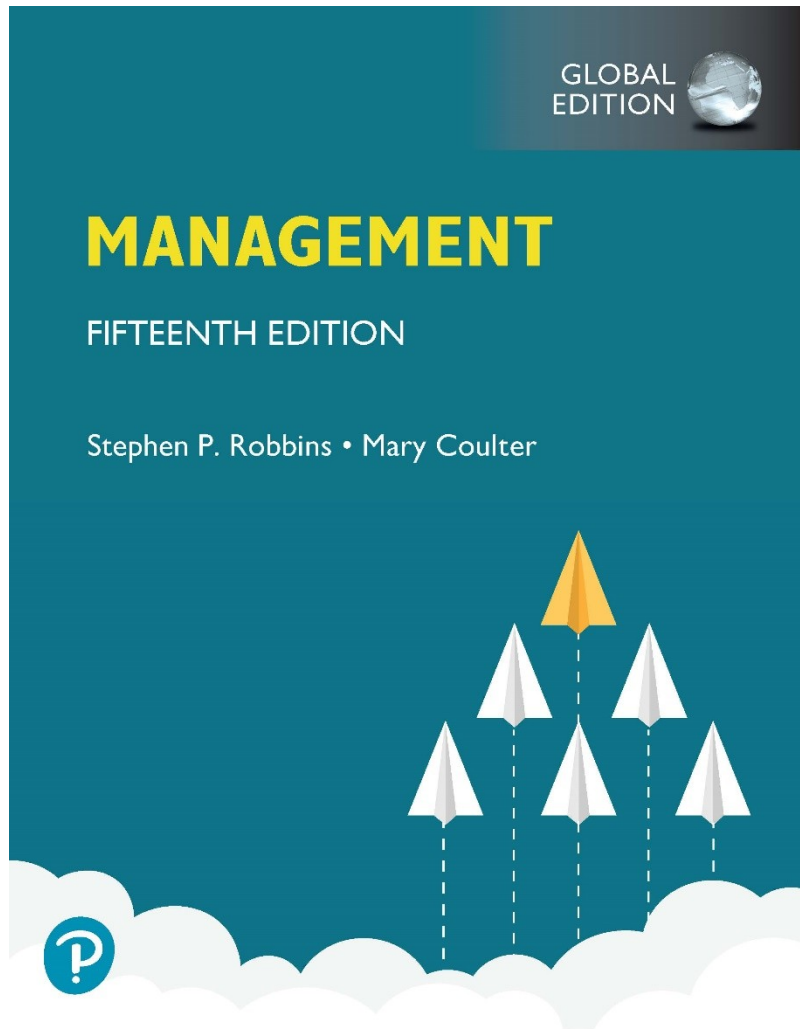


Management

Fifteenth Edition, Global Edition



Chapter 10

Entrepreneurial Ventures

Learning Objectives

- 10.1 Define** entrepreneurship and explain why it's important.
- 10.2 Explain** what entrepreneurs do in the planning process for new ventures.
- 10.3 Describe** the six legal forms of organization and the choice of appropriate organizational structure.
- 10.4 Describe** how entrepreneurs lead organizations.
- 10.5 Explain** how managers control organizations and exit the venture.

What is Entrepreneurship?

- **Entrepreneurship:** the process of starting new businesses, generally in response to opportunities
- **Entrepreneurial ventures:** organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals

Small Business Versus Entrepreneurship

- A small business is an organization that is independently owned, operated, and financed.
- Small business owners see risk where entrepreneurs see opportunity.
- Entrepreneurs want to change the world and have a passion that goes beyond profits.
- Small business owners want to make a living.

Entrepreneurship Versus Self-Employment?

- **Self-employment:** individuals who work for profit or fees in their own business, profession, trade, or farm.

Why is Entrepreneurship Important?

- Innovation
- Economic growth
- Job creation
- Global entrepreneurship

The Entrepreneurial Process

1. Explore the entrepreneurial context
2. Identify opportunities and possible competitive advantages
3. Start the venture
4. Manage the venture

What Do Entrepreneurs Do?

- No two entrepreneurs are exactly the same. Generally, they:
 - Create something new and different
 - Search for, respond to, and exploit change
 - Research feasibility
 - Launch and manage new ventures

A Hybrid Path to Entrepreneurship

- Over half of new-venture start-ups fail in the first four years.
- One way to increase the odds of success is to keep your day job and start the venture on the side.
 - Lets you test ideas with less pressure to make a living.
 - It's a lower risk path with higher survival rates.

