Institute of Finance Management (IFM)

Entrepreneurship – MSU 06500

Bachelor of Accounts with Information Technology (BAIT)

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Topic Four – Outline

Demonstrate entrepreneurship skills in managing entrepreneurial growth

4.1 Define entrepreneurial growth

4.2 Explain the importance and steps of strategic planning for an emerging venture

4.3 Identify indicators of business growth

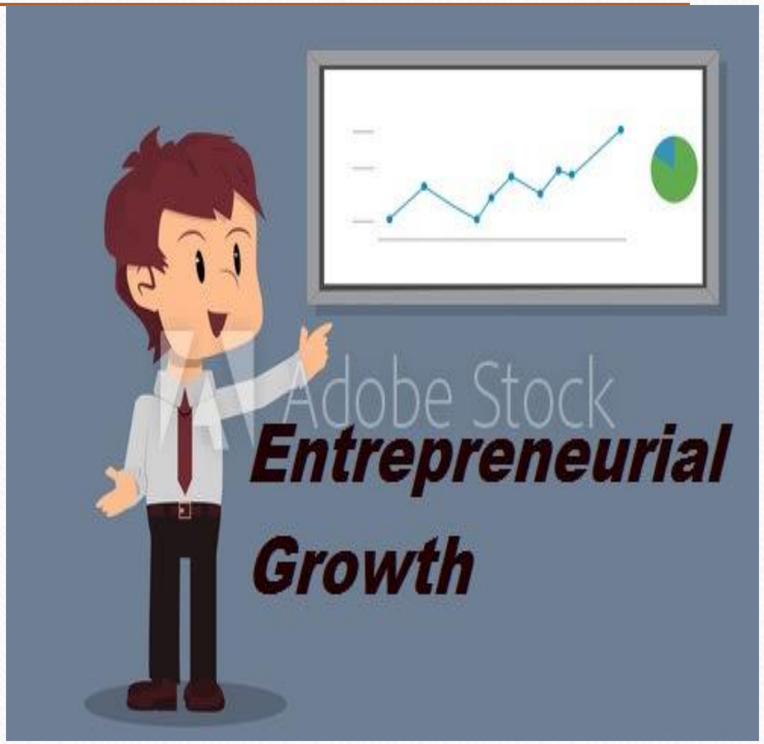
4.4 Explain the concept of venture life cycle

4.5 Carry out valuation of business venture

4.6 Develop effective management succession plan in family business

4.1 Define Entrepreneurial Growth

- The term entrepreneurial growth means organization plans to achieve its objective to grow and expand a business by its quality, quantity, and turnover. Entrepreneurial growth can be in terms of innovators, business developers, radicals, expanders, customers etc.
- The process of improving entrepreneurial skills and knowledge among individuals with the help of providing well-organised training and developing supporting institutions is called entrepreneurial growth or development. Growing the start-up rates through increasing the entrepreneurial base is the main aim of such entrepreneurial growth. This will eventually help in generating employment prospects and accelerating the economic growth.



4.1 Define Entrepreneurial Growth….

Don’t despise a small beginning, some of the world billionaires started their businesses while they were students;

- Some of the world's most famous and profitable businesses were started by students. Microsoft began in Bill Gates' Harvard dorm room, Google got its start on the Stanford campus as the computer science project of doctoral students Sergey Brin and Larry Page and thousands of other student companies thrive in every industry.
- Even if you're not aiming to be another Bill Gates - you'll have to navigate some unique challenges as a young entrepreneur testing the business waters. Here are 10 success tips for young entrepreneurs.

4.1 Define Entrepreneurial Growth….

Don’t despise a small beginning, some of the world billionaires started their businesses while they were students;

- Being a student isn't a handicap in business; on the contrary, it can be an advantage. Your campus offers free computers and Internet connectivity, a host of potential employees and/or volunteers and the expertise of professors who would be happy to share their knowledge and experience with you. You're literally surrounded by people and resources, so make the most of your situation.

4.2 Explain the importance and steps of strategic planning for an emerging venture

a) What is a Strategic Planning?

Strategic planning is to a business what a map is to a road rally driver. It is a **tool** that defines the **routes** that when taken will lead to the most likely probability of getting from **where the business is to where the owners or stakeholders want it to go.** And like a road rally, strategic plans meet detours and obstacles that call for adapting and adjusting as the plan is implemented.

(Source : John F. Dix and H. Lee "Buck" Mathew - 2002)

4.2 Explain the importance and steps of strategic planning for an emerging venture

a) What is a Strategic Planning?...

Strategic planning is a process that brings to life the **mission and vision** of the enterprise. A strategic plan, well crafted and of value, is driven from the **top down**; considers the **internal and external environment** around the business; is the work of the managers of the business; and is communicated to all the business stakeholders, both inside and outside of the company.

