century is innovation,” says Paul Ormerod, an Economist and Author of Why Most Things Fail: And How to Avoid It. “As such,” Mr. Ormerod continues, “the only way we can create that environment is to embrace failure.”
Among the 2,123 high net worth individuals surveyed for this report, 74% overall agree that viewing failure positively is essential for an economy to grow. But the extent to which different cultures and regions tolerate and embrace failure varies depending on the dynamism of the economy and its pace of economic growth.

Among respondents from Europe and the U.S., a sizable majority of 70% believes that viewing failure positively is essential for an economy to grow (see chart 1). The U.S., in particular, has always been regarded as having a culture that is tolerant and embracing of failure. It is often said that Silicon Valley entrepreneurs see failure as a “badge of honour” and will happily talk about their past mistakes to prospective investors. Bankruptcy laws can also create a more conducive environment for entrepreneurship. In the U.S., companies in financial distress have a range of options available, including out-of-court settlement, reorganisation of the debtor’s business affairs through the Chapter 11 process, or liquidation. By giving entrepreneurs the option to reorganise their business through Chapter 11 rather than face automatic liquidation, the U.S. policy environment provides entrepreneurs with a second chance that is often not available in other countries.

Overall, tolerance of failure is reasonably high in the U.S. and Europe, but it is considerably greater in faster-growing regions of the world. For example, an average of 83% of respondents from the Middle East and Asia believe that viewing failures positively is essential for an economy to grow. Respondents in the Middle East and Asia are also strong believers that past entrepreneurial failures will increase the chance of success in their next venture (see chart 1).

A high tolerance of failure is essential in economies that require entrepreneurs to overcome significant obstacles in order to succeed. Entrepreneurs in China and India, for example, have had to learn how to deal with numerous constraints, including a lack of resources and a bureaucratic environment that can often stifle enterprise. India ranks 132nd out of 183 countries on the World Bank’s Ease of Doing Business ranking and 166th on its ranking for starting a business. On average, it takes 29 days to launch a business in India. In the U.S., which ranks 4th on the rankings for starting a business, it takes just six days, while in the U.K. it takes 13 days.

Emerging entrepreneurs

4 Neither Barclays in the U.S. nor its Wealth and Investment Management employees in the U.S. render tax or legal advice. Please consult with your accountant, tax advisor and/or attorney for advice concerning your particular circumstances.
5 The World Bank’s Ease of Doing Business Index ranks countries according to the conduciveness of their regulatory environment to the starting and operation of a local firm.
6 http://www.doingbusiness.org/reports/global-reports/doing-business-2012
Chart 1
Regional variation in attitudes to entrepreneurship and failure

Percentage of respondents who report “Entrepreneur/Business Owner” best describes their current occupation.

<table>
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<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>29%</td>
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<td>Europe</td>
<td>30%</td>
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<td>Asia</td>
<td>47%</td>
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<tr>
<td>Middle East</td>
<td>50%</td>
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Cultural attitudes that support entrepreneurship
Percentage of all respondents who agree with the following statements:

- Viewing failure positively is essential for an economy to grow.
- Past failure in entrepreneurial endeavours increases the chance that a new business will succeed.
- If you work hard enough, anyone can learn how to become a successful entrepreneur.

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<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>71%</td>
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<tr>
<td>Europe</td>
<td>69%</td>
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<tr>
<td>Asia</td>
<td>80%</td>
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<tr>
<td>Middle East</td>
<td>91%</td>
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<th>Region</th>
<th>Percentage</th>
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<tr>
<td>U.S.</td>
<td>37%</td>
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<tr>
<td>Europe</td>
<td>42%</td>
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<tr>
<td>Asia</td>
<td>67%</td>
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<tr>
<td>Middle East</td>
<td>81%</td>
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<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>49%</td>
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<tr>
<td>Europe</td>
<td>44%</td>
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<tr>
<td>Asia</td>
<td>56%</td>
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<tr>
<td>Middle East</td>
<td>83%</td>
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Cultural attitudes that support entrepreneurship continued...
Percentage of all respondents who agree with the following statements:

I respect people who persist in the face of failure.

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<thead>
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<th>Region</th>
<th>Percent Agree</th>
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<td>U.S.</td>
<td>81%</td>
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<tr>
<td>Europe</td>
<td>75%</td>
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<tr>
<td>Asia</td>
<td>83%</td>
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<tr>
<td>Middle East</td>
<td>94%</td>
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The recent global crisis has provided me with opportunities.

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<th>Region</th>
<th>Percent Agree</th>
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<tr>
<td>U.S.</td>
<td>44%</td>
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<tr>
<td>Europe</td>
<td>42%</td>
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<tr>
<td>Asia</td>
<td>53%</td>
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<tr>
<td>Middle East</td>
<td>45%</td>
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An entrepreneur's business is failing, instead of cutting losses the entrepreneur should persist.

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<th>Region</th>
<th>Percent Agree</th>
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<tr>
<td>U.S.</td>
<td>41%</td>
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<tr>
<td>Europe</td>
<td>39%</td>
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<tr>
<td>Asia</td>
<td>53%</td>
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<tr>
<td>Middle East</td>
<td>55%</td>
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Source: Ledbury Research
No wonder, then, that respondents from Asia strongly value persistence in the face of setbacks. For example, an average of 63% of entrepreneurs from the Middle East and Asia agree that anyone who works hard enough can become a successful entrepreneur. The corresponding figures from Europe and the U.S. are lower (see chart 1).

Navi Radjou, an Independent Strategy Consultant and Co-Author of *Jugaad Innovation*, argues that this persistence and ability to work around constraints and daily uncertainties has exerted a huge influence on how entrepreneurs in emerging markets approach innovation and the development of new ventures. Many are accustomed to using improvised solutions, seeking opportunities in adversity, doing more with less and thinking flexibly. The word jugaad, a colloquial Hindi word that roughly translates as “an innovative fix or improvised solution,” captures this approach.

“Entrepreneurs in emerging markets operate in a highly constrained environment, in which they must engage in a constant process of trial and error in order to overcome everyday obstacles and devise creative workarounds to solve problems,” says Mr. Radjou. “This requires resilience, a reluctance to give up and a perception that failure is not an absolute outcome but one step on the journey to success.”

These dramatic differences between developed and emerging markets translate into different frameworks for entrepreneurial investment. In the mature, developed markets, there are established processes and institutional networks of corporate finance houses, brokers and angel investors to facilitate connections with entrepreneurs requiring funding. The role of certified market makers is more formal, and entities exist to take on roles for sourcing deals and capital. There are also more options for investors, ranging from direct investment in individual private companies, single manager funds or diversified fund of funds.

In emerging markets, it is more challenging to gain access to reputable players because the business culture is developing and roles within the process are less clear. Without the reliance on institutions as a proxy for trust, informal social networks and the reputation of the individual carry more weight. An investment in contacts, due-diligence and in-depth research has a higher pay-off than in the developed markets.