Identifying Environmental Opportunities and Competitive Advantage

- Sources of opportunity:
 - The unexpected
 - The incongruous
 - The process need
 - Industry and market structures
 - Demographics
 - Changes in perception
 - New knowledge

Researching the Venture's Feasibility—Ideas

- When exploring idea sources, entrepreneurs should look for:
 - Limitations of what is currently available
 - New and different approaches
 - Advances and breakthroughs
 - Unfilled niches
 - Trends and changes

Exhibit 10.1 Evaluating Potential Ideas

| Personal Considerations | Marketplace Considerations |
|---|---|
| Do you have the capabilities to do what you've selected? | Who are the potential customers for your idea: who, where, how many? |
| Are you ready to be an entrepreneur? | What similar or unique product features does your proposed idea have compared to what's currently on the market? |
| Are you prepared emotionally to deal with the stresses and challenges of being an entrepreneur? | How and where will potential customers purchase your product? |
| Are you prepared to deal with rejection and failure? | Have you considered pricing issues and whether the price you'll be able to charge will allow your venture to survive and prosper? |
| Are you ready to work hard? | Have you considered how you will need to promote and advertise your proposed entrepreneurial venture? |
| Do you have a realistic picture of the venture's potential? | |
| Have you educated yourself about financing issues? | |
| Are you willing and prepared to do continual financial and other types of analyses? | |

Feasibility Study

- **Feasibility study:** an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

Researching the Venture's Feasibility—Competitors

- Potential questions include:
 - What types of products or services are competitors offering?
 - What are their products' strengths and weaknesses?
 - How do they handle marketing, pricing, and distribution?
 - How do they attempt to do differently from other competitors?

Researching the Venture's Feasibility—Financing

- **Venture capitalists:** external equity financing provided by professionally managed pools of investor money
- **Angel investors:** a private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture
- **Initial public offering (IPO):** the first public registration and sale of a company's stock

Developing a Business Plan

- **Business plan:** a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

Business Plan—Major Areas

- Executive summary
- Analysis of opportunity
- Analysis of the context
- Description of the business
- Financial data and projections
- Supporting documentation

Legal Forms of Organization (1 of 3)

- **Sole proprietorship:** a form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts
- **General partnership:** a form of legal organization in which two or more business owners share the management and risk of the business

Legal Forms of Organization (2 of 3)

- **Limited liability partnership (LLP):** a form of legal organization consisting of general partner(s) and limited liability partner(s)
- **Corporation:** a legal business entity that is separate from its owners and managers
- **Closely held corporation:** a corporation owned by a limited number of people who do not trade the stock publicly

Legal Forms of Organization (3 of 3)

- **S corporation:** a specialized type of corporation that has the regular characteristics of a C corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met
- **Limited liability company (LLC):** a form of legal organization that's a hybrid between a partnership and a corporation
- **Operating agreement:** the document that outlines the provisions governing the way an LLC will conduct business

Exhibit 10.2 Legal Forms of Business Ownership (1 of 3)

| Structure | Ownership requirements | Tax treatment | Liability | Advantages | Drawbacks |
|---------------------|------------------------|---|------------------------------|---|---|
| Sole proprietorship | One owner | Income and losses “pass through” to owner and are taxed at personal rate | Unlimited personal liability | Low start-up costs, freedom from most regulations, owner has direct control, all profits go to owner, easy to exit business | Unlimited personal liability, personal finances at risk, miss out on many business tax deductions, total responsibility, may be more difficult to raise financing |
| General partnership | Two or more owners | Income and losses “pass through” to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners | Unlimited personal liability | Ease of formation, pooled talent, pooled resources, somewhat easier access to financing, some tax benefits | Unlimited personal liability, divided authority and decisions, potential for conflict, continuity of transfer of ownership |

Exhibit 10.2 Legal Forms of Business

Ownership (2 of 3)

| Structure | Ownership requirements | Tax treatment | Liability | Advantages | Drawbacks |
|-------------------------------------|---|---|---|---|---|
| Limited liability partnership (LLP) | Two or more owners | Income and losses “pass through” to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners | Limited, although one partner must retain unlimited liability | Good way to acquire capital from limited partners | Cost and complexity of forming can be high, limited partners can’t manage w/o losing liability protection |
| C Corporation | Unlimited number of shareholders, no limits on types of stock or voting arrangement | Dividend income taxed at corporate and personal shareholder levels, losses and deductions are corporate | Limited | Limited liability, transferable ownership, continuous existence, easier access to resources | Expensive to set up, closely regulated, double taxation, extensive record keeping, charter restrictions |

