

BTMW 4012:
ENTREPRENEURSHIP TECHNOLOGY

Lecture 7:

ORGANIZATIONAL MANAGEMENT FOR START-UP



INTRODUCTION

NEW CRITERIA OF **MALAYSIA SME**TM

New SME Definition Based on Size			
Category	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM15 mil OR employees from 5 to less than 75	Sales turnover from RM15 mil to not exceeding RM50 mil OR employees from 75 to not exceeding 200
Services and other sectors	Sales turnover of less than RM300,000 OR employees of less than 5	Sales turnover from RM300,000 to less than RM3 mil OR employees from 5 to less than 30	Sales turnover from RM3 mil to not exceeding RM20 mil OR employees from 30 to not exceeding 75

Source: <http://www.ecommercemilo.com/2013/12/malaysia-sme-statistics-ecommerce-readiness.html#.UxXKi7dWGU>

CHARACTERISTICS OF SMEs

1. OWNERSHIP
2. MANAGEMENT
3. RESOURCES
4. ORGANIZATIONAL
STRUCTURE
5. FLEXIBILITY OF
CHANGE



Introduction

- An organization's objectives are worked out based on the organization's mission, vision and strategies developed to take advantage of the external opportunities available and to suit the resources that can be mobilized by the organization.
- Organization management involves the process of organizing, planning, leading and controlling resources and activities of an organization to achieve the set objectives.

Organization Mission and Vision

- The organization mission is an attempt to provide meaning or answer to “why you do, what you are doing and where you are headed”.
- In October 2015, Mark Zuckerberg, the Facebook CEO, talked about the importance of having a “strong sense of mission” to effect meaningful change in the world.

Organization Mission and Vision (cont.)

- The themes of believing in your mission, caring more deeply than anyone else and always looking ahead is relevant to anything you might build.
- Collins and Porras (1994) list the following as mission statements or “whys”. These “whys” are big “whys” that motivate entrepreneurs and those who work for them and with them.
 - (a) To preserve and improve human life (Merck)
 - (b) To make people happy (Walt Disney)
 - (c) To make technical contributions for the advancement and welfare of humanity (HP)

Organization Mission and Vision (cont.)

- The next questions that an entrepreneur must ask are:
 - (a) “What to do?”
 - (b) “How to do?”
 - (c) “When to do?”
 - (d) “Where to do?”

The answer to these questions will explain the basic strategies of a particular company.

“What” of Strategy

- This refers to the vision or change agenda that the entrepreneur wants to achieve within a time frame.
- Organizations normally express their vision statement in a crisp and precise form and it acts as a shared aspiration that provides long-term directions and targets of the organization.
- Vision statements always refer to the aspired performance or quality goal in providing products or services within a targeted geographical area of operation and may include the long-term company's aspirations.

“What” of Strategy (cont.)

- Visions must clearly indicate the gap—preferably a quantifiable value gap—between what the firm is today and where it expects to be, say in three years from now.
- Based on the example earlier, Facebook started with a vision of having 100 million users. Upon achieving this, the challenge was raised to 1 billion users. The “how” of strategy will be the integrated choices translated into programmes and projects that the organization implements to close the value gap.

“What” of Strategy (cont.)

- The company's business strategies refer to the methods by which the organization choose to achieve its stated objectives. This may include the choice of business sector, products, customers, capabilities, operational areas, technologies, methods of execution or working, investments, borrowings, etc.
- For small businesses, this will include the choice of business an entrepreneur would like for a new venture.

“What” of Strategy (cont.)

1. Where are you now?

2. Where do you want to go?

3. How can you get there?

4. What is your choice?



Figure 4.1 Basic planning issues

“What” of Strategy (cont.)

STRATEGY

... an integrated set of choices that helps an organization to achieve its long-term vision consistent with its core mission and values.

For a business entity, there are five choices needed to develop a strategy. These choices must be integrated and mutually reinforcing.

- 1 What is the economic/business/profit model?
- 2 Which category of customers to serve, in which geographies and what value to provide for these customers?
- 3 How do we organize to provide value for these customers?
- 4 What capabilities to have?
- 5 What is the portfolio of programmes and projects and the timing needed to execute?

Figure 4.2 Summary of a working definition of strategy (Hussin, 2014)

“What” of Strategy (cont.)

An entrepreneur may have to do a basic strengths, weaknesses, opportunities, threats (SWOT) analysis to analyze his strengths and weaknesses (internal), and opportunities and threats, (external) to identify suitable business opportunities and strategies. Figure 4.3 illustrates SWOT analysis.

