POLITECNICO DI MILANO

Strategic Entrepreneurship and Startups

constant search for business opportunity

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Entrepreneurship: a possible definition

It is impossible to operationalize a concept that cannot be defined

… and

"the concept is synonymous with the corresponding set of operations"

(*Bridgman, 1927; Dewey, 1929*)

… so …

… What's entrepreneurship?

- "The discovery and exploitation of profitable (business) opportunities" (*Shane and Venkataraman, 2000 - AMR*)

Working definitions:

- "An *Entrepreneurial Event* involves the creation of a new organization to pursue an opportunity" (*Bygrave, 1989 - ET&P*)
- "The *Entrepreneurial Process* involves all the functions, activities, and actions associated with the perceiving of opportunities and the creation of organizations to pursue them." (*Bygrave and Hofer, 1991 - ET&P*)
- "An *Entrepreneur* is someone who perceives an opportunity and creates an organization to pursue it." (*Bygrave and Hofer, 1991 - ET&P*)

What's a startup

constantly searching for business model capturing value

?

His definition of a startup is a great place to start: A startup is a temporary organization formed to search for a repeatable and scalable business model. Steve Blank

ways after spotting the opportunity

New ventures and Startups

What’s a (new) venture?

rules of the game is clear like new restaurant

- a commercial undertaking characterized by risk of loss as well as opportunity for profit; and the merchandise, money, or other property placed at risk in such an undertaking (*Collins English Dictionary*)
- a new activity, usually in business, that involves risk or uncertainty (*British Dictionary*)

What’s a Startup?

- A business or undertaking that has recently begun operation (*American Heritage Dictionary*)
- “A startup is a company working to solve a problem where the solution is not obvious and success is not guaranteed” (*Neil Blumenthal, cofounder and co-CEO - Warby Parker*).

… but also

- “Startup is a state of mind. It’s when people join your company and are still making the explicit decision to forgo stability in exchange for the promise of tremendous growth and the excitement of making immediate impact” (*Adora Cheung, cofounder and CEO - Homejoy*)

New ventures and Startups

A possible list of common traits for a startup (*Forbes, 2014*) :

- up to 3-5 years old not make sense
- no acquisition by a larger company yet
- far from IPO (Initial Public Offering)
- a single office
- revenues lower than 20 mln. $ not make sense
- less than 80 employees and less than 5 people in the Board
- founders who haven't personally sold shares yet
- high ability to achieve unconstrained grow

… still, there are no hard and fast rules on defining a startup since revenues, profits, and employment numbers shift drastically between companies and Industries

Strategic Entrepreneurship: actions and opportunities

Strategic actions

- Those actions through which companies develop and exploit current competitive advantages while supporting entrepreneurial actions that discover and exploit opportunities that will help create competitive advantages for the firm in the future (*Porter, 2001; Kuratko et al., 2001*)

Entrepreneurial actions

- Actions through which companies identify and then seek to exploit entrepreneurial opportunities rivals have not noticed or fully exploited (*Ireland et al., 2001*)

Entrepreneurial opportunities

- External environment conditions suggesting the viability of introducing and selling new value propositions (products, services, raw materials and organizing methods) at prices exceeding their production costs (*Shane and Venkataraman, 2000*)
- They surface when actors have insights about the value of resources or a combination of resources that are unknown to others (*Alvarez and Barney, 2001*)