Longstanding experience of dealing with a challenging operating and business environment gives these entrepreneurs a powerful foundation on which to build future growth. As these economies continue to grow and benefit from rising domestic consumption and per capita incomes, their advantages will become greater still. The U.S. and Europe may have dominated entrepreneurship in the second half of the 20th century, but the landscape is shifting and entrepreneurs from Asia are catching up quickly. A tolerance for failure, and the ability to learn from setbacks, will be an important determinant of creating this vibrant entrepreneurial culture.
“Entrepreneurs in emerging markets operate in a highly constrained environment, in which they must engage in a constant process of trial and error in order to overcome everyday obstacles and devise creative workarounds to solve problems.”

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Section 2

The psychology of failure

Wealth and success will very often have failure as part of their foundations. Among the high net worth individuals surveyed for this report, 59% say that they have experienced career failure, which might include failure to get a promotion or losing a job, while a similar proportion have experienced failure with their investments (see chart 2). Entrepreneurial and business failure are slightly less common, with 49% of entrepreneurs saying that they have experienced this form of failure and 43% of non-entrepreneurs (see chart 3).

Failure can be a devastating blow, both personally and professionally, and many people find it difficult to put the experience behind them. But respondents who identified themselves as entrepreneurs in the survey find it easier to recover. Three in ten said they were able to bounce back quickly and 34% said they were encouraged to try again. Those who identified themselves as non-entrepreneurs, however, were less able to bounce back quickly from adversity (see chart 12, page 32-33).
Staring failure in the face

So what is it that makes entrepreneurs better able to recover from major setbacks than non-entrepreneurs? At the most basic level, failure is an inherent part of the entrepreneurial journey. Most venture capital models are built around an expectation that only a small proportion of their investments will succeed. Although portfolio strategies differ, a general rule of thumb among venture capital firms is that 40% of their investments will fail, 40% will produce a moderate return on capital, and 20% will provide a high return. A willingness to confront these kinds of odds demands entrepreneurs who are persistent, optimistic, tolerant of risk — and probably lucky as well.

Chart 2
What experience do you have of failure?*

Can you think of times that you might have done something perceived as having failed in your career?

[Bar chart showing 59% response]

Can you think of times that you might have done something perceived as having failed in investing personal assets?

[Bar chart showing 58% response]

*All respondents
Source: Ledbury Research

Chart 3
What experience do you have of failure?

Can you think of times that you might have done something perceived as having failed in starting and running a business?

[Bar chart showing 43% for non-entrepreneurs and 49% for entrepreneurs]

*Percentage of respondents who report “Entrepreneur/Business Owner” best describes their current occupation.
Source: Ledbury Research
Of frogs and failure

Many academics have tried to categorise entrepreneurial failures to provide a framework for thinking about how and why companies hit the wall. One of the more unusual is the metaphor of the “frog,” whereby failed entrepreneurs can be classified into four main amphibious types:

Boiled frog: It is often said that a frog dropped into boiling water will immediately leap out again whereas one placed in cold water that is then heated gradually will not. There is no experimental evidence for this phenomenon but the story has stuck. In an entrepreneurial context, the boiled frog refers to an entrepreneur who does not pay sufficient attention to a changing environment. He or she becomes complacent and fails to notice how factors such as competition, changing technology or evolving customers are rendering their business model obsolete.

Drowned frog: As their business grows, many entrepreneurs continue to think that they need to be everywhere at once. They try to be “king of the pond” and spread themselves across every aspect of the business but often lack the necessary breadth of skills to do this effectively. Avoiding this fate requires the entrepreneur to build a strong team around them, delegate and take the right advice.

Bullfrog: Early success can encourage some entrepreneurs to become too fond of the trappings of success. These bullfrogs put their own needs above those of the business. They consider themselves to be indestructible and do not acknowledge that their actions harm the business financially.

Tadpole: Many entrepreneurial ventures will never fulfil their promise and are doomed to remain as tadpoles. Despite early promise, they do not reach their potential and fizzle out without reaching the next stage of growth.

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Persistence

John Gartner, a Clinical Assistant Professor of Psychiatry at Johns Hopkins University, argues in his book *The Hypomanic Edge* that many well-known entrepreneurs have a temperament called hypomania — a genetic form of mild mania that endows people with energy, creativity, enthusiasm and a propensity for taking risks. These are all traits that can help entrepreneurs through adversity, even when others lose faith. “One of the things about having this kind of confidence is they’re kind of risk-blind because they don’t think they could fail,” writes Professor Gartner. “If they fail, they’re not down for that long, and after a while they’re energised by a whole new idea.”

Hypomania certainly has its downsides, but pure persistence seems to be unambiguously healthy from a psychological point of view. Our survey finds that entrepreneurs are more persistent than non-entrepreneurs and also uncovers a strong association between persistence and the level of life satisfaction that individuals enjoy. Respondents who say they are satisfied in their lives are more likely to consider it important to persist with a failing business endeavour rather than to cut losses and move on (see chart 4). Persistence also seems to reduce the chances of failure, with respondents who rate themselves as persistent less likely to have experienced severe setbacks in their lives (see chart 5). Persistence, it seems, is a valuable life skill that helps individuals reduce the chance of failure and increase their levels of satisfaction.

As we argued in the previous section, the challenging business environment that many entrepreneurs face in emerging markets necessitates an especially strong dose of persistence. Our survey corroborates this as respondents located in emerging, fast-growth regions of the world are the most likely to report high levels of persistence (see chart 6). The high rates of persistence in emerging markets reflect the difficulties of building a successful venture in these economies, and the fact that entrepreneurs in emerging markets can face setbacks for a variety of reasons that are beyond their control. In such an environment, only entrepreneurs who have this determination will survive.

Yet persistence is a double-edged sword. Although entrepreneurs require tenacity to overcome the obstacles to business success, they also need to know when a business plan is not working. Many entrepreneurs can be susceptible to over-confidence, and this means that they will pursue ventures long after it has become clear that they are destined to fail. They may also fall victim to the sunk cost fallacy, investing more in a project on the grounds they have already allocated time and resources to it, rather than admitting defeat and accepting that the original investment is lost. It is therefore critical for entrepreneurs to know when they are being too bull-headed and to admit when “enough is enough.”
Chart 5
Relationship between persistence and failure
If an endeavour begins to flounder should the entrepreneur persist or cut losses and move on?

Respondents who say an entrepreneur should persist in the face of failure report greater life satisfaction.

Respondents who say an entrepreneur should persist in the face of a failing business endeavour instead of cutting losses and moving on are less likely to have experienced failure in their own careers.

*Percentage of respondents who have experienced failure in their career.
Source: Ledbury Research
Chart 6
Levels of persistence by country

*Percentage of respondents who agree with the statement “If I have to stop pursuing a goal in my life, I find it difficult to stop trying to achieve it; I can’t let it go.”

Source: Ledbury Research
Over the years, numerous academic studies have demonstrated that optimism confers real benefits on psychological and physical well-being. Research has shown that optimists are more likely than pessimists to report that their lives are interesting and diverse, cope better during times of difficulty and even recover more quickly after surgery and health problems. Our survey provides further evidence of this link. Respondents who have a high level of optimism were more able to bounce back from failure than those with low levels of optimism and are also more encouraged to try again (see chart 7).

