Unit 7.1 – Entrepreneurship

Entrepreneurship:

PROFESSOR: Today we're talking about entrepreneurship, a topic that has framed almost everything about how you live your life and what you do in your life.

As we talk about entrepreneurship, we need to keep in mind that in developing countries, entrepreneurs play a major role in the creation of jobs, in the stimulation of the economy. This is so important in developing countries, that national policy is often designed to support entrepreneurship.

Even in developed countries, such as the United States, entrepreneurs and small businesses account for the majority of new jobs that are created every year.

Every small business began with an entrepreneurial idea. Many small business owners are content when their businesses provide them with a reasonable, steady return on their economic and personal investments, and these kinds of businesses are truly important to any economy. But true entrepreneurial ventures have growth and high value generation as their primary objectives.

Many people believe that it's entrepreneurs who will determine, more than anything else, how the people of our countries will live, work, and learn in the coming century. Without entrepreneurs, you would not be watching this video. You would not have a phone in your pocket, nor would you have access to modern health care.

As noted in your text, over 95 percent of the wealth created in the United States since 1980 has been created by entrepreneurs or their ventures, and 95 percent of radical innovation in the U.S. during the last 75 years has come from entrepreneurs.

As we discuss this topic, we will explore why people choose to become entrepreneurs and examine what it takes to succeed as an entrepreneur. We will look at and debunk some myths about entrepreneurs. We will explore ways to identify and assess opportunities for starting a new business. We will look at ways to finance a business, to capitalize on opportunities that are identified by entrepreneurs.

Importantly, we will examine common causes of success and failure for entrepreneurial attempts. We will discuss key management challenges that face entrepreneurs, and look at ideas for managing those challenges.

We will note that a good idea is not enough to succeed and emphasize the importance of a business plan and effective execution to capitalize on a great idea.

We will also discuss the concept of intrapreneurship, what large companies can do to foster entrepreneurial development inside the corporation, often called intrapreneurship.

Entrepreneurship and intrapreneurship are exciting, and potentially extremely rewarding. They offer upward mobility for anyone who can identify and capitalize on an opportunity. Entrepreneurship can also be the source of frustration and failure. Let's explore the good, the bad, and the ugly of the entrepreneurship experience with an eye toward eliminating the ugly, reducing the bad, and maximizing the good.

Enduring Ideas:

Let's take a look at the enduring ideas, the things we really want you to remember after completing this topic. First, the majority of new jobs, radical innovation, and new wealth around the world are the result of entrepreneurial activity.

Second, the goal of entrepreneurship is to create value, which might be financial and/or social by identifying and capitalizing on new opportunities.

Third, entrepreneurship is a process. Through this process an entrepreneur recognizes an opportunity, assembles the team and resources needed to executed, and creates an organization that produces value by taking its product or service to market.

Fourth, a business plan that fully describes a plan venture and clearly defines the path to success for that venture is the cornerstone for persuading investors, employees, and partners to commit to the venture.

Finally, let's recognize that in effective, current, large organizations, there's often a reliance on and encouragement of internal entrepreneurial behavior to identify and pursue the ideas that will drive the future success of that organization. We call this intrapreneurship.

What is Entrepreneurship?:

Before we start talking about how to drive successful entrepreneurship, let's look at a definition of what we mean by entrepreneurship and some related issues, and let's take a quick look at the importance of entrepreneurship today.

First, let's ask what is entrepreneurship? Entrepreneurship is a process. It is the process that pursues potentially rewarding opportunities by enterprising individuals.

Entrepreneurship involves discovering, evaluating, and capitalizing on opportunities to create new and future goods and services.

An entrepreneurial venture is a new business that has growth and high reward potential. That reward might be profit or it could be social value or a combination of the two.

Primary objectives, though, are to create value. A small business is typically considered a business that has 100 employees or less, that's independently owned and operated.

Now, I should note that a non-entrepreneurial small business is usually not able to be dominant in its field and it's usually not characterized by many innovative practices.

While most all entrepreneurial ventures begin as small businesses, some choose to remain as small businesses. Some choose to continue to pursue entrepreneurial objectives.

Entrepreneurs vs Intrapreneurs:

An entrepreneur is the person who establishes a new organization without the benefit of some form of corporate sponsorship. This is an independent acting individual who chooses to create the new organization.

An intrapreneur is someone who pursues new opportunities, just as an entrepreneur, but does so working inside of an existing large organization to create new value inside the existing organization.

What do they do?:

Let's think a bit about what entrepreneurs and intrapreneurs actually do. Very importantly, entrepreneurs focus on the pursuit of opportunities, and they do so often without feeling constrained by resources that they may not yet control. So they focus on the opportunity first, and only then focus on the resources needed to capitalize on that opportunity.

Entrepreneurs and intrapreneurs focus on the art of turning an idea into an organization or into value.

They assemble and they integrate the resources that are needed to capitalize on that idea, that opportunity. They put together the money, the people, the business model, the strategy to transform their idea into a viable organization that generates value.

Interest in Entrepreneurship:

There is tremendous interest in entrepreneurship in the U.S. and around the world. In the U.S., in a recent study, it was found that almost 10 percent of all Americans who are of working age are actively engaged in either starting a business or are the owner/manager of a business that's less than three years old. And remember, that it's these new entrepreneurial ventures that are creating the majority of jobs in the U.S. today.

Another way to look at interest in entrepreneurship is to look at the flurry of books that have been written and purchased about entrepreneurship. A recent search at Amazon looking at books that are focused solely on entrepreneurship returned a list of over 45,000 books dealing with entrepreneurship and another 120,000 focused on small business.

Another way to look at interest in entrepreneurship is to look at what we're doing at colleges and universities. In 1985 there were about 250 entrepreneurship courses offered across all the colleges that were accredited in the United States. About ten of those, by the way, were at the University of Wisconsin in Madison.

Today, however, there are more than 5,000 entrepreneurship courses offered in accredited two and four year colleges and universities in the United States, and every indication is that the number of courses will increase. The number of students registering for those courses will increase, and the hope is that this increased focus on entrepreneurship education will help to drive an even healthier entrepreneurial and intrapreneural environment for our economy and our organizations.

Social Entrepreneurship:

I mentioned previously that the objective of entrepreneurial behavior is to capitalize on an idea to generate value. I want to emphasize that that value can be focused on profits, but it could also be focused on social value.

Social entrepreneurship is pretty much like any other form of entrepreneurship, but instead of being focused solely on profits, social entrepreneurship is focused on leveraging resources to address social problems and social opportunities.

When you hear the term social entrepreneurship, that may or may not mean not-for-profit. Some social entrepreneurs and their ventures drive not-for-profit organizations that are focused solely on creating social value.

But there's an increasing number of social entrepreneurs and social entrepreneurial firms that are focused on a combination of profit and social value. This is a really interesting movement in the U.S. and around the world today. It's interesting that this has been recognized recently by Forbes. Forbes Magazine produces top everything lists every year. Recently for the first time in the first 94 years of the history of Forbes publishing these things, they publish what they called the Impact 30. The top 30 social entrepreneurship firms and social entrepreneurs.

I think when a mainstream publication like Forbes emphasizes the importance and value to our economy of social entrepreneurship, that tells us that social entrepreneurship is no longer on the fringe.

To emphasize, in many ways entrepreneurs and social entrepreneurs are very much alike, and have very similar objectives. What differentiates social entrepreneurship is that while it might seek profit, it also seeks adding value to society. Where a typical entrepreneur looks for an opportunity and an idea for capitalizing on that idea to make money, a social entrepreneur looks at an opportunity in society, develops an idea to capitalize on that social opportunity for the purpose of helping society. And in some cases, generating a profit, as well, along the way.