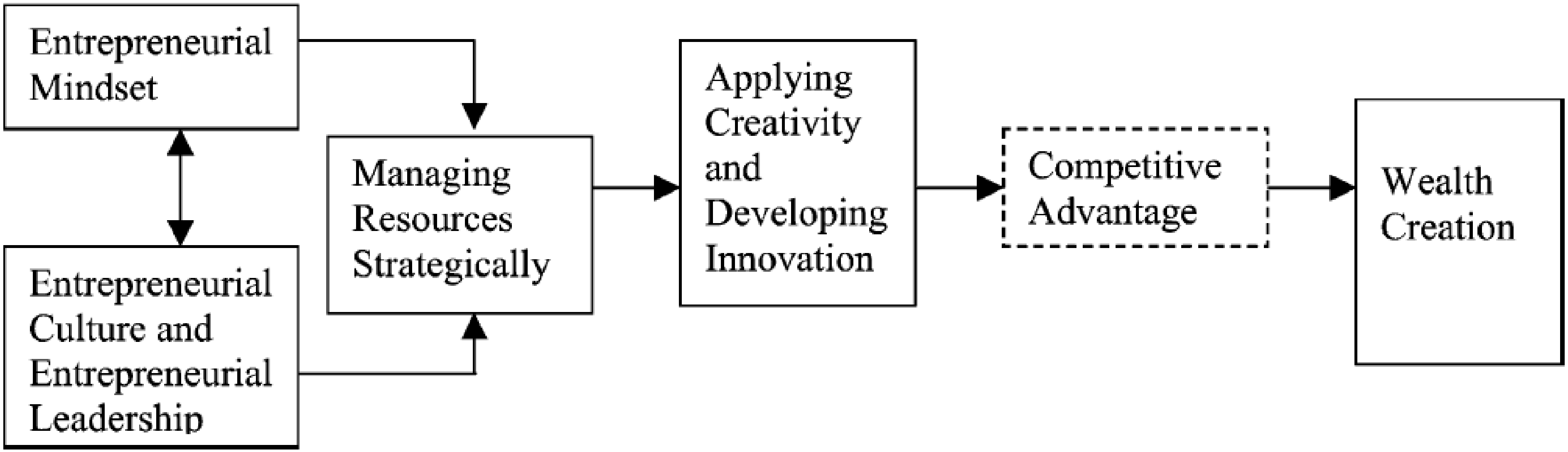
Strategic Entrepreneurship: integrating Entrepreneurial and Strategic perspectives

AS IS is more powerful
although we have to protect To be.

Strategic Entrepreneurhsip

- The integration of entrepreneurial (i.e. opportunity seeking actions) and strategic (i.e. advantage-seeking actions) perspectives to design and implement entrepreneurial strategies that create wealth (*Hitt et al., 2001*)
- Strategic Entrepreneurship is entrepreneurial action that is taken with a strategic perspective. "Romeo (entrepreneur) on the balcony (strategy)" (*Venkataraman and Sarasvathy, 2001*)
- Integrating entrepreneurial and strategic actions is necessary for firm to create maximum wealth
- Entrepreneurial and strategic actions are complementary, not interchangeable
- Entrepreneurial action is designed to identify and pursue entrepreneurial opportunities which arise from dynamic and uncertain environments
- Entrepreneurial action using a strategic perspective is useful to identify the most appropriate opportunities to exploit and then facilitate the exploitation to establish (hopefully sustainable) competitive advantages

Strategy – Entrepreneurship: a model (Ireland et al., 2003)



Strategy - Entrepreneurship: a model (Ireland et al., 2003)

- Small, entrepreneurial ventures are effective in identifying opportunities but are less successful in developing competitive advantages needed to appropriate value from those opportunities.

- In contrast, large, established firms often are relatively more effective in establishing competitive advantages but are less able to identify new opportunities.

- SE is a unique, distinctive construct through which firms are able to create wealth, and is made of the following dimensions:
  1. Entrepreneurial mindset
  2. Entrepreneurial culture and entrepreneurial leadership
  3. the strategic management of resources
  4. applying creativity to develop innovations

Strategy – Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial mindset

- An entrepreneurial mindset is a way of thinking about business that focuses on and captures the benefits of uncertainty.
- The entrepreneurial mindset can be defined as a growth-oriented perspective through which individuals promote flexibility, creativity, continuous innovation, and renewal. Even under the cloak of uncertainty, the entrepreneurially minded can identify and exploit new opportunities because they have cognitive abilities that allow them to impart meaning to ambiguous and fragmented situations
- Components of entrepreneurial mindset:
  1. *Recognizing entrepreneurial opportunities*
  2. *Entrepreneurial alertness* ("flashes of superior insight"), ability to identify when new goods or services become feasible or when existing goods or services become unexpectedly valuable to consumers
  3. *Real options logic*
  4. *Entrepreneurial framework*, which includes actions such as setting goals, establishing an *opportunity register* (i.e. where firms record entrepreneurial opportunities), and determining the *timing* associated with launching the strategy required to exploit an entrepreneurial opportunity

Strategy – Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial culture and entrepreneurial leadership

- Organizational culture is a system of shared values (i.e., what is important) and beliefs (i.e., how things work) that shape the firm's structural arrangements and its members' actions to produce behavioral norms (i.e., the way work is completed in the organization).
- An effective entrepreneurial culture is characterized by multiple expectations and facilitates firms' efforts to manage resources strategically. Committed to the simultaneous importance of opportunity-seeking and advantage-seeking behaviors, an effective entrepreneurial culture is one in which new ideas and creativity are expected, risk taking is encouraged, failure is tolerated, learning is promoted, product, process and administrative innovations are championed, and continuous change is viewed as a conveyor of opportunities.
- Thus, an entrepreneurial culture fosters and supports the continuous search for entrepreneurial opportunities that can be exploited with sustainable competitive advantages
- An entrepreneurial culture develops in an organization where the leaders employ an entrepreneurial mindset. Leaders are responsible for developing and nurturing an entrepreneurial culture.