Exhibit 10.2 Legal Forms of Business Ownership (3 of 3)

| Structure | Ownership requirements | Tax treatment | Liability | Advantages | Drawbacks |
|---------------------------------|--|---|-----------|---|---|
| S corporation | Up to 75 shareholders, no limits on types of stock or voting arrangement | Income and losses “pass through” to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners | Limited | Easy to set up, limited liability and tax benefits of partnership, can have tax-exempt entity as shareholder | Must meet certain requirements, may limit future financing options |
| Limited liability company (LLC) | Unlimited number of “members,” flexible membership arrangements for voting rights and income | Income and losses “pass through” to partners and are taxed at personal rate; flexibility in profit-loss allocations to partners | Limited | Greater flexibility, not constrained by regulations on C and S corporations, taxed as partnership not corporation | Cost of switching from one form to this can be high, need legal and financial advice in forming operation agreement |

Organizational Design and Structure

- Organizational design decisions in entrepreneurial decisions revolve around six key elements:
 - work specialization
 - departmentalization
 - chain of command
 - span of control
 - amount of centralization/decentralization
 - amount of formalization

Human Resource Management

- Employee recruitment
- Employee retention

Personality Characteristics of Entrepreneurs

- **Proactive personality:** a personality trait that describes individuals who are more prone to take actions to influence their environments

Motivating Employees Through Empowerment

- Employee empowerment—giving employees the power to make decisions and take actions on their own to solve problems—is an important motivational approach.

The Entrepreneur as Leader

- Leading the venture
- Leading employee work teams

Exhibit 10.3 Strengths of Entrepreneurs

Risk: Can manage high-risk situations; mitigating risk rather than seeking it

Knowledge: Strives to acquire in-depth information about the industry

Independence: Can manage every aspect of his/her organization

Confidence: Believes in oneself and his/her ability to succeed

Delegation: Unafraid to assign tasks to others

Determination: Strong work ethic; undeterred by failure

Relationships: Able to build mutually beneficial relationships

Selling: Speaks boldly on behalf of the organization; can influence others

Profitability: Sets clear goals; measures progress; good judge of opportunities

Disruption: Constantly has new ideas for products and services

Venture Stages and Leadership Needs

- **Start-up stage:** The entrepreneur is the heart and soul of the business. The firm is informal, flexible, and ambiguous.
- **Transition stage:** The venture moves from an informal organization to one that is more structured. The entrepreneur must learn to delegate in this stage.
- **Scaling stage:** The uniqueness of entrepreneurship is gone, and the concepts of management become generalizable.

Potential Control Problems and Actions

- Entrepreneurs need to develop controls in these areas:
 - **Keep a close eye on the numbers:** Monitor expenses, cash flow, inventory, etc.
 - **Monitor the competition:** Competitive intelligence is key to long-term success.
 - **Maintain regular contact with customers:** Make sure your customers are still satisfied with your product.
 - **Monitor employee performance:** Are employees continuing to work as expected. Do they need training?
 - **Monitor employee workloads:** Are key people trying to do too much?

Exiting the Venture

- **Harvesting:** exiting a venture when an entrepreneur hopes to capitalize financially on the investment in the venture

Five Exit Options

1. Merger or acquisition
2. Selling to a friendly buyer
3. Initiate an IPO
4. Treat it as a cash cow
5. Liquidation

Business Valuation Methods

- Asset valuations
- Earnings valuations
- Cash-flow valuations

Review Learning Objective 10.1

- **Define entrepreneurship and explain why it's important.**
 - Entrepreneurial ventures are characterized by innovative practices and have growth and profitability as their main goals
 - Entrepreneurship is important because it brings forward innovative ideas, creates new start-up firms, and creates jobs.

Review Learning Objective 10.2

- **Explain what entrepreneurs do in the planning process for new ventures.**
 - Entrepreneurs must identify environmental opportunities and competitive advantage
 - They must research a venture's feasibility, first generating and then evaluating ideas
 - Feasibility study
 - Business plan

Review Learning Objective 10.3

- **Describe the six legal forms of organization and the choice of appropriate organizational structure.**
 - Two primary factors that affect the decision about how to organize a business are taxes and legal liability:
 - Sole proprietorship
 - General partnership
 - Limited liability partnership (LLP)
 - Corporation
 - S corporation
 - Limited liability corporation (LLC)

Review Learning Objective 10.4

- **Describe how entrepreneurs lead organizations.**
 - Personality traits:
 - High level of motivation
 - Abundance of self-confidence
 - Ability to be involved for the long term
 - High energy level
 - Proactive personality trait

Review Learning Objective 10.5

- **Explain how managers control organizations and exit the venture.**
 - Managing growth:
 - Planning for growth
 - Organizing for growth
 - Controlling growth
 - Managing downturns
 - Exiting the venture:
 - Harvesting
 - Valuation methods