“What” of Strategy (cont.)

	Exploit or capitalize	Eliminate or strategize
Internal	Strengths What are we good at?	Weaknesses What are we bad at?
External	Opportunities Which one to choose?	Threats Present and possible future
	Favourable factors	What must we avoid or counter?

Figure 4.3 SWOT analysis

“What” of Strategy (cont.)

Matching Business Strength to Business Opportunity

Present strength (to be leveraged) and new strength (to be built)

- (a) Aspiration and interest
- (b) Qualification
- (c) Experience (managerial, technical)
- (d) Capital (internal and external)
- (e) Industry networking
- (f) High value added
- (g) High product quality
- (h) Special production advantages (technology, intellectual properties, availability of raw materials, skilled labourers)
- (i) Track record and reputation



Industry attractiveness

- (a) Market size
- (b) Market growth, market opportunity
- (c) Limited number of competitors/minimum competition, secured market
- (d) Good profit margin and R.O.I.
- (e) Low entry cost
- (f) Minimum threat of new entry
- (g) Government incentives for preferred industries
- (h) Franchisor or supplier bargaining power
- (i) Positive environment

Matching internal strengths with external opportunities

Organization Objectives

- The organization objectives refer to the short-term goals of the organization (for example, one to three years), which will normally include sales targets, profit targets, geographical area of operation, etc.
- Ideally, objectives should have the following characteristics (SMART):
 - (a) Specific
 - (b) Measurable
 - (c) Achievable
 - (d) Realistic
 - (e) Time frame (schedule implementation)

Organization Structure

- The organization will have to undertake certain specific tasks and these tasks can be divided into smaller tasks which can be assigned to specific personnel. This division of labour can be represented in the form of an organization structure.
- Tasks on the organization chart can be divided based on functionality, such as marketing, administration, operations and finance; or geographically, such as zone A, zone B and zone C; or on products sales responsibility, such as product A, product B and product C.

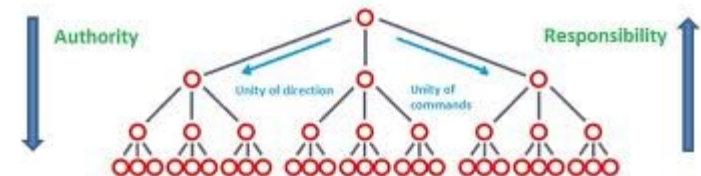
ORGANISATIONAL PRINCIPLES AND STRUCTURE

• What is Organisation?

- A social unit which comprises people performing different tasks in a coordinated manner to achieve organisational goals

• Organisational Principles (OP)

- Division of work
- Authority and responsibility
- Unity of Command
- Span of control
- Delegation of authority and responsibility.



• Organisational Structure (OS)

- Based on shift
- Based on number of workers
- Based on functions products
- Based on regions
- Based on shift clients



Organization Structure (cont.)

When students organize groups to undertake group entrepreneurial projects, they will have to identify key tasks that must be done and divide the tasks among group members. Figure 4.5 is an example of an organization chart.