Strategy – Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial culture and entrepreneurial leadership

- Entrepreneurial leadership is the ability to influence others to manage resources strategically in order to emphasize both opportunity-seeking and advantage-seeking behaviors
- Imperatives of entrepreneurial leadership:
  1. *Nourish an entrepreneurial capability*. Human capital is the source of SE behaviors. A vision emphasizing the importance of SE as well as a commitment to develop human capital facilitates individuals' efforts to develop entrepreneurial capabilities such as agility, creativity, and skills to manage resources strategically
  2. *Protect innovations threatening the current business model*. Individuals sometimes see disruptive innovation as threatening—to them personally as well as to their organizations. Effective entrepreneurial leaders openly share information with organizational members to describe disruptive innovations' potential benefits (e.g., stimulating development of new competitive advantages).
  3. *Make sense of opportunities*. The probability that individuals will accept the need to pursue entrepreneurial opportunities and to develop unique competitive advantages needed to exploit them increases when those opportunities are a part of the firm's opportunity register. Entrepreneurial leaders are able to communicate the value of opportunities and how exploiting them contributes to the firm's overall goals as well as to individuals' goals.

Strategy – Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial culture and entrepreneurial leadership

- Imperatives of entrepreneurial leadership:
  4. *Question the dominant logic*. Dominant logic describes how leaders conceptualize their business and evaluate resource allocation decisions. Key assumptions about industries and markets that influence the firm's opportunity- and advantage seeking behaviors should be periodically questioned to ascertain their validity (i.e., challenging the dominant logic). Entrepreneurial leaders evaluate the assumptions underlying the dominant logic to make certain that the firm is successfully positioned to identify value-creating entrepreneurial opportunities.
  5. *Revisit the "deceptively simple questions"*. Entrepreneurial leaders examine questions about the viability of the markets in which the firm competes, the company's purpose, how success is defined and the firm's relationships with different stakeholders. Revisiting these questions over time is vital in that the answers influence what the firm identifies as opportunities and how it manages its resources to exploit those opportunities.
  6. *Link entrepreneurship and strategic management*. Effective entrepreneurial leaders believe that to create the most value, firms must be "strategically entrepreneurial". This desired end state is achieved when leaders' entrepreneurial mindsets help them develop a culture in which resources are managed strategically (i.e., advantage-seeking behavior), yet entrepreneurially (i.e., opportunity-seeking behavior).

Strategy – Entrepreneurship: a model (Ireland et al., 2003)

Managing resources strategically

- The firm's idiosyncratic resources are likely to produce sustainable competitive advantages only when they are managed strategically.
- Resources are managed strategically when their deployment facilitates the simultaneous and integrated use of opportunity- and advantage-seeking behaviors.
- When firms structure a resource portfolio, bundle resources to form capabilities and leverage those capabilities flowing from their financial, human and social capital (resources) to simultaneously enact opportunity- and advantage-seeking behaviors and create wealth, they are managing their resources strategically
- Managing resources strategically affects the value to be derived from the intangible and tangible assets that organizations use to develop and implement their strategies, suggesting that, "the creation, maintenance, and sustainability of techniques for accumulating and deploying resources may become a focal point of research"

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Managing resources strategically

- Resources to be managed strategically are:
  1. Financial Capital (tangible)
  2. Human Capital (intangible)
  3. Social Capital (intangible).
     - Set of relationships between individuals – internal social capital – and between individuals and organizations – external social capital – that facilitate actions.
     - Collectively, social capital is the total set of value-creating resources that accrues to the firm because of its durable network of intra- and inter-firm relationships.
     - Resulting from relationships inside the firm and with external entities, social capital helps the firm to gain access to and control of resources and to absorb knowledge

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Managing resources strategically

- Three stages to manage resources strategically:
  1. **Structuring the resource portfolio**
     - Acquiring, accumulating and divesting resources
  2. **Bundling resources**
     - Bundling tangible and intangible resources to organize them in an original way that contributes to recognizing and exploiting entrepreneurial opportunities, to create competitive advantage.
     - Bundled resources give rise to **capabilities**
     - Usually these capabilities are needed to select and implement the firm's strategies. The unique capabilities created help companies differentiate themselves from competitors.
  3. **Leveraging capabilities**
     - Choosing how the capabilities will be leveraged within and across SBUs and organizational functions