High levels of optimism do not only create a rosier outlook on life, but can also increase the chances of success. A study of life insurance salespeople by Martin Seligman of the University of Pennsylvania found that those who scored highly on levels of optimism sold 37% more insurance in the first two years of hiring than those with a more pessimistic outlook. “People who are optimistic are more likely to be confident in their abilities,” says Tali Sharot, a Neuroscientist and Author of *The Optimism Bias: a Tour of the Irrationally Positive Brain*. “That confidence leads to a view that they will do better and that becomes a prerequisite for success.”

Our survey also shows a link between optimism and success. In general, the more success respondents have experienced, the more likely they are to describe themselves as optimistic. Optimists are more satisfied with their lives, have a stronger belief that their success is due to ability, rather than luck, and are much more likely to consider pursuing other goals when they experience major setbacks (see chart 7). People who are optimistic also earn more, according to our survey, bringing in USD$56,000 more in income per year and owning USD$620,000 more in net worth. Of course, it is difficult to determine whether optimism breeds success or vice versa, although academic literature suggests that the relationship travels in both directions.

There are downsides of optimism, however. Our survey finds that pessimistic individuals tend to be better at learning from failure than their more optimistic peers. This is because they tend to have greater attention to detail, and may be better “risk managers” than individuals who are more confident that everything will go their way. Research has also shown that entrepreneurs are more optimistic than non-entrepreneurs. For example, by studying actuarial tables and consumer finance surveys, the Academics Manju Puri and David Robinson found that entrepreneurs are much more likely than non-entrepreneurs to think that they will enjoy a longer life span. In another paper, Puri and Robinson again used consumer finance surveys to conclude that, in general, optimistic people work harder and anticipate longer careers.

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9 *Learned Optimism: How to Change Your Mind and Your Life* by Dr. Martin Seligman
10 *Optimism, work-life choices and entrepreneurship*, World Bank paper by Manju Puri and David T. Robinson
The optimism percentages represent an average of two responses from the Wealth Insights survey. For the purposes of this report, we are adapting a definition of optimism from an article by M.F. Scheier and C.S. Carver in Health Psychology: Optimism, coping, and health: Assessment and implications of generalised outcome expectancies; (1985); 4:219-247:

1. In uncertain times, I usually expect the best.
2. Overall, I expect more good things to happen to me than bad.

Source: Ledbury Research
To some extent, this optimism is necessary as a pre-condition for counteracting the high odds that a venture will fail. If entrepreneurs were entirely rational about their chances of success, then they may conclude that their venture is doomed from the start. But, because many are highly optimistic, they believe that the high chances of failure do not apply in their case. “If entrepreneurs were realistic, then most of them would admit that they will not succeed, and that would mean that we have far fewer entrepreneurs,” says Neuroscientist Ms. Sharot. “People consistently overestimate the positive chances of success and underestimate the negative chances of failure.”

Entrepreneurs can also underestimate the time or complexity required by a venture and the difficulty of achieving success. According to the planning fallacy, individuals will very often find that projects take longer than expected, cost more and do not achieve the expected benefits. The reason for this is that when planning their venture, individuals may focus on the most optimistic scenario and assume that because a similar project went well in the past, a subsequent one will also be successful.

“In our experience, the entrepreneurial client is happy to cover the obvious risks, such as property, equipment and vehicles, but often fails to recognise the important risks related to themselves, key employees or other shareholders,” says Richard Phelps, Head of Barclays Corporate & Employer Solutions. “The entrepreneur’s eternal optimism often means that, not only can they not see their business failing, but they see themselves almost as invincible. Protecting against ‘people risks’ does not cross their mind. The consequences of this can be particularly damaging. For example, losing a key employee and related revenue when negotiating the sale of the business could result in losing the sale or in a reduced price.”
Chart 8
Entrepreneurship and optimism by country

This map shows the relationship between entrepreneurship and optimism by country. The entrepreneurship figures are based on the percentage of survey respondents who describe themselves as entrepreneurs, and therefore give a reasonable proxy for the proportion of the high net worth population within a particular country that have made their wealth through entrepreneurship. Although there are exceptions, it seems that higher levels of optimism do show some association with high levels of reported entrepreneurship. In countries where the proportion of high net worth individuals who are entrepreneurs is lower, such as Japan, there are correspondingly low rates of optimism. Countries with much higher rates of entrepreneurship among the survey respondents, such as Brazil, have much higher levels of optimism.

Key

- Percentage of respondents in each country who are entrepreneurs
- Percentage of respondents in each country who are optimistic*

- <50%
- 50%-74%
- 75%-89%
- 90% or greater

U.S.
- 29%
- 73%

Mexico
- 33%
- 85%

Brazil
- 73%
- 90%

U.K.
- 35%
- 70%

Monaco
- 23%
- 45%

Ireland
- 23%
- 70%

Spain
- 28%
- 82%

South Africa
- 69%
- 82%
*The optimism percentages represent an average of two responses from the Wealth Insights survey. For the purposes of this report, we are adapting a definition of optimism from an article by M.F. Scheier and C.S. Carver in Health Psychology: Optimism, coping, and health: Assessment and implications of generalised outcome expectancies; (1985); 4:219-247:
1. In uncertain times, I usually expect the best.
2. Overall, I expect more good things to happen to me than bad.

Source: Ledbury Research
Optimism can be a valuable trait for financial investors as well as entrepreneurs. Our survey finds that optimistic individuals are less likely to report having experienced failure in their personal investments. One important reason why optimistic individuals experience better outcomes with financial investments is that they are less likely to respond unwisely to short-term fluctuations in their portfolio.

Persistence can also have financial benefits, with investors who describe themselves as persistent less likely to have experienced investment failure (see chart 9). A persistent approach means that investors are more willing to “stay the course,” and do not see a short-term reduction in the value of their assets as a setback or failure. “Investment losses in a diversified portfolio are only true setbacks if you need the money right away or if you react to the losses as a failure, by giving up on the journey and selling low,” says Dr. Greg B. Davies, Head of Behavioural Finance, Barclays. “If you are not forced to sell because you have run out of liquidity, then investment losses on a diversified portfolio are genuinely nothing more than a temporary setback on paper, with limited real effects.”

Indeed, a temporary fall in asset prices should be seen as an investment opportunity. Our survey finds that investors who experience positive investment outcomes agree that the recent global financial crisis has provided them with opportunities. For investors who are willing to take risks, there is considerable uplift potential to be gained from buying when markets are low. This is what Warren Buffett meant when he said: “Be fearful when others are greedy and greedy when others are fearful.”

Optimism and persistence can be profitable qualities in financial investors but this does not mean that entrepreneurs are automatically good investors. One common problem among entrepreneurs as financial investors is that they will seek to apply the same level of control they have in their own business to their financial investments. “In business, the right thing to do is generally to ramp up what has worked and scale back what has not, but in a diversified financial investment portfolio, you should do the opposite,” says Dr. Davies. “You should buy more of assets that have decreased in value, and sell those that have risen: in other words, rebalancing in an attempt to buy low and sell high.”
Chart 9
Traits that help people avoid setbacks when investing personal assets

I have positive expectations about my future, even in the face of uncertainty (optimism*).