Strategic planning helps in knowing **what we are** and **where we want to go** so that environmental threats and opportunities can be exploited, given the strengths and weaknesses of the organisation.

Strategic planning is "a thorough self-examination regarding the **goals** and **means of their accomplishment** so that the enterprise is given both **direction and cohesion.**

(Source : John F. Dix and H. Lee "Buck" Mathew - 2002)

4.2 Explain the importance and steps of strategic planning for an emerging venture

a) What is a Strategic Planning?...

Strategic planning is the formulation of **long-range plans** for the effective management of **environmental opportunities and threats** in light of a **venture's strengths and weaknesses**. It includes defining the venture's mission, specifying achievable objectives, developing strategies and setting policy guidelines

(Source : John F. Dix and H. Lee "Buck" Mathew - 2002)

4.2 Explain the importance and steps of strategic planning for an emerging venture

b) Importance Strategic planning

- Financial benefits
- Guide to the organizational activities
- Competitive advantages
- Minimizes risks
- Beneficial for companies with long gestation gap
- Promotes motivation and innovation
- Optimal utilization of resources

(Source : John F. Dix and H. Lee "Buck" Mathew - 2002)

4.2 Explain the importance and steps of strategic planning for an emerging venture

c) Principles/Process/Steps of Strategic Planning

There is no one formula or process for strategic planning. There are however, principles and required steps that optimize the value of strategic planning. The steps in the process described in this series of articles on strategic planning are presented as follows:-

- Current Situation Analysis
- Segmentation Analysis
- Strength, Weakness, Opportunities, and Threat Analysis
- Core Competencies Analysis
- Key Success Factors
- Business Unit Strategy / Business Plan
- Balanced Score Card
- Evaluation

4.3 Identify indicators of business growth

a) **Business growth can be explained through three dimensions as follows:-**

- **Financial perspective** (sales, ROI, assts = value of the business)/growing pain
- **Strategic perspective** (market share, reputation, product/service offered) how do firm interacts with the environment. How does it develop its capabilities in order to exploit the market place? Business are successful by developing a competitive advantage.
- **Organization perspective** (employees, divisions) changes in an organization structure, process and culture.

4.3 Identify indicators of business growth…

b) What are important factors influencing new venture growth!

- Management
- Market
- Strategy
- Entrepreneur
- Business environment
- Size of the firm

4.3 Identify indicators of business growth…

c) Methods of valuation for a business / venture growth

- Income approach (Discounted cashflow)
- Asset approach like book value, liquidation value, adjusted net asset method
- Market approach like merger & acquisition method

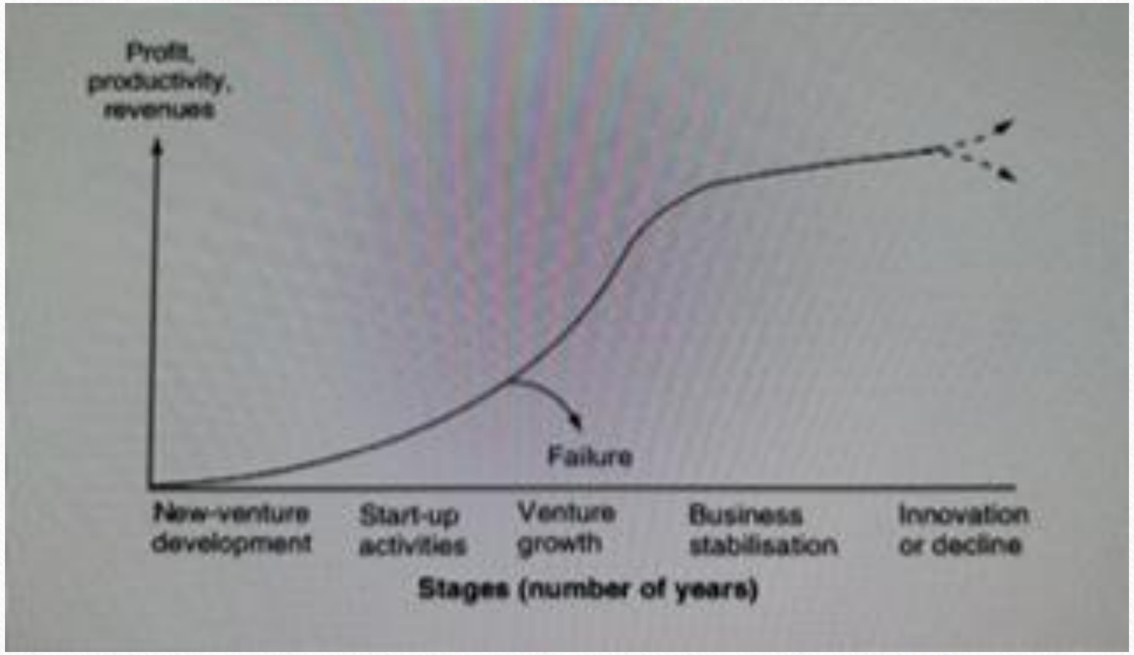
4.3 Identify indicators of business growth…

d) **Limitations of business growth**

- Poor management
- Very low productivity
- Poor infrastructure
- Inadequate power supply
- Low capital
- Poor market access
- High prices of inputs
- Non Government support
- Corruption