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Applying Creativity and Developing Innovation

- Creativity and innovation result when resources are managed strategically
- Innovation is a force of "creative destruction" (Schumpeter)
- New combinations of production factors are the essence of innovation.
- Firms must be creative to develop innovation.
- Creativity stems from "**bisociation**"
  - Bisociation occurs when a person combines two or more previously unrelated matrices of skills or information
  - Bisociation takes place when individuals combine information to identify an opportunity or to help shape competitive advantages.
  - Commonly a function of entrepreneurial alertness, bisociation leads to the recognition of entrepreneurial opportunities often after periods of mental incubation.
- Innovation (both disruptive and sustaining) is used to exploit entrepreneurial opportunities; thus, it is highly important to SE.

What's a startup #1 priority (and concern)

?

Make or find Money

equity or debt

- friends family and fools
- informal investors (don't need a business plan, due diligences)
- Crowd funding
- Formal: VC (evaluating business plans formally)
--- ivc -- cvc --- gvc

- accelerator (when there is a business plan for scale up)
- independent funds
CVC, GVC, ...
(NOTES)

3T = Team / Tech / Traction (small number but growth)

Startups and financing

What's a Business Angel?

- Business angels are individual investors, usually with business experience, who provide capital for start-up firms. They are an important source of equity for small firms with growth potential in their early stages of development, long before they become attractive for venture capital funds (*European Union*).

…and what's FFF?

- Family, Friends, Fools (love money vs. smart money) (*Business Angels Institute*)

What's Venture Capital (VC)?

- a subset of private equity, it refers to equity investments made to support the pre-launch, launch and early stage development phases of a business (*European Venture Capital Association – EVCA*).
- a segment of the private equity industry which focuses on investing in new companies with high growth potential and accompanying high risk (*National Venture Capital Association – NVCA*)