Let me give you an example of a social entrepreneurial firm that I'm familiar with. This is a firm called Nokero, N-O-K-E-R-O. There's a social problem in much of the third world and some parts of the developing world where a lot of the population does not have access to electricity.

When a family prepares dinner, when a family interacts in in the evening, when a family sits and reads or tries to work in the evening, or when a school kid studies at night, they don't have access to electricity to light their work. What is typically done in these environments is to get a pot that burns kerosene, which is usually available fairly inexpensively, because it's an easy process to create kerosene.

You get these pots, you fill them with kerosene, you light them, and that provides the light so kids can study at night, so dinner can be prepared, so adults can do work at night. It's a great solution to the need to study and work in the dark when you don't have electricity.

The problem is that burning kerosene during a three hour period while a kid studies at night is the equivalent of smoking two packs of cigarettes a day because of the inhalation of the fumes from the burning kerosene.

Nokero identified this social problem that health was being threatened for families that do not have access to electricity. They identified the problem and identified an opportunity to reduce that social problem of health risk due to using these kerosene lamps. What they created was a very small bulb that has a small solar cell that charges a built-in battery during the day, and at night has what looks like a traditional lightbulb, but it's a very small LED. At night the light can be turned on, use the power that's absorbed from the sun during the day, and provide lighting for the kid, the family, the workers in the home.

The folks at Nokero identified an opportunity, came up with an idea for creating social value, acted on that idea, and they are distributing millions of these Nokero lights throughout the third world and developing world, and in the process making a small profit to enable the growth of their business.

Unit 7.2 – Entrepreneurship: The Stories

Entrepreneurship: The Stories:

PROFESSOR: In many ways it's going to be most effective for us to tell the story of entrepreneurship through reference to actual entrepreneurs past, present, and future.

Many examples of entrepreneurs and intrapreneurs, both regular entrepreneurs and social entrepreneurs, are provided in your text. But let's also look at a few examples right now just to give you an idea of the types of opportunities, the types of ideas, and the types of businesses that came out of attempts to capitalize on those opportunities.

Mega-Entrepreneurs:

You probably know these mega entrepreneurs, all of whom started their businesses while they were in their 20s, all of whom have significantly impacted society, but have also realized significant financial gain.

But let's look at some entrepreneurs you may not know quite as well. For example, there's a company called Instacart. This company was founded when it was noted that there were some people who were either unable or unwilling to do their grocery shopping when they needed groceries. Instacart was created to provide grocery delivery services to anyone who had a credit card and an email address. Today it's valued at over $2 billion. $2 billion from capitalizing on the idea that some people will pay us to bring their groceries to them.

Carvana. A lot of people hate shopping for a car. They don't like the process, they don't like the time that it takes. This was an opportunity identified by the folks at Carvana who created the idea of doing auto shopping online. What they do is to help people choose the car that they want, find the car that they want, buy the car that they want, finance the car that they want, and they can even do direct-to-door delivery of that car.

If you work with Carvana to buy a car, you don't have to leave home. You can choose it, finance it, buy it from home, and Carvana can deliver it to you at your home. Is this a good idea for capitalizing on an opportunity? Well, enough people think that it's providing a valuable service that in the last couple of years its revenue growth has been over 800 percent.

How about Rocketdrop? A platform for wholesale, sales, and distribution of consumer electronics. Shopping for electronics is done online, it's done live. Rocketdrop created a model for distributing those products to the people who sell them to the other entrepreneurs, the other businesses that sell them. They found that they've been able to fill a niche getting products distributed to the organizations that sell them in an efficient, effective, timely manner.

This, by the way, is what's called a bootstrapped company where it was not funded by others, it was funded on the bootstraps of the founders using their own sweat equity, their own time and energy, and their own money.

Zozi. Marketplace for adventure-filled guided tours, travel packages, and exercise gear. They've started with about $22 million in venture capital funding. They opportunity they saw was that young Americans are very interested in being tourists, but not in a traditional sense. Many of them want an adventure tourism experience. Zozi stepped in, created a marketplace for the vendors who are providing and delivering those services. They're doing pretty well so far.

Social Entrepreneurship Example:

One of the social entrepreneurship examples that is mentioned frequently, and I think is a very interesting one, is a social entrepreneurial venture that generates profits and serves a social need. In fact, the way this particular business is structured, the profit motive drives the social motive. Blake Mycoskie founded TOMS 2006 after he did a visit to Argentina, where he learned that a lot of kids get sick or injured because they don't have shoes to wear. They get injured because their bare feet are stepping on rocks, glass, sticks, or they pick up parasites from the bare feet. He identified that as a problem, social problem.

He then translated it into an opportunity to help those kids stay healthier. His idea was that he could help those kids injure their feet less, make it less likely they'll contract parasites if they wore shoes. Problem was those kids neither had access to shoes nor the money to buy those shoes.

To try to capitalize on that social opportunity, he created TOMS, a business that donates one pair of shoes to needy people in developing and third world countries for every pair that's purchased by a customer. So far they've donated well over a million pairs of shoes. That also means they've sold well over a million pairs of shoes. So I think TOMS, Blake McKoskie's business, is a great example of starting with the identification of a social opportunity, an idea for addressing it, and combining that with a profit motive as well. The better the for-profit piece of this business, the better the social piece of this business.

Forbes Impact 30 List:

I mentioned earlier that Forbes has created a list of the world's leading social entrepreneurs. I'd like to mention a few of those. If you're interested, go to Forbes and look at their Impact 30 list that they're publishing each year now. Just a few examples.

Rafael Alvarez created an organization called Gensys Works. The social objectives of this business are to teach low income high school students IT skills. The goal: college and good jobs for youth who otherwise would have had few traditional opportunities to move on up.

Jane Chen created Embrace. She developed a device to keep low birth weight babies warm even when electricity fails. The goal: save babies, keep them healthy.

Jean Desravines created New Leaders. He developed a program to recruit and train teachers to be principals. The goal was to develop great principals for problem school districts that were having trouble attracting high quality principals.

Terri Ludwid created Enterprise Community Partners. This organization advocates for affordable and efficient housing. The goal to improve communities by improving housing.

As we look at these various social entrepreneurs, some have only social value objectives. Some have a combination of social value objectives and profit value objectives.

The Economic Impact:

I've mentioned the economic impact of entrepreneurship already, but I want to emphasize, again remind you, in the last 50 years it's estimated that more than 95 percent of new wealth has been created by entrepreneurs.

I want to remind that you entrepreneurship and new ventures started by entrepreneurs account for the majority of new jobs that are created in the U.S. and in most of the world. Research shows that states that have more entrepreneurial, small business startups have higher employment rates and faster growing economies than those with less entrepreneurial ventures. That's one of the reasons why states are building programs to encourage and support successful entrepreneurship. It's good for the state.

From a value creation perspective, innovations change our lives. Sometimes incrementally, sometimes fundamentally, but entrepreneurs create value that changes how we live and what we do in our lives.

Motivation to become an Entrepreneur:

So what motivates someone to become an entrepreneur? Research shows that there are some common themes. Every entrepreneur has their own story and their own motivations. But if we look at a large number of entrepreneurs, and we look for common motivators, research shows that one of the leading drivers of the choice to become an entrepreneur is passion. Passion for challenge, passion for idea creation, passion for finding a solution that nobody else has found before.

Another motivation is profit potential or social impact potential. Things that are of value to the entrepreneur that they think they can better realize, whether it's profit or social or a combination, by creating a new idea to capitalize on an opportunity.

Another motivator is the potential intrinsic satisfaction, that feeling of knowing that you successfully identified an opportunity, created an idea for addressing that opportunity, and turned that idea into a business that has made a difference.

Another motivator is that potential entrepreneurs report that they're motivated because they often believe that an entrepreneurial career can be the path to a better quality of life through a better work experience and through the value that's realized from the entrepreneurial venture.