- **Disagree**: 66%
- **Agree**: 55%

If I have to stop pursuing a goal in my life, I find it difficult to stop trying to achieve it; I can’t let it go.

- **Disagree**: 65%
- **Agree**: 55%

If an endeavour is failing, the entrepreneur should persist instead of cutting their losses and moving on.

- **Disagree**: 64%
- **Agree**: 52%

The recent global financial crisis has provided me with opportunities.

- **Disagree**: 63%
- **Agree**: 54%

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* The optimism percentages represent an average of two responses from the Wealth Insights survey. For the purposes of this report, we are adapting a definition of optimism from an article by M.F. Scheier and C.S. Carver in Health Psychology: Optimism, coping, and health: Assessment and implications of generalised outcome expectancies; (1985); 4:219-247.

1. In uncertain times, I usually expect the best.
2. Overall, I expect more good things to happen to me than bad.

**Percentage of respondents who agree with the statement "I have experienced failure in investing personal assets."

Source: Ledbury Research
Entrepreneurs may invest too narrowly in companies that are related to their own on the basis that they “know” more about that sector. If they do this outside of the context of a well diversified portfolio, this can leave them exposed to unnecessary risk. Or, when they experience a short-term investment loss, they may carry out excessive trading activity in an effort to compensate for fluctuations that are more likely to be random and temporary, rather than genuine losses.

“You commonly find that they try constantly to adjust to conditions and respond to perceived risks,” says Dr. Davies. “This leads to drag on returns through transaction costs, but can also lead to over-concentration due to over-confidence, or to a ‘behaviour gap’ through buying assets when markets are higher, and selling when they’re lower.”

The lesson for any investor — entrepreneurial or otherwise — is to determine just how controlling they should be with their financial investments and, if necessary, step back and let diversification do its job. There are clear benefits from doing so. Our survey finds that investors who see the value of diversification tend to have either experienced severe investment failure or no investment failure at all (see chart 10). Investors who see the value of diversification are unlikely to have experienced a major investment failure, while those that have gone through that experience have learned their lesson and understand that diversification is the only way to avoid repeating it.

*Chart 10
People learn the hard way to value diversification*
Percentage of respondents who agree with the statement “I see the value of diversification.”

*Diversification does not protect a profit or guarantee against a loss.
Source: Ledbury Research
In the late 1990s, the founders of Google, Larry Page and Sergey Brin, tried to sell their fledgling business for USD$1.6m. After knocking on the doors of various venture capital and technology firms, they gave up because they were unable to find a buyer. With hindsight, this failure was an extraordinary piece of good fortune. Today, the company has a market capitalisation of more than USD$225bn — thousands of times more than what they were hoping to sell it for in the 1990s.

As this story demonstrates, luck plays an important part in both successes and failures. Yet, very often, successful individuals downplay its importance. According to the attribution bias, individuals are more likely to recognise the role of luck when things go badly, and less likely to do so when things go well. “People tend to attribute good outcomes to their own skill and judgement, whereas they are more likely to associate bad outcomes with luck,” says Dr. Davies. “If you start to attribute every good outcome to your own skill, but see setbacks as unavoidable despite your evident skill, the result will be hubris. Over time, you will conclude that you must be a really good decision-maker and pursue risky ventures with a level of certainty that is increasingly inappropriate.”

Care must be taken, however, to distinguish between pure chance and luck that an individual manages for themselves. Consider an entrepreneur who attends a networking event and, seemingly by chance, meets someone with a similar interest with whom he develops a product that goes on to be a huge success. Was it just lucky that he attended the event, or were there other factors besides pure chance involved? For Michael Mauboussin, Chief Investment Strategist at Legg Mason Capital Management and Author of The Success Equation: Untangling Skill and Luck in Business, Sports, and Investing, this should not be defined as luck at all, because attending the event was something within the entrepreneur’s control. “You can’t create your own luck but you can manage it,” he explains.

It is striking that, among the entrepreneurs, business leaders and sports people surveyed for this report, few see luck as a major factor in their success. Entrepreneurs give equal weighting to effort/hard work and skill/intelligence, estimating that one-third of their success comes from each of these factors. Business leaders attribute a slightly higher proportion to skill and intelligence, rather than effort, while sports people focus more on hard work. For all three categories, chance and connections are seen as much less important, although, as might be expected, entrepreneurs and business people value connections more than sports people (see chart 10). “You can make your own luck by being alert to opportunities, minimising risk, and doing the hard work and planning that will plant the seeds for future success,” says Donald Van de Mark, former CNBC Correspondent and Author of The Good Among the Great: 19 Traits of the Most Admiring, Creative, and Joyous People.
Mr. Mauboussin points out that people find it very difficult to separate the role played by luck and skill in their success and failure. “Every successful person is both skilful and lucky but we tend to focus on skill as the explanation for their success,” he explains. “This is because the human brain struggles to deal with the role played by randomness, and will seek to interpret an outcome as a chain of cause and effect that can be easily understood.”

This has significant implications in both the business and investing worlds. An entrepreneur who experiences success may attribute it to their own skill and ignore the role played by luck in getting them there. Equally, a financial investor may attribute decisions that lead to an increase in the value of their portfolio to good judgement, forgetting that randomness and pure good luck can also play a role. The result is that this success may be short-lived. “Any system that combines skill and luck will revert to the mean over time so it is important to ask yourself what could have been achieved by chance alone,” says Mr. Mauboussin.

Given this strong belief in skill rather than luck, as a determinant of success, both entrepreneurs and investors need to be on their guard. If an individual downplays the role of luck in their success, then that can impact the way in which they make future decisions, and the long-term health of their venture or portfolio. “Strong belief in skill rather than luck could give you a degree of over-confidence in future decisions, which can eventually result in a major setback because you end up taking more risks on the assumption that your success has been wholly attributed to your own good decisions,” says Dr. Davies.
We have seen that entrepreneurs have a stronger ability than non-entrepreneurs to bounce back from adversity and that this can, in part, be attributed to the traits of persistence, optimism, risk-taking and luck. But perhaps the most crucial determinant in the ability of an individual to recover from setbacks is how they perceive the experience, which is itself closely linked with those traits.

An entrepreneur or individual who experiences failure and concludes that it is a catastrophic event from which it will be difficult to recover will not learn from the experience, and will make it difficult to experience success in the future. Instead, the key is to see setbacks as a learning opportunity and have in place a diligent process for gathering feedback to ensure that the risk of future failure is minimised. “It’s very important when you suffer a setback to look back, work out what your contribution was and determine how you need to change your behaviour,” says Mr. Van de Mark. “When successful people fail, they are able to detach themselves from the setback, take stock and see the world and their weaknesses very clearly. And that takes humility, even courage.”

Alexis Dormandy, Founder of LoveThis, a social recommendation application, and a Blogger for the Daily Telegraph, agrees, “Too often, we define failure as the whole venture having gone wrong rather than something that can be improved.” Mr. Dormandy continues, “I think if we defined it as something that could be improved, our society would be a lot more dynamic. There is something seriously wrong with a culture where you try one thing, are perceived as having failed and consigned to the scrapheap of life. That is going to discourage anyone from trying anything.”