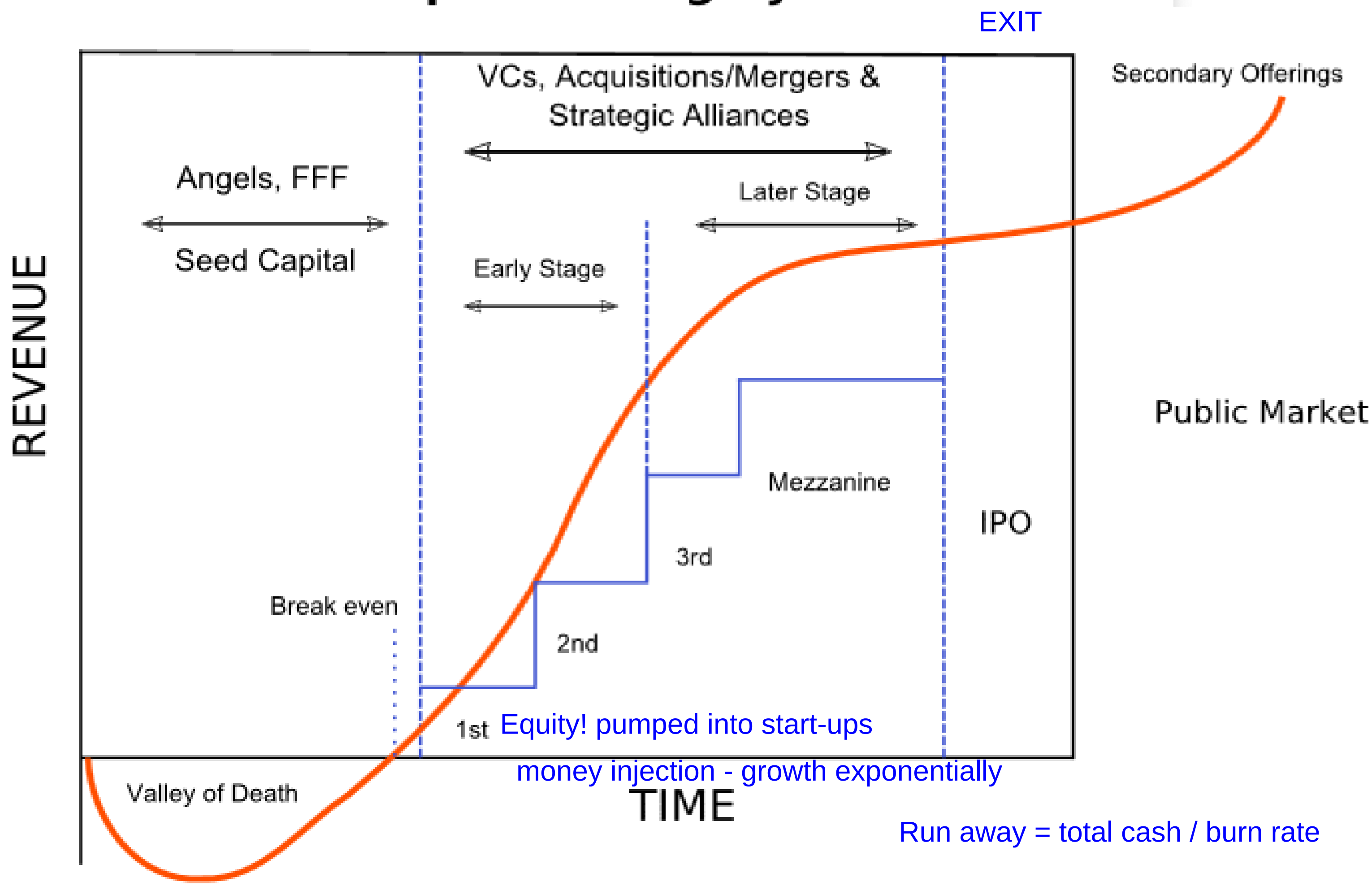
Startups and financing

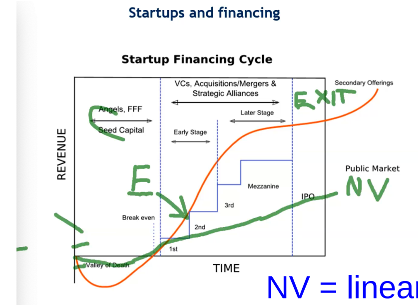
Financing rounds stages (*EVCA*)

1. **Seed**: Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
2. **Start-up or early-stage venture**: Financing for product development and initial marketing. Companies have not sold their product commercially and are in the process of being set up.
3. **Later-stage venture**: Financing for the expansion of an operating company. Later-stage venture tends to finance companies already backed by venture capital firms.
4. **Growth**: A type of private equity investment – most often a minority investment – in relatively mature companies that are looking for capital to expand into new markets or restructure operations.
5. **Buyout**: Financing to acquire a company. It may use a significant amount of borrowed money to meet the cost of acquisition.
6. **Rescue/Turnaround**: Financing made available to an existing business in difficulty, with a view to re-establishing prosperity.
7. **Replacement capital**: The purchase of a minority stake of existing shares in a company from another private equity firm or from another shareholder or shareholders.

Startups and financing

Startup Financing Cycle





NV = linear growth less cash burn

Italian hi-tech startups ecosystem

(see the related presentation)

What's the ecosystem of players a startup arises and operates in

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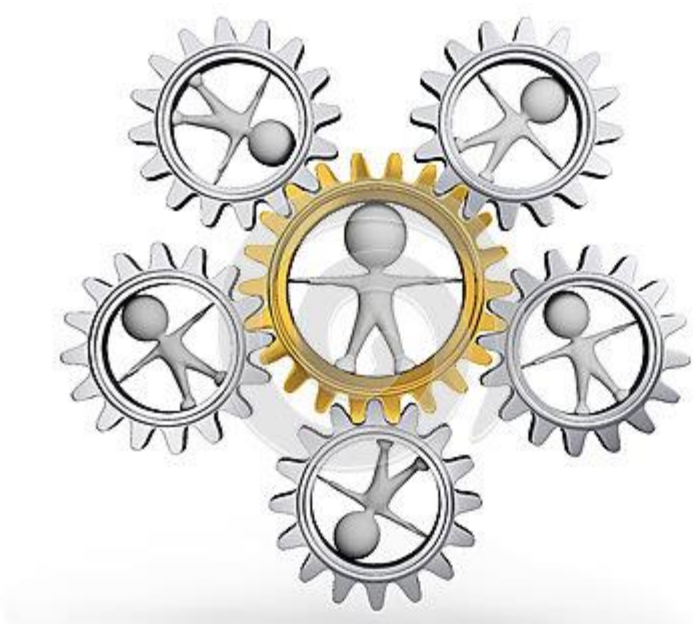

Startups and their surrounding ecosystem

The players	2013	2014
"Innovative Startups"	1227	2716
Funded Startups	113	197
"Institutional" investors	32	36
Incubators & Accelerators	97	100
Science & Technology parks	40	38
Coworking spaces	65	62
Startup Competitions	33	52
Associations, Online resources & communities	20	27
Hackathons	-	21
Empowerment programs	-	38
Call for tenders	-	46
Crowdfunding platforms	-	48
Fablabs	-	46