A lot of people are motivated because they believe that being an entrepreneur will give them more independence and more autonomy, and particularly with the last couple of generations in the U.S., independence and autonomy are highly valued experiences.

Another factor that's driven entrepreneurs has been really focused on limitation of other opportunities. A lot of immigrants in the U.S., a lot of immigrants in European countries, a lot of immigrants all over the world discover that either because of institutional constraints or social constraints or business practices, they don't have access to the same career paths that natives of that country might have. So they're choosing to become entrepreneurs because the path to a traditional non-entrepreneurial success route in life has been blocked or limited for them.

Sometimes they're blocked by society, sometimes they're blocked by law. Sometimes they're blocked by business practices. But a big motivator, particularly for immigrants for become an entrepreneur is if I want to improve my life, my option is to find my own opportunity, develop my own idea for addressing that opportunity, and become successful by myself rather than become successful in a society that's making it hard for me.

Unit 7.3 – Myths about Entrepreneurship

Myths:

PROFESSOR: There are a lot of myths out there about entrepreneurship, a lot of beliefs, some of which are true, some of which are simply myths. Your text talks about 13 myths that are worthy of being debunked.

I'd like to look at just a few of those, and see what the research has to say about the myth that entrepreneurs are born, not made. The myth that entrepreneurs are gamblers. The myth that entrepreneurs want the whole show to themselves, and the myth that entrepreneurs are motivated only by the quest for money. Let's take a look at the research on each of those four myths.

Born, not made:

The first myth is that entrepreneurs are born, not made. Now this connects very closely to a discussion we had when we talked about leadership. In fact, we asked a very similar question. We asked are leaders born or made. The research on leadership showed that some people are born with better potential to become leaders, but that they must learn to convert that potential into actual effective leadership.

The research on entrepreneurs and the question of whether they're born or made has produced very similar findings. The findings show that successful entrepreneurs are more likely to be born with capabilities such as intelligence, creativity, and energy. But the research also shows that those born with capabilities are only that. Capability that creates potential to become an effective entrepreneur.

Most people with those born-with talents fail to become successful entrepreneurs. Those who become successful entrepreneurs drive their success through the accumulation of relevant skills, know-how, experiences, and effective networking, as well as developing the skill to scan the environment, identify opportunities, analyze opportunities, and develop ideas with a high probability of successfully addressing those opportunities.

Gamblers:

The next myth we'll look at is that entrepreneurs are gamblers. You know, to people watching entrepreneurs, it often appears that they're taking very significant risk, and that may look like gambling. In reality, entrepreneurs are developing new ideas that are untested, that no one has successfully addressed before, and by its very nature, that is risky.

However, when we look at successful entrepreneurs and we look at their risk-taking behavior, we discover that what the successful entrepreneur does is to take careful, calculated risk. They try to manage the risk, in part, by bringing other people in to work with them to share that risk and to make it more likely that those risks can be successfully managed.

Another thing that successful entrepreneurs tend to do is to break big risk into smaller risk so that these smaller components of risk are easier to manage.

The research shows that entrepreneurs who are successful seldom seek unnecessary risk, nor do they try to avoid risk that is necessary to drive success. Again, while outsiders might look at an entrepreneur and go, wow, what a gambler, to the successful entrepreneur the challenge is to identify and manage the risk in order to successfully capitalize on the opportunity.

Whole Show to Themselves:

Our next myth is that entrepreneurs want the whole show to themselves. It's all about me. In reality, when we look at successful entrepreneurs, we discover that is unlikely to be the case. In fact, the person who makes it all about themselves are really putting an effective ceiling on their growth potential. Now the person who does that as a solo entrepreneur might build a successful small business and might realize a nice return on that small business, but they're very unlikely to develop a high potential entrepreneurial venture.

The effective entrepreneur focuses on building a team and building an organization that together can help realize that dream. That dream that would be hard to realize as a solo entrepreneur.

In effect, what successful entrepreneurs are doing is that they're making a choice. The choice is that rather than seek a large piece of a small pie, they're going to devote their time, their energy, and their resources. They're going to create teams and an organization that can increase the size of the pie.

Motivated by Money:

Finally, let's look at the myth that most entrepreneurs are motivated solely by the quest for profit. Research shows that, you know, there are some entrepreneurs who focus on profit. In fact, focus on short-term pay, short-term perks that they can realize by being an entrepreneur. But the vast majority of successful long-term, high-value, high potential entrepreneurs are more driven by building an enterprise, are more driven by long-term success than they are by short-term pay and perks. One piece of evidence of that is that those successful long-term, high-value entrepreneurs often reinvest their profits in the business. Rather than taking short-term gain, they are investing their time and energy in bigger long-term gain as they pursue the bigger pie.

Research also shows that effective, high potential entrepreneurs are very highly motivated, not just by money, but by the chase for personal achievement. They're highly motivated by control over outcomes that they're pursuing, and they're highly motivated by the idea of being able to chase their own dreams. They might view money as more of a path to success or a marker of success than simply as economic value.

Finally, the research shows that effective high potential entrepreneurs thrive on the thrill of the chase. This helps to explain why so many long-term, successful, high-potential entrepreneurs find an opportunity, identify an idea, capitalize on that idea, and succeed in the chase to address that opportunity.

As soon as they do, they identify a new opportunity, they identify a new idea, they build a new organization, they build a new team, and they initiate a new chase over and over. These are called serial entrepreneurs. But the important piece here, even if you're not a serial entrepreneur, is that for the majority of successful high-value, high-potential entrepreneurs, it's more about the chase than about the short-term gain.

What does it take to survive?:

Let's talk a bit about some of the things that help entrepreneurs survive and their businesses succeed.

This graphic will help us think about some of the differences that drive survival and success for four different kinds of people. Inventors, promoters, entrepreneurs, and manager/administrator.

We're going to look at each of these four and the degree to which each requires and is dependent upon a combination of creativity and innovation and general management skills, business know-how, and networks. You'll see that in this graphic we've identified some good combinations of those two factors. Let's look at each of these.

Types of Success:

Let's start by recognizing that there are various kinds of success and various paths to success. We can have very successful inventors, successful promoters, successful manager/administrators, and successful entrepreneurs. Different combinations of what it takes to succeed and different patterns of what it is once success is reached. Let's look at each of these.

Inventors. Inventors need to be highly creative. But they may not have or may not need the broader skills to turn their ideas into successful business outcomes. Inventors can remain identified to themselves and others, primarily inventors who create ideas that are then acted on and implemented by others.

Promoters have unique skills that can facilitate the success of other people's ideas. A promoter might, for example, work with promoting a product that came out of an inventor's idea. This is really important to entrepreneurs, because not every entrepreneur is a good promoter. And it's possible to outsource to someone outside of the organization or to employ someone and bring them inside the organization, who can take responsibility for the promotion of ideas, products, and services.

Managers and administrators can also be very successful. They tend to have a very broad skill set. They have the skill set that's needed to effectively design and execute organizations and organizational plans. This is obviously very important to entrepreneurs, because they need to build an organization and manage an organization. But not every entrepreneur has the management administration capability or they may not want to spend time on it. So they may choose to hire or outsource some of the management administration of the organization they create to drive the effective execution of their ideas.

Entrepreneurs. Innovators. They typically have good knowledge and skills and management business and networking to at least get the business started.

A successful entrepreneur has to have the skills to identify an opportunity, to develop an idea that can address that opportunity, create a product or service from that idea, and then create an organization that can capitalize and develop the value of that idea.

So we have various kinds of success. All four of these kinds of success are important to long-term entrepreneurial ventures. Some entrepreneurs can drive all four types of this success, some only one.