For some individuals, the inability to solve a problem may be perceived as a failure, but others will regard it as a temporary setback and an opportunity to learn. “Failure is in the eye of the beholder,” says Carol Dweck, Lewis and Virginia Eaton Professor of Psychology at Stanford University and the Author of Mindset: How You Can Fulfil Your Potential. “What for one person is a humiliating failure will be a temporary setback for someone else. Successful people often consider these challenges as steps along the way.”

This applies as much to financial investments as it does to business ones. Any individual with an investment portfolio will experience some points in time when their investments perform poorly. But what is critical in this situation is how they react to that loss. “The biggest risk is that you respond badly to these times of adversity by selling at the bottom and locking in the loss,” says Dr. Davies. “By seeing loss as a failure, you actually turn it into a failure. Whereas, if investors can think more broadly and see it as a setback along a journey, then they can view that event through a different lens.”
Entrepreneurs are often described as possessing a number of key traits that are less prevalent among other parts of the population. They are typically seen as optimistic, persistent risk-takers who bounce back from failure and see opportunities where others see adversity. As these charts show, our survey seems to corroborate this view, showing that entrepreneurs do indeed think differently from non-entrepreneurs about risk, opportunity and failure.
Opportunity alert system
Percentage of respondents who agree with the statement “The recent global financial crisis has provided me with opportunities.”

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<th>Non-entrepreneurs</th>
<th>Entrepreneurs</th>
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<tr>
<td>Percentage</td>
<td>42%</td>
<td>55%</td>
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Persistence
Percentage of respondents who agree with the statement “If I have to stop pursuing a goal in my life, I find it difficult to stop trying to achieve it; I can’t let it go.”

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<th>Non-entrepreneurs</th>
<th>Entrepreneurs</th>
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<tbody>
<tr>
<td>Percentage</td>
<td>59%</td>
<td>67%</td>
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Failure-phia... Failure can lead to success
Percentage of respondents who agree with the statement “Past failure in entrepreneurial endeavours increases the chance that a new business will succeed.”

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<th>Non-entrepreneurs</th>
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<tbody>
<tr>
<td>Percentage</td>
<td>47%</td>
<td>58%</td>
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Source: Ledbury Research
Turning failure into success

Failure provides important lessons that can help enhance the future chances of success. Cultures, companies and individuals that allow themselves to learn from mistakes, and that see failure as setbacks along the way rather than as a final outcome, are much more likely to address problems, reduce imperfections and enable greater success.

The scientific prototyping process is perhaps the best example of how failure contains lessons for future success. By conducting multiple experiments, most of which will not work, scientists and engineers can slowly build up their knowledge and, by a process of elimination and incremental steps forward, perfect new products or innovations over a period of time.

“Success teaches us very little,” says Henry Petroski, an Engineer and the Author of *To Forgive Design: Understanding Failure*. “When something works, we know very little about why. Failure, on the other hand, is full of information, because something clearly did not work. From that process, we can learn a lot about how to avoid future mistakes and increase the chances of success.”

Most of the respondents to our survey say that they found failure a valuable experience. But again, there are differences between entrepreneurs and those from other backgrounds. Among entrepreneurs, 56% say they learned a great deal from the failure they experienced in their business and/or career, compared with 41% of non-entrepreneurs. Entrepreneurs are more likely to say that the experience helped to strengthen their character, and to believe that past failure in entrepreneurial endeavours increases the change that a new business will succeed.
What makes these entrepreneurs seemingly more able to learn from adversity? Professor Dweck thinks that it comes down to whether an individual has a fixed mindset or a growth mindset. People who have a fixed mindset believe that their basic talents and intelligence are traits that they are born with and that cannot be changed. “These individuals avoid situations that make them look inadequate and they worry constantly about failure because they believe that it unMASKs their deficiencies,” she explains.

By contrast, those individuals with a growth mindset believe that their basic abilities can be developed through hard work and training. “People with a growth mindset relish taking on challenges and do not view a setback as an indictment of their abilities,” says Professor Dweck. “Instead, they see it as information about what they need to do now and what they can learn.”

Those individuals who are willing to learn from failure may even be able to change the makeup of their brain. “The brain is malleable and able to grow and even reorganise itself with new learning,” says Professor Dweck. “Every time someone stretches out of their comfort zone to learn something new, their brains form new connections. So failures are not only inevitable but also fantastic opportunities to enhance your abilities.”

Even the most catastrophic setbacks can be a source of important lessons. Rachel Bridge, former Enterprise Editor for the Sunday Times and Author of How to Start a Business Without Any Money, describes how entrepreneurs who experience failure are sometimes said to have completed a “million dollar MBA.” “The argument is that, by losing a million dollars from a failed company, you’ve actually learned far more than you would have done by doing an MBA,” she says. “It’s a fairly expensive way of getting the knowledge you need but you ultimately reach the same conclusion.”

In the rest of this section, we look at how entrepreneurs and other business professionals can learn from major setbacks. Based on our research and interviews, we have identified four key steps that individuals can take to help them learn from failure and also use it positively as a source of future success.
1. Accept that failure exists

We have seen throughout this report that failure is an inherent part of business and, indeed, any other aspect of life. Even evolution itself is essentially a story of failure — the process of natural selection means that an estimated 99.9% of all species that have ever existed are now extinct.

Yet, despite the prevalence of failure, many individuals go to extreme lengths to downplay its importance. A strong cultural bias against failure and a tendency to focus on narrow, often short-term measures of success creates a powerful fear of making mistakes that can percolate through an entire organisation. In turn, this deters individuals from taking the risks that are necessary for future success.

As an entrepreneurial venture grows, it is inevitable that there will be more layers of management interposed between the founder and the front line of the business. The danger then is that mistakes are concealed from the top because of a desire to avoid bringing bad news. “As the business leader of a really small company, making a mistake is like someone slapping you in the face with a wet fish,” says Will Butler-Adams, CEO of Brompton Bikes, a U.K.-based designer and manufacturer of folding bicycles. “But as the company grows, you can end up being shielded from mistakes if you’re not careful. It’s important that your management team have no concerns about bringing you bad news.”

Addressing this deeply embedded fear of failure requires entrepreneurs to take concrete steps to get mistakes out in the open. “If employees could admit that they had done something wrong more easily, and if it was more acceptable to say that something wasn’t working, then companies would learn a lot more and a lot more quickly,” says Economist Mr. Ormerod. “There are little things going wrong all the time, but no one wants to point them out. So the problems multiply and you get failures that are much worse as a result.”

One interesting approach taken by some companies is to institutionalise the celebration of failure. At the Indian conglomerate Tata, for example, Chairman Ratan Tata has established an award for the best failed idea. By getting mistakes out into the open, and figuring out how the company can learn from those mistakes, Mr. Tata hopes to communicate to employees the importance of trying and failing, and ultimately of drawing positive lessons from these failures. In addition, the information that emerges from this process can be extremely valuable. Mr. Tata has described his award for failure as “a goldmine” of good ideas.