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Italian hi-tech startups research 2016

(see the related presentation)

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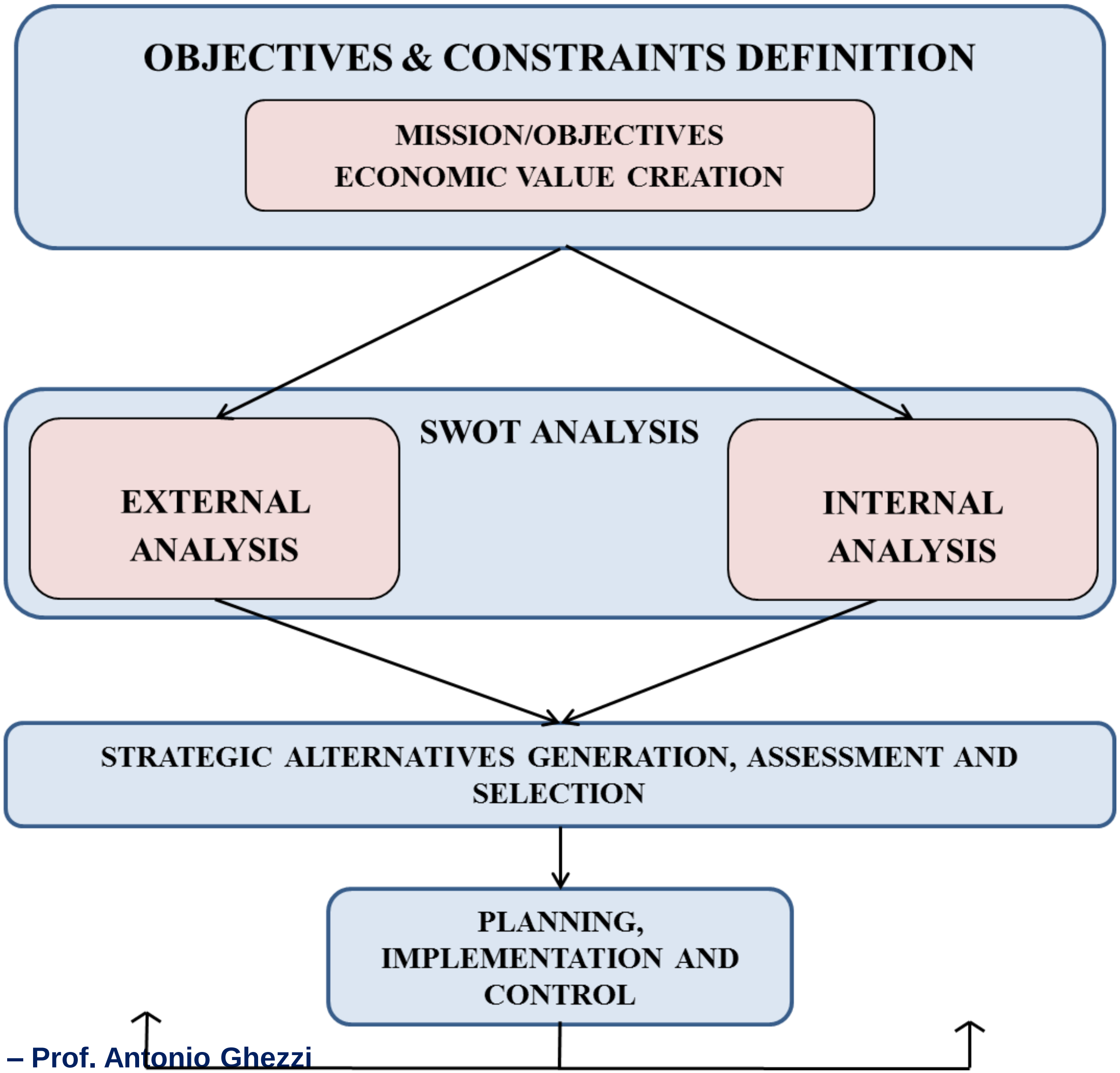
Startups and the strategy formulation process

Startups and strategy: a missing link?