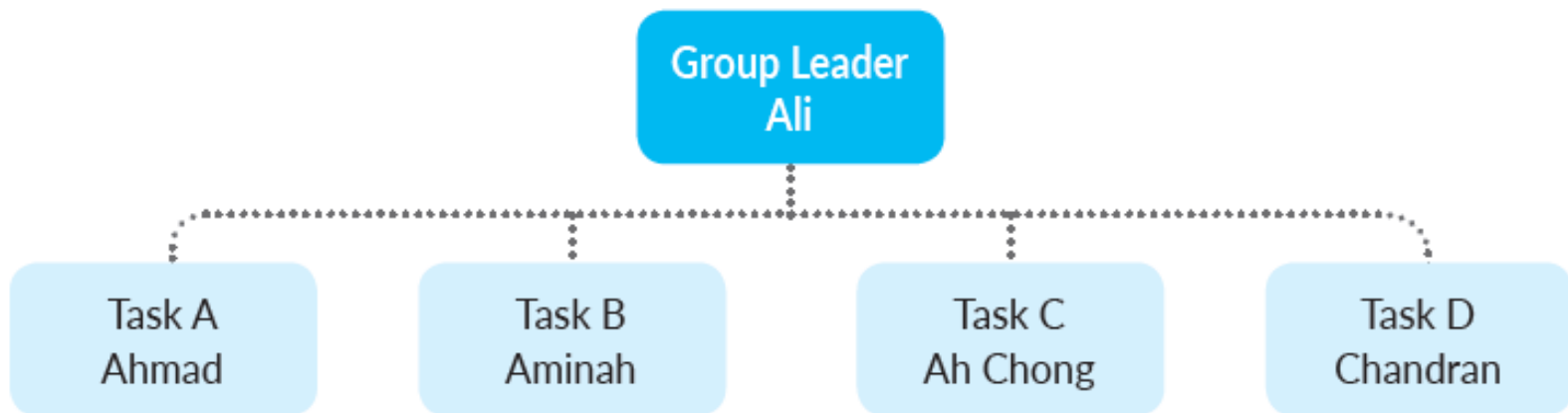


Figure 4.5 Organization chart

Planning

- An entrepreneur will have to make a long-term strategic plan, especially in choosing which business sector is suitable and offers the best opportunity for him. It is recommended for him to use the Business Model Canvas to work out his business strategies.
- For a business start-up, an entrepreneur may need to do a simple project planning for main activities in the form of a Gantt chart. The Gantt chart will outline for each activity the start-up date, duration and its completion date.

Controlling

- Controlling refers to the act of controlling and guiding the enterprise's work, executing and monitoring work progress involving work schedules, resources, manpower, machines and space, etc. and where required activities may have to be speeded up, corrected or even stopped.
- Controlling can be improved if an enterprise develops controlling documentations including outlining its mission, vision, objectives, strategies, work schedules, methodologies, manual and operating procedures, quality procedures, auditing procedures, etc.