Again, there are various kinds of success. Inventors can be successful, promoters can be successful. Managers and administrators can be successful. Entrepreneurs can be successful by doing all of this or by smartly bringing people in who can do parts of this for them or with them.

How to Succeed:

A lot of people ask the basic question, what does it take personally to succeed as an entrepreneur? There's been a lot of research on that question. The items you see listed on the screen now are some of the items that have popped out as being associated, very frequently, with successful, high-value entrepreneurs.

We'll take a look at some of these in a little more detail. It's important as we do so to remember that very few people have all of this.

One of the factors that helps entrepreneurs succeed is to have the knowledge that all of these things are needed to drive entrepreneurial success, but that does not mean that the entrepreneur must have all of these things personally. The entrepreneur must recognize the need for all of these, do an honest assessment of the degree to which he or she has these and has the time to act on these, and then bring in others to the team, to the organization, or through outsourcing to complement the strengths and the weaknesses of the entrepreneur. Let's take a look at some of these.

Other Drivers of Success:

Passion for business. The number one characteristic of successful entrepreneurs, and one that's very difficult to outsource. Successful entrepreneurs with passionate about their opportunities, about their ideas, and about their business. It usually stems from the belief that the business they've created will have a positive impact on people's lives.

Second, product and customer focus. Successful entrepreneurs think about, dream about, talk about their products and their customers and they seek the match.

The fact is, most entrepreneurs, at heart, are crafts people. Crafts people start by thinking about the needs of the customer and how the product can be designed to address those needs.

The next common characteristic is commitment and determination. Successful entrepreneurs, they're decisive, they're tenacious, they're disciplined. They're willing to sacrifice in order to drive the success of their venture.

Successful entrepreneurs are typically people who have tenacity despite failures. Entrepreneurs typically pursue unproven ideas. In the process of pursuing unproven ideas, there are likely to be setbacks, there are likely to be failures. This is the nature of being an entrepreneur.

Successful entrepreneurs can face those failures, but their tenacity drives them forward as they persevere through those setbacks and failures.

Execution intelligence. This is one of those items that the entrepreneur must have or must bring in to the team someone who has this capability. Because critical to the success of entrepreneurial ventures is execution effectiveness. Execution intelligence is the ability to fashion a solid business idea into a viable business plan, to create an organization design that will serve it, to create operational plans that will execute effectively to realize the dream.

Effective entrepreneurs, long-term, tend to be creative, self-reliant, and adaptive. They tend to be open-minded. They tend to show very little respect for the status quo, and instead think about how to change the status quo. They learn quickly, they adapt quickly, and they're very attentive to details along the way.

Unit 7.4 – What does it take to Survive & Succeed?

A Model:

PROFESSOR: Before we talk about a model of entrepreneurial process, let's talk about why we care about a model for entrepreneurial process.

First, if we have a model, those of us who do research have a model that can identify the key elements of potential entrepreneurial success and enable to us study those in more detail. If we're able to do that, we can learn more about what drives success and failure for entrepreneurs, and we can better inform our models.

From an applied perspective, if we have a model that has been studied, that has been shown to be sound, entrepreneurs can look at that model and use it as guidance to help them understand what typically needs to be done as part of the process of moving from being a person to being a person who has become a successful, high-potential entrepreneur who's realized a dream.

There are a lot of models that have been developed and published in the scholarly literature and the popular business literature. A lot of models with the entrepreneurial process. Those models are based on a lot of research and sometimes some hypothesizing.

They use different terminology, quite often, but they tend to look at the same, underlying issues. As I talk through a model today, I'm going to talk about a representative model that was developed by Timmons and Spinelli, and set forth in a variety of places, including in their work titled "New Venture Creation: Entrepreneurship for the 21st Century."

The Entrepreneurial Process:

On your screen is a copy of the model that was put forward in an attempt to capture what it takes for a successful entrepreneurial process. Let's spend a little time talking through the components of this and see how we end up with balance.

Notice in this graphic that the founder is at the center bottom of this model. When we talk about balance, it's the founder's job to assure that all of these components of the entrepreneurial process balance appropriately to drive success.

The Founder:

The process and the model start with the founder. The process starts with the opportunities identified by the founder. The process does not start with money, with strategy, with networks, with a team, or with a business plan.

The process does start with the shape, the size, and the depth of the opportunity identified by the founder. The nature of the opportunity that's identified by the founder defines the required shape, size, depth of resources, and the team needed to drive success.

The founder, the person we call the entrepreneur, takes charge particularly early in this process. The founder, the entrepreneur, recognizes and defines the opportunity. The founder defines an idea that has a good fit for that opportunity. The founder attracts key players and talent needed by the team. The founder defines and manages the risk/reward equation, and it's the founder, the entrepreneur, who has responsibility for understanding and managing the entire process.

The Opportunity:

When we look at our opportunities, the heart of the process is due diligence and vetting potential opportunities. We want to find the maybe 5 or 10 percent of ideas that really have potential. We want to find the ideas that have the ability to create new demand in the marketplace or to address a demand that's already in the marketplace, but to address it better or lower cost than the competition.

We also want to make sure that the potential value of success is high enough to make it worth the personal and financial investment in pursuing the opportunity.

Finally, we need to look at the potential barriers to success. What can prevent us from succeeding when we implement this idea for gaining market value. We need to identify competitors. We need to identify technical issues, financial issues, HR issues that might create barriers to entry, and our operational plan has to address each of those potential barriers to entry. Opportunities need to be good and realistic.

The Resources:

We have to look at, in effect, the supply and demand of resources. It's kind of interesting that when we look at venture capital money, money that individuals or organizations have that they want to use to invest in someone else's venture. So venture capital.

When we look at that venture capital money, we often find cycles in our economies where there's actually too much money chasing too few high quantity opportunity ventures. When that happens, we can see bad bets being made, and when bad bets are made, we see high failure rates, and when we see high failure rates, in the next cycle, there's a reluctance to fund opportunities until the trimmed down number of opportunities shows success, the money supply gets larger, and the cycles continue.

How can an effective entrepreneur or an effective investor differentiate between the ideas that truly have potential and those with less potential? Key to this, and we'll discuss this more later on this topic is a business plan. A business plan that can differentiate the quality of the opportunity, that can specify a plan for capitalizing on that opportunity. In other words, a business plan that can tell a story to the entrepreneur, to the investors, of how this idea can be translated into a successful entrepreneurial venture.

Resources have to be examined with what we often call resource diligence. Effective entrepreneurs typically have a lot of discipline for what's called capital efficiency. In other words, they use their money well. They don't spend it unless they need to. When they don't have enough, they prioritize where to spend it to best impact the long-term success of the venture.

Effective entrepreneurs conserve their equity. They do so to make certain they have sufficient equity to support the venture long-term and to make sure that they are maximizing the value they produce for their shareholders, whether it's themselves or outside investors.

Effective entrepreneurs recognize the importance of liquidity. In entrepreneurial ventures, as we've mentioned, we often face surprises, problems we did not expect that need to be solved. Opportunities that are bigger than we anticipated that might be capitalized on. If we do not remain liquid, we don't have the money to fix the problem or to capitalize on the bigger opportunity.

Successful entrepreneurs try to keep their liquidity so they have the capability to deal with problems and capitalize on unexpected opportunities.

The Team:

As we've mentioned, it all starts with the founder. As we've described, the founder's idea requires resources to succeed. But the lynchpin of the entrepreneurial process is the team. There's really, truly, a short supply of great teams to support the entrepreneurial process. And what defines a great team might be very different for one entrepreneurial venture than for another. What defines a great team might be very different for one entrepreneur than another, depending on which things of value the entrepreneur can bring to the table.