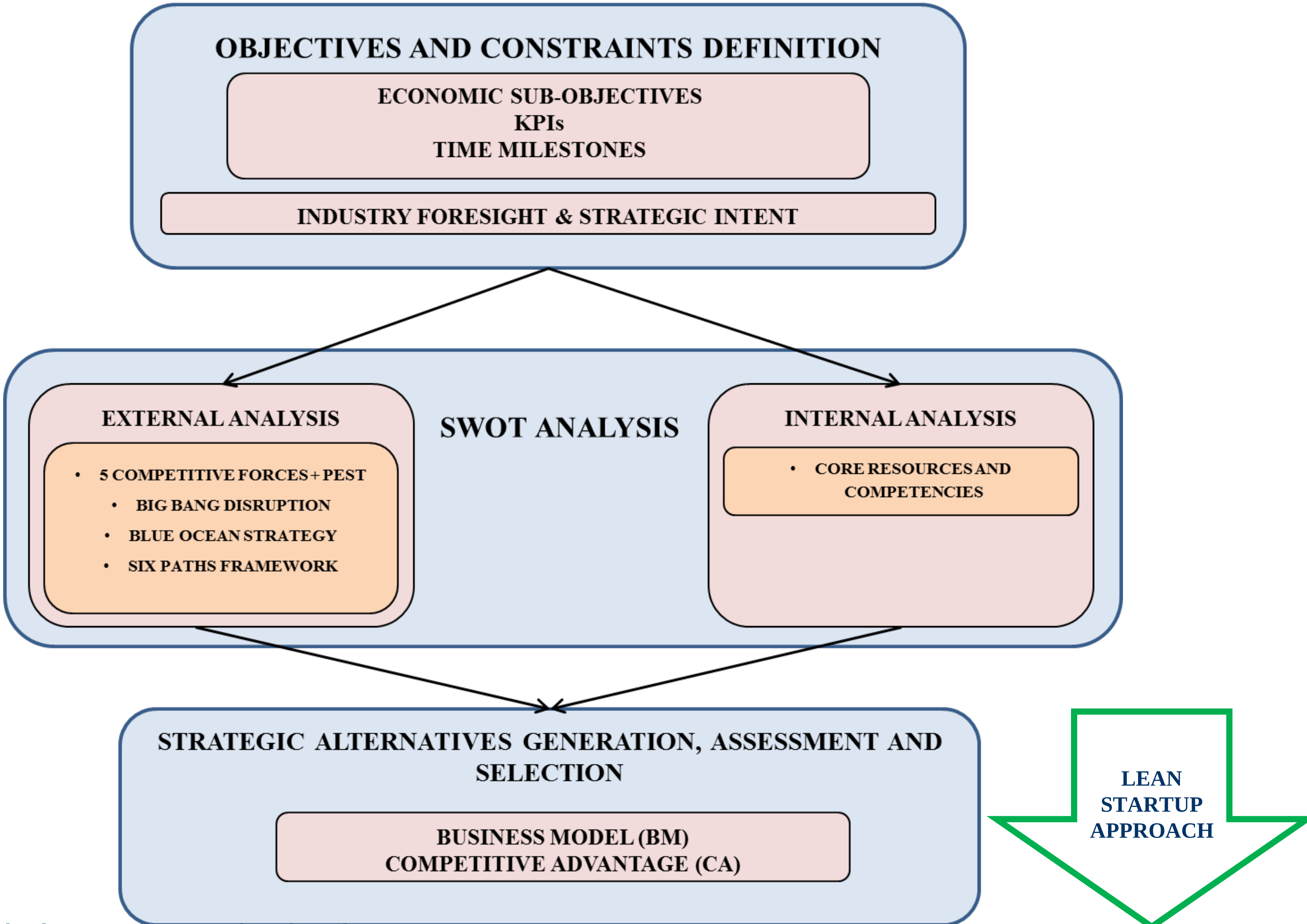
- **Entrepreneurs and “startuppers” are mostly focused on pragmatic problems, like operationalizing their business idea, promoting it and receiving funding…**
  - they often believe that sketching a business model is enough to get their startup up and running and to endow it with some sort of “strategic direction” (*Ghezzi, 2014 - SD*)
  - however, they also need to formulate an overall business strategy to set objectives, assess the external/internal context and implement their business model in a way that catalyzes the startup’s innovation potential towards the achievement of an original competitive advantage
  - failing to get this would likely jeopardize the chances of success and very survival of their endeavor

- **Nonetheless, the strategy formulation process for a startup significantly differs from the traditional process undertaken by large or consolidated companies**
  - Focus on strategic innovation (with a “bootstrapping” approach)