4.4 Explain the concept of venture life cycle

There are five main stages in the new-venture life cycle **(i)** **new venture development** **(ii)** **start-up activities**, **(iii)** **growth**, **(iv)** **stabilisation** and **(v)** **innovation or decline.**



Source : Howard & Kuratko; Entrepreneurship Theory, Process, Practices (2010)

4.3 Identify indicators of business growth…

a) Stage 1 – New Venture Development

- The first stage, new-venture development, consists of activities associated with the initial formulation of the venture. This initial phase is the foundation of the entrepreneurial process and requires creativity and assessment.
- In addition to the accumulation and expansion of resources, this is a creativity, assessment and networking stage for initial entrepreneurial strategy formulation.
- The enterprise's general philosophy, mission, scope and direction are determined during this stage.

Source : Howard & Kuratko; Entrepreneurship Theory, Process, Practices (2010)

4.3 Identify indicators of business growth…

a) Stage 2 - Start-up activities

- The second stage, start-up activities, encompasses the foundation work needed for creating a formal business plan, searching for capital, carrying out marketing activities and developing an effective entrepreneurial team.
- These activities typically demand an aggressive entrepreneurial strategy with maximum effort devoted to launching the venture. It is typified by strategic and operational planning steps designed to identify the firm's competitive advantage and to uncover funding sources. Marketing and financial considerations tend to be paramount during this stage.

Source : Howard & Kuratko; Entrepreneurship Theory, Process, Practices (2010)

4.3 Identify indicators of business growth…

a) Stage 3 – Growth Stage

- The growth stage often requires major changes in entrepreneurial strategy. Competition and other market forces call for the reformulation of strategies. For example, some firms find themselves 'growing out' of business because they are unable to cope with the growth of their ventures. Highly creative entrepreneurs sometimes are unable, or unwilling, to meet the administrative challenges that accompany this growth stage. As a result, they leave the enterprise and move on to other ventures.
- This growth stage presents newer and more substantial problems than those the entrepreneur faced during the start-up stage. These newer challenges force the entrepreneur into developing a different set of skills while maintaining an entrepreneurial perspective for the organisation. The growth stage is a transition from entrepreneurial one-person leadership to managerial team-oriented leadership.

4.3 Identify indicators of business growth…

a) Stage 4 – Stabilisation Stage

- The stabilisation stage is a result of both market conditions and the entrepreneur's efforts. During this stage a number of developments commonly occur, including increased competition, consumer indifference to the entrepreneur's good(s) or service(s) and saturation of the market with a host of 'me too' look-alikes.
- Sales often begin to stabilise and the entrepreneur must begin thinking about where the enterprise will go over the next three to five years. This stage is often a swing stage in that it precedes the period when the firm either swings into higher gear and greater profitability or swings towards decline and failure.
- During this stage, innovation is often critical to future success

4.3 Identify indicators of business growth…

a) Stage 5 – Innovation or Decline

- Firms that fail to innovate will die.
- Financially successful enterprises often will try to acquire other innovative firms, thereby ensuring their own growth. In addition, many firms will work on new product/service development in order to complement current offerings.
- All of a venture's life cycle stages are important strategic points and each requires a different set of strategies.

4.5 Carry out valuation of business venture

Evaluation of business venture is very important whether it is a new business venture or an existing one. It gives you insights of the business success or failure and sustainability or not. (External factors; Internal factors; Financial positions etc)

- **Income approach** (Discounted cashflow – DCF analysis)
- **Asset approach** (book value, liquidation value, adjusted net asset method)
- **Market approach** (merger & acquisition method)

4.6 Develop effective management succession plan in family business…

a) What is family business?

- **Family** is a group of people bound by a shard history and a commitment to share a future together, while supporting the development and well-being of individual members.
- **Family business** is an organization in which either the individuals who established or acquired the firm or their descendants significantly influence the strategic decisions and life course of the firm.
- **Family business** is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable generations of the family or families.

(Source - Justin G et al., SME 18th Edition, 2019)

4.6 Develop effective management succession plan in family business…

b) System approach of family business (family, management and ownership)

- **Family – first business system**

  Employment is a birth right, the stereotype of nepotism, difficult to attract non-family managers. The employment exists for the family

- **Management/enterprise family business system**

  Discourage family members from working in the business. It requires work experience as a prerequisite to work in the family business.