Research shows that an organization with a top notch entrepreneur and a top notch team, but only a grade B quality idea, can often win over a grade B entrepreneur and team that has a grade A idea.

In other words, the research suggests that in many situations, the quality of the entrepreneur and the team can be more important than the quality of the idea.

Research shows very few entrepreneurial organizations are likely to grow beyond $2-$3 million businesses without a grade A entrepreneur and a grade A idea.

Let's talk a little more than the team. Let's look at some of the important characteristics of what we've called a grade A team. They have the relevant experience and track record. They have motivation to excel. They have a commitment to the success of the idea and the venture. They have reasonable tolerance for risk and healthy ability to face ambiguity and uncertainty at the workplace. They have a mindset that is focused on the success of the team, not only on their personal interests.

They're adaptable. They're obsessed with realizing the opportunity. They're effective communicators, and at least some members of the team have good leadership skills.

Basically, what this is saying is driving success is a combination of the capability, once we have the idea, a combination of the capability of the founder, who becomes the entrepreneur, and the capabilities of the team. Together if they bring the knowledge, the skills, the abilities, the experiences that are needed to translate a great idea into a great venture, we're more likely to see success.

Fit & Balance:

As shown in in the model and the graphic, the concept of fit and balance is critical to realizing entrepreneurial success. Key to this is alignment. Alignment between the specific opportunity, the available resources, and the team.

Alignment between opportunity and investors. Alignment between the idea and the consumer. The successful entrepreneurial process needs to be rational, needs to be logical. Needs to be specified in both a business plan and an operational plan that makes a good case for how this idea can deliver good outcomes.

Success for entrepreneurs is only found with fit and balance. We need the right idea, the right resources, the right team to drive success.

The Fallacy of the One-Person CEO:

Because individual entrepreneurs, founders, often become the first CEO of an entrepreneurial venture, because we spend so much time talking about the founder, I think it's important for to us talk a bit about the fallacy of the one-person CEO who always makes or breaks the success of an entrepreneurial venture.

We need to recognize, when we look at that model, when we look at that process, that the activities involved in the successful entrepreneurial process are almost always too diverse and too complicated to be performed fully and well by just one person. In fact, it can be argued that success needs three distinct characters to drive success and that these three characters, if you will, are seldom found in one person.

Successful, entrepreneurial ventures have a thought person, they a person of action, and they have a front person.

At the beginning of an entrepreneurial venture, the founder/CEO often has to be all three of these characters. But we know from the research that very seldom can that be sustained. We need the package. In most successful entrepreneurial ventures, success is driven by several men or women acting together on the same aligned process.

Think back to our discussion of human resource management. Just as success on a job requires an appropriate set of KSAOs, knowledge, skills, abilities, and other experiences, success as an entrepreneurial venture requires an appropriate set of organization level KSAOs that are typically far more complex than typically found in any one job.

Certainly almost always more complex than held by any one individual. True, founders get the publicity. True, founders are typically the first CEO. True, we like to honor and respect and even worship the founder. But also true, very seldom can that one person be the thought person, the person of action, and the front person throughout the development of a high-potential entrepreneurial venture.

Concluding Thoughts:

A few concluding thoughts on the process model for entrepreneurship. First, successful entrepreneurship requires the recognition of and creation of opportunities. Successful entrepreneurship requires the acquisition of the resources, both human and financial, to pursue the opportunity. Successful entrepreneurship requires the creation and realization of value from the identified opportunities.

It requires a willingness to identify, take, and manage calculated risk, both personal and financial. It requires initiative and passion to seize opportunity. It may be driven by a founder, but it requires a team. It requires alignment within the team and between the team and the mission of the entrepreneurial venture. It requires alignment of the interests of the entrepreneurs, the investors, and the customers.

Remember, most entrepreneurial ventures fail, and there are a lot of reasons why they fail. We're going to continue our discussion and we will look some more at how to increase the probability of success as an entrepreneur and his or her organization pursues the entrepreneurial process.

Unit 7.5 – A model for the Entrepreneurial Process

Entrepreneurial Strategy Matrix:

SPEAKER: As entrepreneurs decide what kind of venture they want to pursue, it can be helpful to look at this entrepreneurial strategy matrix that you can see on the screen now. This matrix looks at a combination of the amount of innovation, trying to create a unique and really different product or service -- that's the vertical axis, from low to high; and also looks at risk, which is the horizontal axis from low to high. Risk is the indication of the probability of a major loss, but keep in mind that higher risk is also often associated with higher return. So the primary motivation for taking a higher risk is the hope of a higher return.

Sometimes entrepreneurs will choose the lower left-hand quadrant as their target for their entrepreneurial venture, and that might be due to the fact that they are too risk-averse to pursue a higher-risk but potentially higher-return alternative; or it might be because they don't have a highly innovative idea. It might be a combination of those two reasons, but one place an entrepreneur might position his or her efforts is low innovation, low risk, hoping for perhaps the creation of a small business that provides a reasonable return.

It's occasionally possible to find a highly innovative idea that has low risk -- perhaps because of the low cost of innovation. Sometimes an entrepreneur will seek and pursue a high-innovation, but low-risk alternative. In doing so, there's less chance of failure, but there's also less chance of really high return.

In the lower right-hand quadrant is low innovation with high risk. This is a situation where the idea itself is not very innovative, but for whatever reasons, there's a very high risk of failure, but also a reasonable possibility of a high return. Sometimes entrepreneurs have a low-innovation idea -- perhaps that's the idea that presented to them; or that's the most innovative idea they could come up with; and the only environment they can pursue is fairly high-risk. If it's low-innovation/high-risk, and succeeds, there could be high payoff, but, in low-innovation situations, it's easier for competitors to come after you.

Finally, in the upper right-hand quadrant is high innovation and high risk. This is actually the quadrant that's favored by a lot of entrepreneurs because the ideas tend to be more exciting, and the potential high payoff tends to be more rewarding. This is the quadrant that creates the most exciting chase for a lot of entrepreneurs, but, to position in the upper right hand quadrant requires the creation of a truly highly innovative idea, and a willingness to face high risk of failure in hopes that the innovative idea will produce high positive returns.

So as you look at the matrix, and as you evaluate your own and other people's entrepreneurial strategies, think about where you'd like to be positioned as you pursue your entrepreneurial ventures.

Biggest Start-Up Mistake:

A recent survey of start-up entrepreneurs asked them about what worked and what did not work for them when they created their start-up -- when they chased their entrepreneurial idea. This graphic on the screen now shows you four of what were reported as the biggest mistakes that the entrepreneurs made as they launched their start-ups: First was, I did not secure enough financing. Now, sometimes that's because not enough financing was available, but often, it was reported that the underfunding was due to miscalculation of how much financing was actually needed to succeed with the new venture, and how much financing was needed to deal with the surprises that were occurring along the way.

Next was not knowing how to market or sell the product. This is explainable by the fact that people who develop new ideas and take them to market are not necessarily good at marketing and selling. This is one of the indicators that effective entrepreneurs develop a team that has all of the knowledge and all of the skills and all of the experience that's necessary to produce success.

Then, entrepreneurs said, their next big mistake was hiring the wrong people. They weren't careful enough in making sure that the people they hired, had the right knowledge, the right skills, and the right experience; or the people they hired were not intrinsically motivated by the excitement, despite the uncertainty, of pursuing an entrepreneurial venture.

And finally, the biggest mistake that they identified was underestimating monthly expenses: The day-to-day, week-to-week, month-to-month costs of creating a start-up, and operating that start-up.

All of these common mistakes that were reported by the entrepreneurs who executed new start-ups, can be dealt with, and we've talked about ways to deal with each of these. The importance of these results is to flag for future entrepreneurs that these are very critical potential problems that with good planning up front, we can avoid.