A bigger challenge for companies is to create an environment where more fundamental problems are identified and brought to the attention of management. Pointing out problems is rarely a popular task. Individuals who blow the whistle on perceived failures will typically face a lonely battle and, rather than being rewarded for their actions, are often excoriated. When Peter Gardiner, who owned a travel and concierge company, blew the whistle on fraudulent payments made by BAE Systems to Saudi officials in 2004, he was initially investigated himself, losing his career and marriage in the process. It took four years before he was vindicated, when the U.S. fined BAE USD$400m.

This highlights the importance of having entrepreneurs who are prepared to admit to mistakes, are able to tolerate dissenting views and who put in place contingency plans so that there is a plan B when problems do arise. “Business leaders need the confidence to admit when things are going wrong and must be willing to listen to people who bring us bad news,” says Mr. Butler-Adams. “Bosses who think they are always right never learn.”

13 http://www.economist.com/node/18285497
This willingness to experiment forms part of the entrepreneur’s “opportunity alert system.” Among our survey respondents, entrepreneurs are more likely than non-entrepreneurs to see opportunities as a result of the financial crisis (see chart 12, page 32-33). In order to increase their chances of success, entrepreneurs need to create a culture in which constant, small-scale experimentation is encouraged. By ensuring that these experiments are controlled, companies create a safe haven for experimentation, where employees can make mistakes without fear of reprisals.

Perhaps the best-known example of this is Google, which has a 20% time policy that allows engineers to spend up to one-fifth of their time on any project of their own choice. This bottom-up approach to innovation requires any engineer with a promising idea to convince their peers to work on it. In this way, good ideas gain traction and resources, and can ultimately be picked up at the corporate level. Equally, Google enables these experiments to be undertaken at very limited economic cost and risk to the company.

Writing in the New York Times, Bharat Mediratta, a Software Engineer at Google, described how the process works14. “If you have a great technical idea, you don’t have your V.P. send out a memo telling everybody to use it. Instead, you take it to your fellow engineers and convince them that it’s good. Good ideas spread fast, and this approach keeps us from making technical mistakes. But it also means that the burden falls upon you to spread your idea.”

This model is by no means unique to Silicon Valley. Mr. Butler-Adams uses a similar approach at Brompton Bikes and highlights the importance of giving employees in his business latitude to make mistakes in a controlled fashion. “We have our core operations, which consume 80% of our energy and resources, then we have 20% where we are willing to take risks and be innovative,” he explains. “As long as we ring-fence those experiments and understand what the worst-case scenario is, then we can afford it and no one is going to lose their job.”

By separating experiments in a way that makes them both controlled and encouraged, companies create an environment where failure is possible in such a way that it does not pose risks to the broader organisation. This creation of safe spaces for failure and moving forward in small steps is what Tim Harford, Author of Adapt: Why Success Always Starts with Failure, calls “the survivability principle.” “The trick is finding the right scale in which to experiment,” he writes. “Significant enough to make a difference, but not such a gamble that you’re ruined if it fails.”

Author Ms. Bridge makes a similar point and argues that failure becomes much more acceptable if the risks can be controlled. “It’s an important message to expect failure but to experience it in a way that doesn’t wreck your life,” she says.

Financial investors can apply a similar lesson by creating a safe environment for their portfolio. This has three components. First, investors need a diversified portfolio16, which may provide some protection against adverse events. Second, they need to ensure that they have sufficient liquidity to prevent them from selling at the bottom and this means being extremely careful about the use of leverage. Third, they need to have in place appropriate insurance against large, unforeseen events that could unexpectedly force them to draw on their assets.

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15 Adapt: Why Success Always Starts with Failure, p224
16 Diversification does not protect a profit or guarantee against a loss
A brand too far

In 2001, Will King, the founder of King of Shaves, signed a major licensing deal to distribute shampoo that licensed swimwear manufacturer Speedo’s brand. Confident of the brand’s potential, Mr. King decided to focus exclusively on selling it in the four big retailers in the U.K. But it quickly became apparent that all was not well. “It didn’t sell at all,” he explains. “We learned the hard way that Speedo just isn’t a brand that people want when buying shampoo. I think I got carried away as to how far a brand could stretch.”

Within nine months, Mr. King had to buy himself out of the deal even though it still had two years left to run. Aside from the direct financial fallout, Mr. King believes that his Speedo adventures had taken the company away from its core competency: to develop the world’s best shaving products. “The Speedo failure helped change the way I saw the business,” he says. “We had lots of really nice brands, but it became crystal clear that King of Shaves, a global challenger brand, was the most important part of our business. And I saw that, in order to succeed, I would need to focus exclusively on it.”

Months later, Mr. King decided to spin King of Shaves out of the main holding company. “The Speedo experience taught us that we need to focus on our core brand,” he says. “It has taken us a long time, with lots of patience and focus, to get the business to where we are today. And I am very happy with what we have achieved.”
3. Refine and adapt your approach

A high proportion of companies will fail and, among those that do ultimately succeed, most will need to radically alter their business model over time. Twitter started life as a podcast delivery service before transforming into a real-time information network. Tiffany & Co. was originally a stationer before moving into jewellery. Samsung started out as a trading company, exporting fish and vegetables to China before it moved into consumer electronics.

Despite the high likelihood that a company will need to adapt, business plans are typically developed in such a way that change is very challenging. Most companies will not succeed with Plan A, but with Plan B or C, and yet investors will often apply a lot of pressure on early-stage businesses to stick to a plan, despite huge volumes of data and information that suggest a refinement to that plan is required.

Rather than sticking rigorously to a plan, entrepreneurs should refine their business model constantly, be open to new ways of achieving their goals and learn from mistakes along the way. Critically, they also need to put in place systems that enable them to learn from these failures as they happen. This means conducting postmortems on why mistakes occurred, and doing so in a way that avoids the placement of blame. Companies need to embed a culture of reporting failures, however small, analyse them and ensure that the lessons learned are disseminated throughout the organisation.

This can be easier said than done. When he took over as CEO of Ford, Alan Mulally introduced a colour coding scheme for managers to report on different aspects of performance, running from green for good, yellow for caution and red for problems. At the first few management meetings, managers provided cards that were completely green. Frustrated by this, Mr. Mulally reminded executives of Ford’s perilous financial position. After this, managers tentatively started to highlight issues as yellow and red. By showing managers that it was acceptable to fail, Mulally changed the culture and enabled a much more open discussion of how and why things had gone wrong.

Success, then, is as much about learning from what goes wrong as it is about repeating what went right. “If you want to be really good at what you do, whether you are an entrepreneur or an Olympic athlete, you need to be constantly looking for errors,” says Mr. Dormandy. “When you start something, it may be 80% wrong, so you fix what you can, then you keep on working until the problems get smaller and smaller. For me, this constant fixing is at the heart of being successful in any environment.”

“Will it make the boat go faster?”

In 1998, morale in the British rowing eight was low. The crew was regularly coming in 7th or 8th place in important races and having difficulty making any improvements in their performance. After a poor showing in the 1998 World Championships, the team realised it needed a new approach. “It was a burning platform situation,” says Ben Hunt-Davis, British Rower, Olympic Champion and Author of *Will it Make the Boat Go Faster?* “If we didn’t change, we knew we probably couldn’t qualify for the Olympics. If we did change and we still didn’t qualify then we hadn’t really lost anything.”