- **Ownership family business system**

  Investment time horizons and perceived risk are key issues.

4.6 Develop effective management succession plan in family business…

c) Challenges for a family business

- **Role conflict** (multiple responsibilities such as a parent and boss)
- **Founder conflict** (Founder who often want their enterprise to continue after die but resist formulating a succession plan)
- **Family member conflict** (Family members who are not owners but involved in management eg. Spouses, children, grandchildren)
- **Parent/Child relationship** (Parents often have a need to treat their children equally. Things are keeping on changing especially with the rule of primogeniture which is a custom of giving the eldest male child beneficial treatment as it relates to the enterprise ownership)

4.6 Develop effective management succession plan in family business…

d) Growth strategies for family business

- Identify strength
- Be flexible
- Set clear expectations
- Never take work home
- Proactively manage family dynamics
- Focus on business strategy
- Invest in the right organization
- Commit to a culture of growth

4.6 Develop effective management succession plan in family business…

e) Strategies for managing conflicts in family business

- Hire wisely
- Have family meetings
- Establish shared family values, goals and objectives
- When conflicts arise, take a structured approach to resolution
- Seek the help of mediators

4.6 Develop effective management succession plan in family business…

a) What is succession planning in family businesses?

- Succession planning is the processes related to ensuring that organizations have the human capacity necessary to achieve their goals and effectively deliver results now and in the future.
- Replacement decision is critical to continued success
- Bringing a new leader might be good (opportunity for change) or bad (discontinuity of important things)
- Families must be pragmatic when considering succession.

4.6 Develop effective management succession plan in family business…

Step 1: Identify key areas and positions

Step 2: Identify capabilities for key areas and positions

Step 3: Identify interested employees and assess them against capabilities

Step 4: Develop and implement succession and knowledge transfer plans

Step 5: Evaluate effectiveness

4.6 Develop effective management succession plan in family business…

NECESSARY QUALITIES OF A GOOD SUCCESSOR

- Has the necessary technical knowledge of the business sector
- Has the right business skills
- Is able to manage and develop relationships already established
- Is able to lead the business.
- Good leadership style.
- Able to take over the vision.
- Able to offer a new perspective.
- Acceptable to all stakeholders.

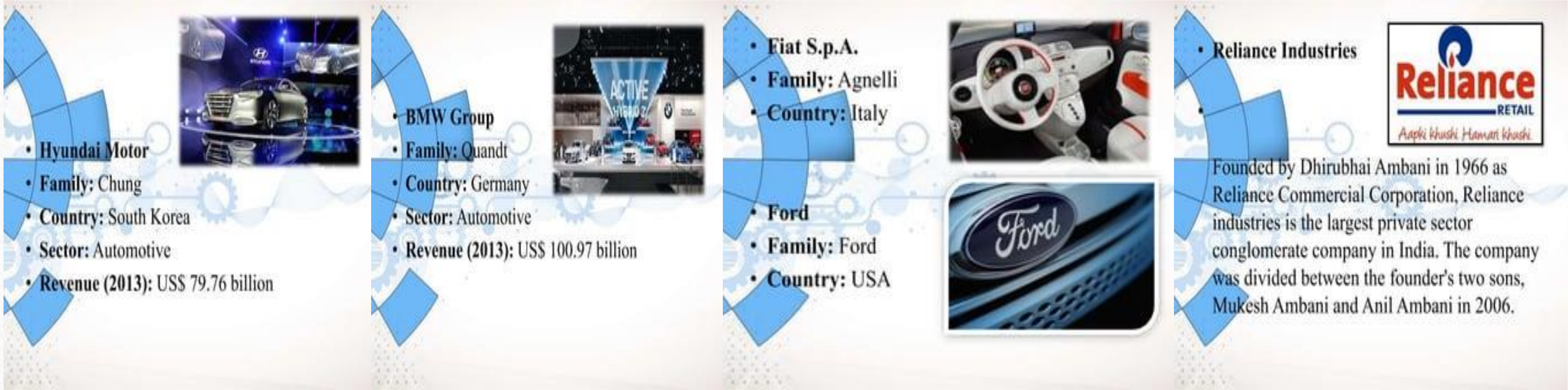
4.6 Develop effective management succession plan in family business…

WHY MANY BUSINESSES DIE WITH FOUNDERS?

- Lack of proper succession
- Lack qualified/capable/skilled/experienced successors
- Lack of policies/procedures on succession
- Cultural obstacles: family conflicts over property
- Limited exposure of family members of the business
- One man show – governance structures
- Business activities/records not documented

4.6 Develop effective management succession plan in family business…

Examples of largest family businesses…



4.6 Develop effective management succession plan in family business…

Examples of largest family businesses…

THE END

OF

TOPIC FOUR

(Kindly refer recommended readings,

class assignments and

tutorial questions)