Common Management Mistakes:

Entrepreneurs were also surveyed about their general management challenges on an ongoing basis, and some of the reports that we got from entrepreneurs in these surveys were, some people don't enjoy it. It turns out that chasing a dream in the face of uncertainty with limited resources, is not an enjoyable experience for everyone. Second challenge is simply survival. Most new businesses fail. Dealing with failure, trying to survive, is a huge challenge for entrepreneurs.

Another challenge is that success drives growth, and growth can create new challenges: Requiring new channels, requiring new employees, requiring new knowledge; growth itself -- success -- can drive one of the big challenges for the managers of entrepreneurial ventures.

Another challenge is for many entrepreneurs, who are often individualists, who often have a sense of ownership of the idea, can find it very difficult to delegate responsibility to another member of their organization. Even when there are capable people, it can be personally difficult to turn over decision making to someone else.

Misuse of funds: Simply making a mistake about the most critical places to invest funds. Is it most critical to have a fancy office? Is it most critical to have a fancy sign? Is it most critical to have fancy, expensive advertising? Or is it most critical to invest funds in the acquisition and development of the best employees, the refinement of products.

So, one of the challenges is deciding where to use and how to avoid misusing limited funds that are typically available to entrepreneurial ventures.

Another challenge is control systems. Most entrepreneurs are excited about what can be and what will be, but control systems of what is done, how it's done, what is spent, and how it is spent is very critical to success. Entrepreneurs that don't have good control skills need to acquire them, or it's really difficult for them; to control not only their finances, but the activities of themselves and their employees.

And the final challenge of concern that's frequently reported is the possibility of the mortality of the entrepreneur and secession plans for the entrepreneur. Quite often, an entrepreneurial business, created by a founder, run by a founder, is dependent upon the founder. If that founder dies, or becomes unhealthy, or chooses to move on to some other venture or some other activity, or retire, who will succeed that leader and what kind of person is needed? So it is a very common and very critical management challenge to have a plan in place for replacing the very person who was at the heart of the creation of the venture.

Defining Paths to Success:

The business plan is absolutely critical to the success of any entrepreneurial venture. The business plan defines the path to success for the business that will be created as part of the venture. A good business plan focuses on the entire venture and identifies and addresses every element that's required for the success of the business. A complete business plan enables an assessment of the viability of the venture by reading the business plan and understanding the story about the idea, and how the idea can be brought to market, and what it will take a to do so successfully.

A complete, persuasive business plan is absolutely critical to external communication, and to sell the plan for the venture to investors, to employees, and to partners. Without an effective business plan, it will be very difficult to find a partner who wants to work with you, employees who want to work for you, or investors who want to invest in you.

Components of Business Plans:

Your text details some of the components that are critical to any business plan. The graphic on the screen right now identifies those core elements of the business plan. So as you read a business plan or as you develop a business plan, recognize that an effective business plan typically starts with an executive summary that is complete enough to convince the reader to read on and look at the details. Without a good executive summary, a potential employee or investor or partner will read your first paragraph or page, get bored, turn away, and not read on. So, an executive summary is absolutely critical.

This is typically followed by identification of the industry in which the venture will play, and the company itself -- the nature of the company and its products and services. Business plans should detail market research and analysis that shows there is potential for the products or services of the venture. A good business plan focuses on the economics -- the financials -- of the business. It presents an outline of the marketing plan. It presents a plan for designing and developing the organization that will be required to drive success.

A good business plan talks about how products will be manufactured, how operations will be managed. It identifies the people who are already part of the management team, or who will become part of the management team, and sometimes identifies the type of person who needs to be acquired to join the management team.

The business plan presents an overall schedule for pre-rollout, rollout, and post-rollout of the product or service of the venture.

It identifies the critical risk, it identifies potential problems, it identifies the assumptions that are being made behind the story that the business plan presents of how this organization will succeed.

It presents a competent, and complete financial plan, and proposes the company offering to investors.

So, in short, a business plan defines the path to success for the proposed venture and is used to convince investors, employees, and partners that there is a path to success, and it's one that they want to join.

Obtaining Value from the Venture:

One of the things that should be addressed in a good business plan is how the entrepreneur plans to derive value from the venture going forward, after it's established. One possibility is for the entrepreneur to plan to operate the venture as a small business, generating a reasonable profit, and perhaps taking a salary. A second possibility that might be specified in the business plan is to continue to grow the business, which requires reinvestment, which requires, typically, more external investment, for the hope of creating an even more valuable venture over time. This approach usually requires some sacrifice on the part of the entrepreneur, who will usually need to defer some salary and some profitability to the investments in hopes of greater future return.

Another perspective the business plan might take is that we want to establish that this is a viable venture, that it has big value for the future, and sell it to someone else, or to some other organization that will take over the operation of the venture. The advantage of this is that you get the money all at once, and if you'd like to do so, you can move on to another venture. Let's keep these other alternatives in mind as we develop our own business plans and as we look at the business plans of others.

Unit 7.6 – Common Challenges & Mistakes

Personal Financial Resources:

PROFESSOR: Entrepreneurs have ideas that are intended to capitalize on an opportunity with the hope of generating financial or social value. Almost every idea that an entrepreneur has requires more than sweat equity, the time and energy of the entrepreneur. Which raises the question, how can an entrepreneur fund what it takes to create a startup, operate a startup, and turn the idea into valuable outcomes? Let's take a look at some of the options that are available to an entrepreneur when that question is addressed.

The graphic you're looking at now identifies a list of some of the most common approaches used for funding an entrepreneurial venture. We will look in a little more detail at the possibility of funding with personal resources, business loans, crowdfunding, traditional equity funding, crowdfunding that takes an equity stake, and initial public offerings.

Personal Resources & Equity:

Many entrepreneurs fund their venture initially wholly or in part with personal resources. Their current savings or assets, their credit cards, their home, their retirement accounts, their insurance policies. One possibility available to an entrepreneur is, "I will fund it myself." If I fund it myself, I earn all of the returns. But if I fund it myself, I'm taking all of the financial risk and I might not have sufficient savings or equity to fully fund what needs to be done.

Let me give you an example of a successful entrepreneurial venture that used, largely initially, personal resources to get started. Ryan Zagata was a traveler. He noticed during a trip he took to Vietnam and a trip to Japan that locals were riding upright bicycles. And he rode a couple, and noticed that riding an upright bicycle allowed him to be more engaged with the environment, to appreciate more the beauties of Vietnam and the culture of Japan.

When he got back to New York, he decided that he would create a business based on the idea that upright bikes could capitalize on an opportunity by developing and selling these bikes to people who want to be part of their environment and more fully engaged.

He created the Brooklyn Bicycle Company to bring those kinds of bikes to market. His initial funding, his personal savings. He took the risk. Today it's a successful organization. He's grown it with other types of funding, but initially he brought his idea to market with his own personal resources.

Business Loans:

A lot of ventures are funded, fully or in part, with business loans that are non-equity loans, but are typically secured by some sort of property that the entrepreneur owns. These business loans might come from family and friends. Might come from banks with traditional, personal loans, and sometimes they're funded with what are often called microloans.

Let me just mention two sources of microloans. One are loans that come from a financial organization, but that are supported by the U.S. Small Business Association, the SBA. Let me give you an example. Pharmacist Sheila Tucker had an idea and had an opportunity to create a local community pharmacy. To do so required some up-front money, more than she had available. She went to the SBA, got approval for a loan, got a $200,000 SBA-supported loan, and launched the Market Street Pharmacy in Brandywine Village, Delaware, today a successful community pharmacy.

Another source of so-called microloans can come from microfinance organizations. Microfinance organizations are much more popular in third world and developing countries where there are very few financial resources available and the cost of entry for a new venture can be quite low. But microfinance organizations also have a meaningful presence in developed countries like the U.S.