So began a period of profound reflection. Rather than focusing on results, the team became very process-driven, examining in detail every aspect of their performance to determine what went well and what went poorly. “We came up with this one question: ‘Will it make the boat go faster?’ The idea was to challenge everything we did in relation to that question,” says Mr. Hunt-Davis.

After the team began focusing on the process, rather than the outcome, they no longer saw themselves as failing. “We lost races, but we didn’t view that as failure but as part of the process,” he says. “We didn’t worry about making a mistake, as long as we didn’t make the same mistake twice.”

At the 2000 Summer Olympics, this new approach delivered its most impressive result to date. Having underperformed in the British eight at the two previous Olympics, Ben Hunt-Davis won a gold medal in Sydney as part of the first British crew to win this event since 1912. “At the beginning, when we were losing all the time, I definitely classed myself as failing,” says Mr. Hunt-Davis. “And I didn’t learn very much from failure: I thought that the answer was just to work harder. But by focusing on the process, rather than the results, we were able to start learning and our performance began to improve dramatically.”

This story has applications far beyond the sports world. In financial investment, a similar focus on process, rather than outcomes is important. The key is not to fixate on where the portfolio is at in a particular point of time because what matters is how it will perform over the long term. Far more important is to put in place the right structures and decision-making protocols which will matter much more in the future.

“In investing, like much else in life, the future is uncertain and the world is complex,” says Dr. Davies. “We cannot improve performance reliably by pretending that we have a crystal ball. We don’t. We can, however, improve performance by ensuring that our decisions are aligned to our long-term objectives, and that we have a robust process enabling us to evaluate the risk of the options before us.”
Governments, regulators and companies spend an increasing amount of time trying to put in place safeguards against things going wrong. But as the world becomes more complex, dynamic and fast-moving, it becomes increasingly difficult for them to keep up. Risk mitigation efforts can become byzantine in their complexity.

Mr. Ormerod believes that society’s approach to dealing with risk and failure is well-meaning but misguided. “The general approach is to try to predict possible negative future outcomes and then put plans in place to mitigate them,” he says. “But you cannot avoid failure. You’ll never get around this fundamental problem, no matter how smart you are. It’s inherent to all evolving systems.”

Rather than trying to predict failure, Mr. Ormerod says that companies and regulators should place more emphasis on designing resilient systems that can respond to a range of different problems. “At some stage, you are bound to take an unanticipated hit because that’s how the world is,” he explains. “The key is therefore to design your system so that it’s more resilient, so if one of these events comes along, you can bounce back more quickly.”

Global supply chains are a good example of this. Through the use of common standards, technology and the constant sharing of information, large global retailers such as Wal-Mart have been able to increase significantly the reliability resilience of their supply chain, despite its huge complexity and scale. In the pharmaceutical sector, individual packets of drugs are now given a unique serial number which enables the location of any single batch to be logged at any point in time. If there are problems with a defective batch, the company knows instantly which packets are affected and where they are, so that they can be quickly and efficiently located rather than engaging in an expensive and risky mass recall. These efforts increase resilience because problems can be localised rather than having systemic effects.

This extends to the process of learning from mistakes. A company that puts in place measures to address a very specific problem that it has experienced may be marginally more resilient, but it may never experience that same issue again. Because failure is so dependent on context and a highly complex set of internal and external factors, a more general approach to learning is required. As such, it is important to react strategically to failure, and spend time understanding the real underlying factors and how an individual may have participated in the failure.

4. Create a system that is resilient rather than trying to predict what might go wrong

Towards a common financial language, Paper by Robleh D. Ali, Andrew G. Haldane and Paul Nahai-Williamson
“At some stage, you are bound to take an unanticipated hit because that’s how the world is. The key is therefore to design your system so that it’s more resilient, so if one of these events comes along, you can bounce back more quickly.”

Paul Ormerod, Economist and Author of *Why Most Things Fail: And How to Avoid It*. 
Section 4

The Power of Persistence: Mapping attitudes to adversity in the U.K. regions

In this Wealth Insights report we have examined global perceptions of setbacks and responses to adversity across entrepreneurial, business and investment endeavours. This chapter focuses on the U.K., taking a closer look at the regional trends in attitudes and reactions to failure.
Regional Findings

As we have seen in this report, there is a common perception that viewing failure positively and the ability to learn from setbacks is essential for the growth of an economy. To some extent, the U.K. presents a microcosm of this trend. However, there are certain distinctions across the different regions of the U.K. in how high net worth individuals embrace and respond to adversity.

What emerges from the findings is an apparent north/south divide when it comes to resilience and determination, with respondents in London, the South East and the South West displaying markedly less persistence in the face of adversity than those in the north of England and in Scotland. The degree of regional variation in their attitudes to adversity is striking, and is analysed in detail in the following section.

London
Judge not lest ye be judged?

High net worth individuals in the capital show themselves to have a relatively negative perception of failure when it comes to how they view others, while still viewing failure as something to learn from. Just a third (33%) of London respondents agree that entrepreneurs who fail initially should persist in their endeavours. This compares to almost half of respondents (49%) in the North East and 44% in Scotland, where prevailing attitudes in the face of adversity are given greater value. In addition, there is a reluctance to trust the abilities of those who have previously failed in business ventures or in investments: over half of London-based respondents (54%) feel that past failure will go on to count against people in their career progression, and almost a third (32%) of people in London agree that they judge people who fail in their career or business negatively — ranking the third highest among any U.K. region (after Scotland and the South East).

Conversely, London has the highest percentage of respondents in any U.K. region (73%) who agree that they have learnt a great deal from failure in their career or business. Meanwhile, nearly a third (31%) of high net worth Londoners who have experienced failure in the past, say that this failure in their career or business has encouraged them to try again, the highest of any U.K. region. This suggests that while there may be a reluctance to put faith in others who fail, respondents from the capital rate their own experiences of adversity as potentially valuable which, far from precluding the possibility of regrouping and making another attempt in business or investment, can actually persuade them to try again.
South East
Wary of failure but willing to give second chances

Support for the concept of failure as an essential part of the wider business and entrepreneurial process appears more muted in the South East than in other U.K. regions. The proportion of respondents who agree that viewing failure positively is essential for growth is the lowest in the country, at 60% (the national average is 69%).

High net worth individuals in the South East are also less likely than other U.K. regions to say they bounced back very quickly from a past failure. Whilst 78% said that they would find a new goal to pursue if they failed in their current undertaking, this is in comparison to 86% in the North West and 83% in the North East.

In addition, respondents from the South East judge people who fail negatively to a greater extent than most other regions. Over a third (35%) said they judge people who fail negatively, compared to just 22% in the North East and 26% in the South West and Wales.

However, in terms of business decisions, the South East has the highest actual tolerance of failure of any region in the U.K.; with nearly half (48%) saying they would hire an individual who has experienced entrepreneurial failure. In the South West and Wales, the contrast is stark, with less than a quarter (24%) agreeing with this statement. Furthermore, 30% of respondents in the South East said experiencing failure encourages them to try again. The same is not true across the U.K. — in the Midlands the figure is just 18%.