**Managing Entrepreneurial
Growth**

**Entrepreneurship
Technology**

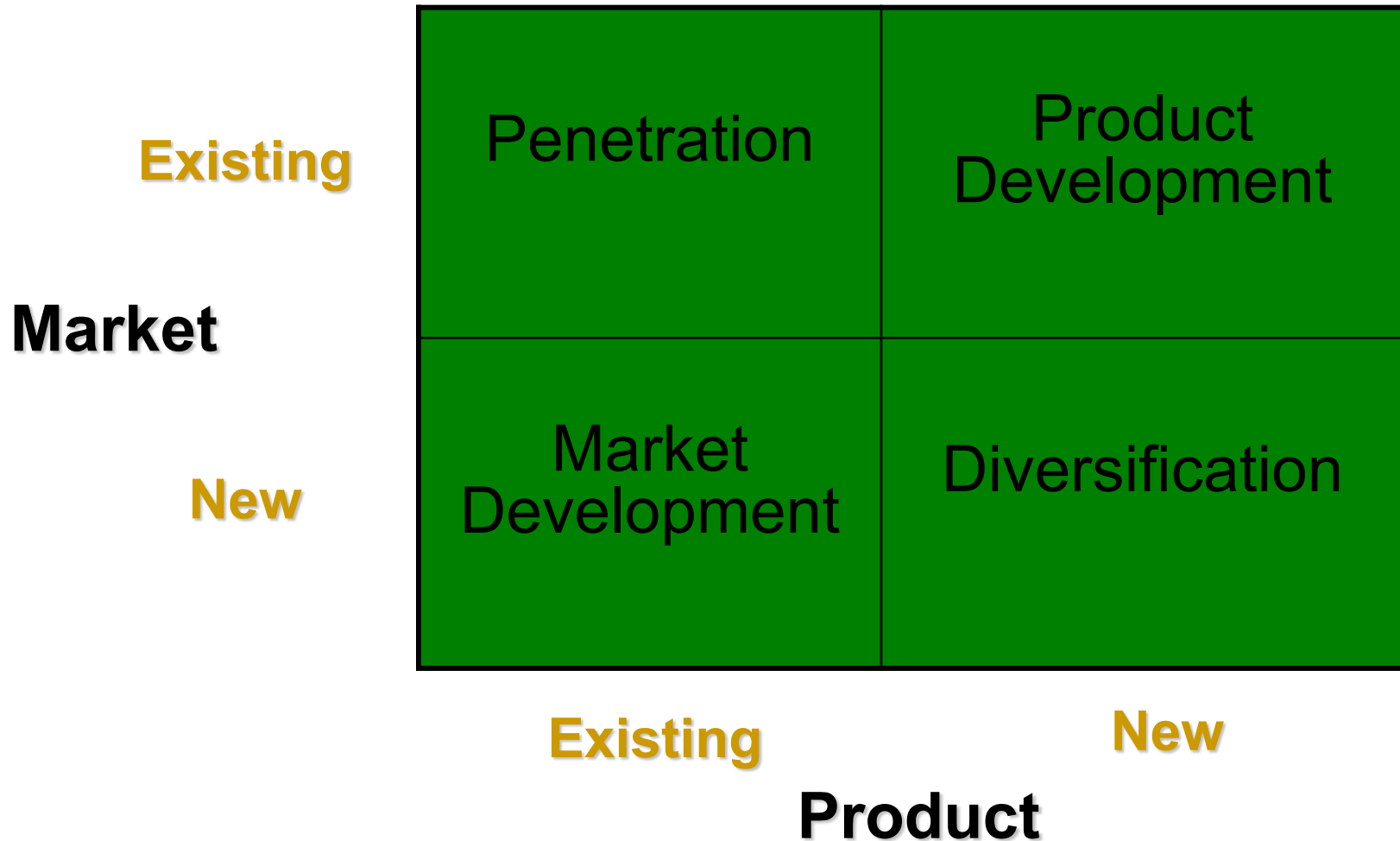
Organizational changes during growth

- Entrepreneur must give up some decision making authority
- Corporate culture changes from small to larger business
- Such changes are often difficult for the entrepreneur and other founding members to adapt to

New skills for the entrepreneur

- Record keeping and financial control
- Inventory control
- Human resources
- Marketing skills
- Strategic planning skills
- Time management skills
- Negotiation skills

Growth Strategies



EXAMPLE

iTunes • iPod • iPhone



Strategies

- ❑ Penetration- Growth By Selling More of Existing Product to Existing Customers
- ❑ Market Development
 - New Geographic Market
 - New Demographic Market
 - New Product Use
- ❑ Product Development- Sell New Products To Existing Customers
- ❑ Diversification- Sell New Product To New Market



Pressures On Firm Growth

1. Existing Financial Resources
2. Human Resources
3. Management Of Employees
4. Entrepreneur's Time



Overcoming Financial Resources Pressure



- Manage Cash Flow- Budget vs. Actual
- Manage Inventory
- Manage Fixed Assets
- Manage Costs/Profits- Compare Actual vs. Standard Percentages
- Taxes
- Record Keeping



Generic Strategies

Cost Leadership

✓ In conjunction with differentiation

✓ Economies or diseconomies of scale

- ✓ diseconomies of scale occur when the average costs of a firm increase due to increased output
- ✓ Diseconomies of Scale Arises due to managerial problems
- ✓ An example of a diseconomies of scale is where the firm has to hire more staff to increase sales, increase the office overheads such as communication costs in order to enhance efficient communication among the staff and hire new product managers to manage increased sales regions

✓ Capacity utilization achieved

✓ Linkages w/ suppliers & distributors

EXAMPLES OF COST LEADERSHIP THEORY



EXAMPLES OF COST LEADERSHIP THEORY

Why pay more when you can Payless?

Generic Strategies

Low Cost Producer Advantage

- Many price-sensitive buyers
- Few ways of achieving differentiation
- Buyers not sensitive to brand differences
- Large no of buyers w/bargaining power

Generic Strategies

Differentiation

- Greater product flexibility
- Greater compatibility
- Lower costs
- Improved service
- Greater convenience
- More features

Generic Strategies

Focus

- Industry segment of sufficient size
- Good growth potential
- Not crucial to success of major competitors

Three strategies for managing fast growth

- Scaling
- Duplication
- Granulation

Scaling – doing more of what you are good at

- Focus on concrete product, technology, or customer segment
- Invest aggressively
 - Expand product development around core technologies, expand product lines, increase marketing using existing channels to reach new groups
- Specialize and standardize
- Hire the right mix
- Adapt the structures
- Learn from customers

Duplication: Repeat the business model in new regions

- ◉ Balance standardization and adaptation
- ◉ Hire flexible, independent managers
- ◉ Duplicate key parts of the infrastructure
- ◉ Duplication entrepreneurial knowledge
- ◉ Be aware of the limitations

Granulation: Growing select business cells

- ◉ Focus on specific areas of business
- ◉ Balance the old and the new
- ◉ Balance formal and informal
- ◉ Evaluate and monitor
- ◉ Learn from customers, partners, and competition

Understand competitors

- There 3 types of competitor
 - Direct competitors
 - Compete against on a day-to day basis
 - Close competitors
 - Those that similar, but not identical products/services
 - Indirect competitors
 - More varied

What we can learn from competitors?

- Products and services
- Product line
- Promotional activities
- Distribution

THANK YOU

Champions believe in themselves even if no one else does. In order to succeed, we must first believe that we can. They can because they think they can.