Let me give you an example. Kathleen from New York was a full-time mom running a business out of her home. She wanted to create a storefront business that could do business face-to-face as well as a storefront on Ebay. She needed a little bit of money, not a whole lot to get this started. She borrowed less than $3,000 from the Promesa Loan Program with funding raised through Kiva, which is a microfinance crowdsourcing organization that works with microfinance organizations.

Kathleen worked through Promesa and Kiva, obtained her $3,000 in funding, opened her storefront for her vintage charm bracelet business that she had been running from her home. Today it's not a huge venture, but to Kathleen, it's a very successful venture that would not have been possible without that microfinance loan.

Crowd-funding (non-equity):

There are a variety of non-equity crowdfunding opportunities out there for entrepreneurs. The basic idea with crowdfunding, that's what we will call non-equity, is that an organization helps the entrepreneur advertise online through the crowdfunding organization to promote their potential business plan. In return, the investors do not receive any equity, any ownership in the new business, but instead, they're typically promised something of usually modest value, such as a sample product from the new company if it successfully launches.

Kickstarter is one of the biggest of the non-equity crowdfunding organizations. I want to give you an example of a Kickstarter startup that I have some personal experience with. I chose this example because I'm a cyclist, because I was an investor in this Kickstarter project, and because I have not only used my initial products, but bought additional products from this company.

This company is a British company called See.Sense. They developed a bicycle light that's sensitive to the environment, to the level of light in the environment, and to the movement of the bicycle. It's also a light that turns itself on and off. Basically these are lights that sense when a bright light is needed, that sense when a flashing light is needed, and deliver that to keep the cyclist safe.

They promoted on Kickstarter. They had 500 people commit support, including myself. In exchange, they each received one of the new See.Sense lights if the company actually got off the ground. They did get off the ground, all 500 investors received their promised product, and now See.Sense is a successful global company with growing distribution networks.

Another less known, but still very popular crowdfunding non-equity organization is Indiegogo. Indiegogo is very similar to Kickstarter, and by the way, both Kickstarter and Indiegogo and other crowdfunding programs charge a fee to the entrepreneur. Usually that's in the 5 to 10 percent range of the amount of capital that's raised.

Let me give you an example from Indiegogo. Two graduate students, Anna Stork and Andrea Sreshta, were at Columbia at the time, and they developed an idea that they thought would address an opportunity. Basically they had observed that when disasters strike, tornadoes, hurricanes, earthquakes, fires, tsunamis, when disasters hit, particularly third world and developing countries, one of the biggest challenges is having lighting to clean up and to move on.

They developed an inflatable emergency LED light intended for use in disaster areas. They founded LuminAID, and in just six weeks they raised $52,000 with Indiegogo. That was enough to start up their business, to finish the product, and to start producing. Anyone who invested $25 or more received one of the first lights made by Indiegogo. Today LuminAID is a successful social entrepreneurship venture that bundles a purchased light with a donated light. Their goal is to generate profit and to deliver social value. Crowdfunding helped them launch that business.

Traditional Equity Funding:

Most entrepreneurs know about traditional equity funding. The difference here is we're now talking about sources of funding where the individual or the organization that provides funding takes some of the equity, some of the ownership of the new company that's being launched.

There are different kind of equity funding. For example, angel investors are typically deep pocket individuals or groups of individuals who use their own money to fund a new venture. Usually this is early round, early in the life of a new venture that angel equity funding has provided.

In exchange for giving their money to the new venture, they receive an equity stake that could be, typically, anywhere between 10 and 50 percent ownership of the new business. That percentage will depend on the amount of the investment and the risk level. The higher the investment, the higher the risk, the greater the investor will ask for an equity ownership.

Let me give you an example. There's a group in New York called New York Angels that provided a little over a million dollars in funding to Citelighter, which is a student research and writing firm that had an idea to capitalize on student needs to do better writing and teacher needs to better manage the work that's written by students and more effectively grade and provide feedback for those students.

Citelighter developed an online process and a set of tools for facilitating that writing and grading support. They obtained a little over a million dollars from New York Angels. New York Angels took equity ownership of part of the Citelighter organization. The business was launched, successful today. They've grown through additional external investments.

There are also venture capital firms out there that often control very large amounts of funding for venture capital. The reason that a venture capital firm exists is to find ventures that have promise, invest in those ventures, take on ownership, personal ownership of those ventures, and get a great return on their investment in those ventures through a combination of the future profitability of those ventures that they fund or the sale of those ventures to someone else at a price that provides a great return to the venture firm.

Usually venture capital firms contribute to ventures after they've already been proven. Usually it's a second or third level of funding for a venture. The venture capital firm invests, takes some equity, and hopes for success. Often venture capital firms and angel investors sometimes, will not only provide the money and not only take on some ownership, but they'll provide some expertise and counseling to increase the probability of success of the venture.

I want to give you an example of a company that took venture capital funding from a venture capital fund after it had already established itself. This is a Canadian firm called D2L or Desire2Learn. This one is of interest to me, because when we deliver this course, we're going to deliver it on that platform. The reason that platform is available for us is because the Canadian firm, D2L received venture capital funding from an organization known as Omers, O-M-E-R-S.

D2L today is now a leader in cloud-based learning solutions for higher education. Before they got their venture funding, they were a small player. The venture capital funding enabled them to become one of the biggest, most successful players.

Crowd-funding (equity):

We mentioned non-equity crowdfunding before, and that's what most of us know about, and that's what's very popular and kind of the media likes to talk about those examples, like See.Sense. But there's also crowd funding that's equity-based. The basic idea here is that you go to an organization, you advertise with them looking for funding for the venture. In return, investors are not given a product, they get an equity share in the company. Investors in crowdfunding equity models are generally looking for future return, not just trying to help a venture succeed and get a little something in return.

An example of crowdfunding is AngelList. AngelList is an organization that, online, provides a platform for startups to meet investors and to connect them for a fee.

BP is a company that used AngelList. BP had the idea that people sell their cars when they're used, and people buy used cars, but they seldom connect directly. Often cars are sold to dealers as a trade-in or they're sold to CarMax. The idea that BP had was let's facilitate matching sellers and buyers and let's do it online.

They piloted their idea, they needed money to launch the idea. They went to AngelList, and they obtained millions of dollars of second stage funding through AngelList by posting their business plan for growth, posting their needs, promising equity share, they obtained the investment, and they are a growing, successful organization.

Another example of an equity-based crowdfunding organization is known as CircleUp. Similar in a lot of ways to AngelList, but with a little different focus.

Smari Asmundsson needed funding to grow his Icelandic yogurt company. He had started up the business. He had demonstrated that there was interest in Icelandic yogurt which, by the way, in a lot of marketing research, compares very favorably when we look at consumer reactions to Icelandic yogurt versus Greek yogurt. But enough for promoting the product.

Smari needed money to secure a partner who could do higher end, higher level production, and to bring on employees and to develop a new facility, and he went to CircleUp. He got over a million dollars in his first effort was CircleUp. Grew the business. Wanted to grow again. Went back to CircleUp and brought in almost $3 million. Each time he gave up some equity, some ownership in his business. But today Smari has the most successful Icelandic yogurt company in the U.S. Small business, yes. Big potential, the investors and Smari thinks so.

Initial Public Offering (IPO):

The basic idea with an Initial Public Offering or an IPO is that a privately held business, that might be a startup or it could be an established private firm that's been around for a while, sells ownership shares to the public to raise expansion capital. This process is regulated by the SEC, The Securities and Exchange Commission. And any IPO must be underwritten by, typically, an investment bank that's authorized to do so. The investment bank vets the company, vets the proposal, helps to establish the value of the shares that are being offered, and then helps to find buyers when the IPO is launched.