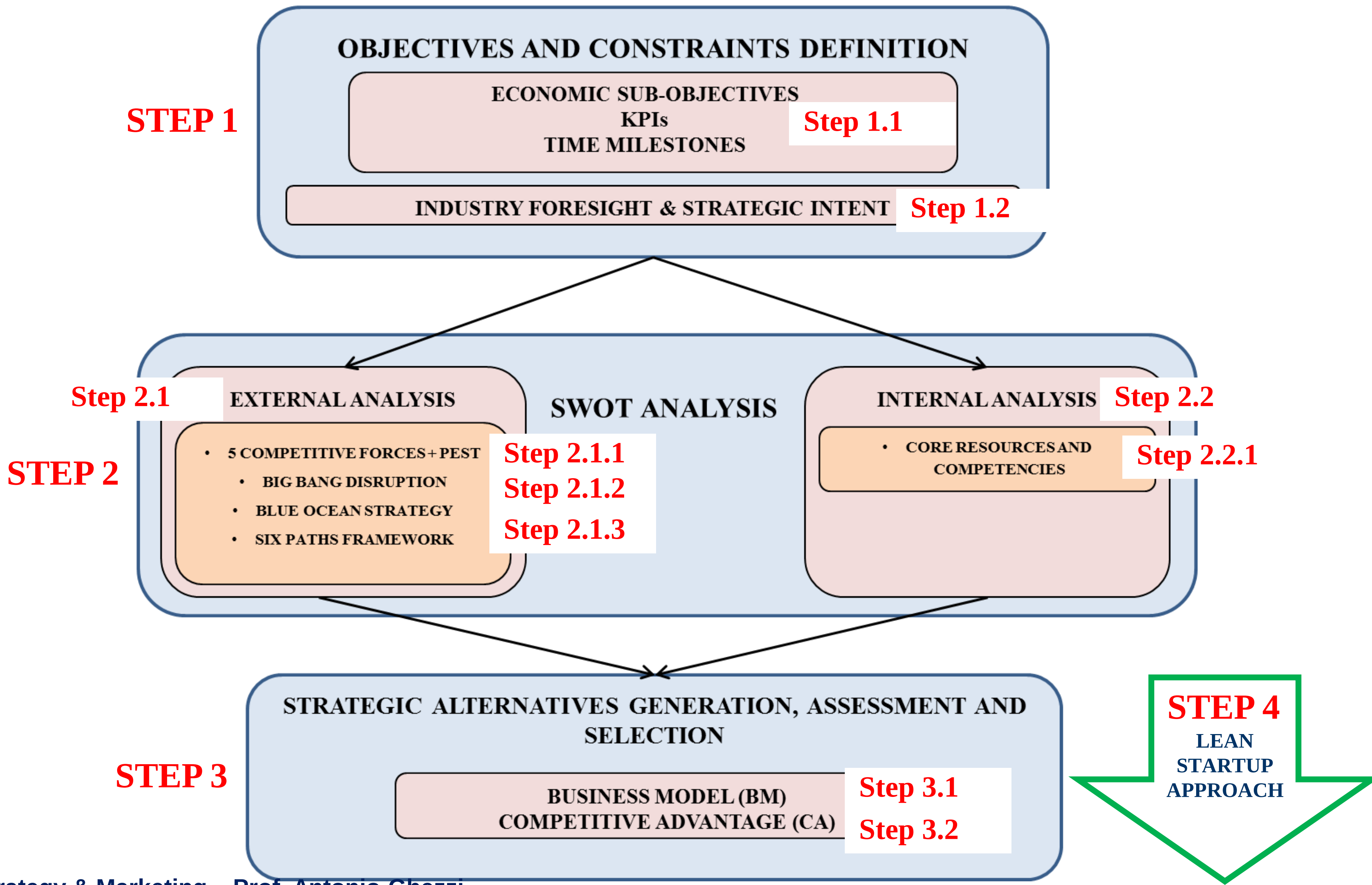
The traditional strategy formulation process



The Startup strategy formulation process



The Startup strategy formulation process



The Startup strategy formulation process

STEP 1: OBJECTIVES AND CONSTRAINTS DEFINITION

- STEP 1.1: Economic Sub-objectives, KPIs, Time Milestones
- STEP 1.2: Industry Foresight and Strategic Intent

STEP 2: SWOT ANALYSIS

- STEP 2.1: External Analysis
  - STEP 2.1.1: 5 Competitive Forces + PEST
  - STEP 2.1.2: Big Bang Disruption
  - STEP 2.1.3: Blue Ocean Strategy (6 Paths Framework)
- STEP 2.2: Internal Analysis
  - STEP 2.2.1: Core resources and competencies

STEP 3: STRATEGIC ALTERNATIVES GENERATION, ASSESSMENT AND SELECTION

- STEP 3.1: Business Model Design
- STEP 3.2: Competitive Advantage

STEP 4: LEAN STARTUP APPROACH