North East and Yorkshire
Real resilience

When viewed alongside the South East and London, the story in the North East is rather different. High net worth individuals in this region are the most persistent in the U.K. when it comes to adversity in business ventures, with almost half (49%) agreeing that entrepreneurs who experience failure should persist. People in the North East also find it difficult to ‘let go’, with more respondents (65%) in this region than any other agreeing that they find it hard to stop striving for a goal that they are attempting to reach.

Given this determined nature, it is perhaps unsurprising that respondents in the North East showed themselves to be more tolerant of failure than in any other U.K. region, with less than a quarter (22%) saying that they judge people who fail negatively. And whilst high net worth individuals in the North East are divided on the impact of failure in business, with half feeling that failure will count against an individual later on, there does appear to be an acceptance in the North East of the merits of failure. Nearly eight in ten (78%) of those questioned in the region believe that viewing failure positively is essential for economic growth.
Midlands
Cautious amid challenges

Attitudes to failure in the Midlands differ somewhat to those of other regions. Less than a third (32%) of high net worth individuals in the Midlands agree that entrepreneurs who initially fail should persist. This is slightly lower than the national average of 35%, and as we have seen, compares to almost half (49%) in the North East. Furthermore, fewer respondents in the Midlands (18%) said that past failures in their career and business encouraged them to try again than in any other U.K. region. This compares to 31% in London and 29% in the South East.

However, there is an acceptance in the Midlands that viewing failure positively is essential to economic growth — at 73% the figure is slightly higher than the national average. Yet, while just 27% of respondents in the Midlands admit that they judge past failure negatively in others, the application of these attitudes can be somewhat different, with only 38% of respondents saying that they would take on someone who had tried and failed to start their own business — this is compared to a national average of 42%.

North West
Hard lessons from adversity

The views of high net worth individuals in the North West on failure tend to fall fairly close to the national average. As in many other regions, there is limited appetite for persistence in the face of business failure: just over a third (36%) of people questioned in the region said that they think entrepreneurs who fail should persist.

In terms of their reactions to failure in others, respondents in the North West showed themselves to be relatively tolerant. Over two-fifths (41%) of respondents said that they would agree to hire a failed entrepreneur, in comparison to less than a quarter (24%) in the South West, and only 27% said that they judge those who have failed negatively.

When it comes to viewing failure as part of a wider picture, almost three quarters (71%) of North West respondents feel that a positive attitude to failure is essential to wider economic growth — the closest region to the U.K. average.

However, in terms of lessons learnt from failure, just under half (47%) of respondents in the North West agree that they have learnt a great deal from failure. Exactly half of the high net worth Individuals in the North West said that they believe failure impacts negatively on future career prospects — in line with the overall U.K. figure of 51%.
South West & Wales
High tolerance of failure in theory, but low in practice

Along with the South East, the South West and Wales is the region with the joint lowest persistence in the U.K., with just 30% of respondents agreeing that entrepreneurs should persist in the event of failure. This is in comparison to almost half (49%) in the North East.

The South West and Wales also has the lowest tolerance of failure of any U.K. region, with less than a quarter (24%) of people questioned agreeing that they would hire an entrepreneur who had previously failed. This is in comparison to just under half (47%) in the North East and 46% in London. The notion that a positive view of failure helps foster wider growth is less ingrained in this region than elsewhere, with just 62% supporting this view — well below the national average of 70%.

However, in other ways the South West and Wales appear to hold relatively accepting attitudes towards those who fail. Just over a quarter of respondents (26%) said that they would judge someone who had failed negatively, in comparison to 35% in the South East and 38% in London. Also, under half (48%) of those questioned in the South West and Wales feel that failure counts against individuals in their career progression, which is the lowest of any U.K. region.

Conversely, high net worth individuals in the South West and Wales also find it difficult to give up pursuing their goals, with 59% saying they struggle to stop trying to achieve goals when they come up against challenges. This is the second highest of any U.K. region, suggesting that levels of motivation and persistence in the region are particularly strong.

Scotland
The long term view

Scotland has the second-highest levels of persistence of any U.K. region, with almost half (44%) of respondents agreeing that entrepreneurs should persist through adversity. This is in comparison to less than a third (33%) in London and just 30% in the South East and the South West and Wales.

Respondents from Scotland appear to have a tendency to view failure as part of a bigger picture. Scotland is the region with the highest proportion of respondents who believe that viewing failure positively is essential to fuelling economic growth. In addition, over half (55%) say that they have learnt a great deal from past failures — only London-based respondents (56%) fare better in terms of learning from these trying experiences.

By contrast, however, there is a low tolerance for the failure of others in Scotland, with less than two in five respondents agreeing that they would hire an entrepreneur who had previously failed. Only the South West and Wales (24%) has a lower tolerance for failure. Furthermore, a greater number of Scottish respondents (56%) think failure counts against people in their career progression than in any other area of the U.K.

In addition, respondents in Scotland were more judgmental of people who fail than in any other region. Almost two in five said that they judge people who fail negatively. By comparison, less than a quarter (22%) of respondents in the North East and just 26% in the South West region of England agree with this.
Conclusion

Societies need a healthy tolerance of failure in order to thrive. The process of “creative destruction” means that there is a constant cycle of companies failing and new, better ones succeeding. Economic progress depends on entrepreneurs and investors confronting the risk of failure, and using their persistence and optimism to shrug off setbacks and pursue rewards. If companies or investors stop taking risks, then innovation and wealth creation grind to a halt.

This is easy to accept at a macroeconomic level, but most people have a strong fear of failure, driven by cultural biases and their own psychological makeup. Times of economic uncertainty and market volatility exacerbate this fear. Companies react by amassing huge stockpiles of cash, while some investors respond by sitting on the sidelines and refuse to take risks with even a small proportion of their wealth. This sentiment is understandable but cannot last forever. Companies must at some point invest in productive capacity, and investors must also be willing to invest unless they are willing to see inflation erode their capital.

Part of the problem stems from our perceptions of failure. All too often, the experience is seen as an outcome, rather than a step in the process. But by identifying something as a failure, rather than a temporary setback, then we make it more difficult to learn from the experience. Investors who see losses in their portfolios as “failure” are more likely to respond badly, sell low and lock in the loss. Instead, they should accept that losses are temporary and, indeed, see periods of low valuations as a time of opportunity — to be greedy when others are fearful, as Warren Buffett has described it.

In this respect, financial investors can learn a lot from successful entrepreneurs. We have seen in this report that entrepreneurs use their persistence and optimism to create a healthy relationship with failure. Rather than being discouraged from starting another new venture, many entrepreneurs will bounce back quickly from the experience. They regard failure as a chance to refine their approach, draw valuable business lessons and perform better next time.

Not everyone shares this same persistence and optimism. But we can become more aware of how our character and behaviour influence decision-making, and take steps to counter some of the negative effects. Equally, both financial and business investors can put in place measures to help reduce the risk of failure, and learn more quickly from it. This means accepting that failure exists, and being able to experience losses in a way that it is not catastrophic. It means refining our approach to learn lessons from failure, and investing in a way that is resilient to setback.

Not every failure can be averted, but the chances of enduring the experience can be reduced. With the right frame of mind, both entrepreneurs and investors can ensure that they respond appropriately to setbacks and increase their chances of long-term success.

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