An example of this is Shake Shack, which some of you may know. In January of 2015, Shake Shack has been a private organization that was growing, that was very successful, but that wanted to expand significantly and did not have enough profits or enough assets to drive that significant growth.

The owners of the private company, Shake Shack, believed there was huge growth potential that they were not able to realize. But they believed that through an IPO, they could raise enough funding to pursue that aggressive, strategic growth plan.

In January of 2015, their IPO went public, sales were made available of the shares. They raised $105 million. The first day that that stock was available for sale, the price doubled. Within three months, the price had tripled. This produced two positive results. For Shake Shack, it gave them the money that they needed to expand globally, and they've done so, and they've done so very successfully.

The second cool thing was the people who initially bought that stock made a lot of money, and they made a lot of money quickly.

However, there is more risk, typically, with an IPO for the person who buys the shares than for the company that sells them. In this case, Shake Shack gets to keep that high, $105 million, and use it to grow their business, no matter what happens to the value of the shares. Those who buy the shares are buying high risk shares. IPOs often fluctuate in value significantly.

Unit 7.7 – Non-Financial Resources

Non-Financial Resources:

SPEAKER: Clearly, financial resources are critical to the success of any venture, but sometimes equally important are nonfinancial resources. Let's take a look at some of the most critical nonfinancial resources that can help a venture succeed.

Here's a list of some of the most critical nonfinancial resources. Let's take a quick look at each of these to give you an understanding of what they are and why they're important.

Legitimacy:

Stakeholders, potential investors, customers, partners, employees -- stakeholders want to believe that a company is legitimate if they're going to work with them. Legitimacy is established by acceptance, by judgments of the appropriateness of the venture, and the desirability of the venture. Usually, legitimacy is earned -- and it must be earned -- through an examination of the company's goals and the methods they establish for achieving those goals; and an assessment of whether the goals and the methods are consistent with the values of the stakeholders.

Networks & Social Capital:

Networks and social capital can be extremely important to the success of a venture. Having a solid network -- creating social capital where you are valued socially by others -- can give an organization a competitive advantage because of the relationships, because of the image that is created by the people who are involved with, who talk about your venture. It can enhance your reputation. It can also, through these networks give you access to information, to trust, to cooperation, to alliances, to funding, to mentoring, to advice. It can help you recruit employees. Having a good network, creating what's called social capital -- perceived social value -- can be terribly important for a new venture's success.

Top Management Teams:

A top management team is not purely nonfinancial, because we tend to pay our top management teams, but external assessments of the capability of the top management team are absolutely critical to the success of a venture. Having a good top management team brings to the venture the KSAOs -- the knowledge, the skills, the abilities, the other experiences -- that are needed to drive success. Having a good top management team can bring recognition to the company, credibility to the company, and legitimacy to the company.

Board of Directors & Advisory Boards:

There are two kinds of boards that can be particularly powerful for a new venture, both internally and externally, and these are boards of directors and advisory boards. Any business that's incorporated must have a board of directors, and may also have an advisory board; and a business that's not yet incorporated can also have an advisory board. A board of directors can enhance the image, it can drive better strategic plans if the members of the board are good, and it can improve the operations of the business -- again, if the members of the board have that expertise. An advisory board can bring in additional expertise, broader strategic perspective, and enhanced capability, and can also help develop social capital.

When external stakeholders look at a venture, one of the questions they will ask is who's on the board of directors, who's on the advisory board, because if the people on those boards are respected people, the other stakeholders are likely to assume that those members of the board have made the judgment that this venture is viable, and if external stakeholders believe that the board members are competent, are likely to believe that there's expertise on those boards that will increase the probability of success.

Partners:

There are many kinds of partners that can facilitate the success of a venture. Some of these are formal partners; some are informal partners; sometimes partnerships are with suppliers or customers; sometimes they're with other ventures in the same domain that believe by working together, they can succeed better. Sometimes partners are investors. Partners can bring broader and committed expertise to the venture. They can help manage risk. They can support both the financial and nonfinancial resources of the venture. When there's alignment between the interests of the venture and the partners, we can have synergy. We can have synergy that increases the probability of success of the adventure and increases the commitment to the venture of the partners. When we do not have alignment, partnerships can be -- and often are -- destructive.

Accelerators & Incubators:

There are two terms that are often used interchangeably but probably should not be: Those terms are accelerator and incubator. One of the reasons they're often used interchangeably is because they both have the same objective overall, and that objective is to help new ventures have a higher probability of success. They each increase the probability of success by helping the venture acquire greater expertise and sometimes acquiring funding that's needed to drive success.

Most accelerators bring the venture in for a short period of time -- the most common is maybe 3-4 months -- where key leaders from the venture are brought in -- either physically or virtually -- to the accelerator, where they're given training, they're given mentorship; they might be helped to improve their business plan, their operational plan; they might be helped to improve their idea for capitalizing on an opportunity; they might be helped to better understand the entrepreneurial process that we've already talked about. An accelerator brings in the venture short-term so at the end of that 3 or 4 months, the venture has a higher probability of success. In return, most accelerators ask for a few percentage points of the equity of that venture that now has a higher probability of success.

Incubators are usually longer term affairs. Incubators usually provide an external team of management experts to the venture firm, where they go in to the firm, and they directly deliver the expertise -- usually over a longer period of time. Where an accelerator typically helps a venture be ready to launch at a higher success level, an incubator actually helps with that launch to a higher success level; they incubate the success directly and hands-on. This means that incubators typically engage in a longer-term relationship with the venture, and typically provide more extended and deeper support as the venture is launched -- not before it is launched. In return, because it's more extensive support, incubators usually take a little more equity share than do accelerators.

Both accelerators and incubators might have a physical space where they foster networking with the experts, and networking among entrepreneurs and their coaches; or they might do some or all of that work virtually.

I'd like to give you an example of an organization that defines itself as a combination of an accelerator and an incubator, and that's an organization called the Elevator Fund, that's located in Israel. The Elevator Fund exists to help new ventures have a higher probability of success. They identify what they think are high-probability venture proposals that can have a better chance of success with help from the Elevator Fund. The Elevator Fund provides investment, but it also provides early-stage and mid-stage ideas, helps access talent, and serves as a full strategic operational and financial partner to assist their venture clients to make sure they have a better business plan and one that is executed more effectively. They are very successful; the ventures that work with the Elevator Fund have a much higher success rate and a higher return rate.

Unit 7.8 – Building Intrapreneurship

Intrapreneurship:

SPEAKER: Intrapreneurship, or corporate entrepreneurship, as noted earlier, is entrepreneurial behavior that happens inside an existing corporation or large not-for-profit setting. In many ways, intrapreneurship is similar to entrepreneurship. There are a few ways it's not the same. Let's look at some of the things that organizations can do to encourage intrapreneurship, and to facilitate successful intrapreneurship; some things that employees of these big organizations can do to become intrapreneurs; and let's look at some of the special issues associated with intrapreneurship.

Encouraging Intrapreneurship:

Often the organization will take the lead in encouraging entrepreneurship. They'll do so because of the belief that their future growth -- their future success -- is dependent upon new opportunities and new ideas. What can an organization do to facilitate the development of the intrapreneurship without damaging the ongoing, current core business of the organization? The key to this is creating a culture for the organization that encourages and values entrepreneurial thinking focused on the future; a culture that causes employees to think, we need to identify new opportunities and have new ideas -- not to replace what we do now, but to enhance what we do now -- and to create new opportunities for our future growth.

Some organizations create what is sometimes called a skunkworks. This is a formal, separate project team that's designed for the purpose of producing new, innovative products. With a skunkworks, an organization says, we're going to take some of our financial resources, some of our human resources, some of our physical resources, and we're going to pull them out of the day-to-day functioning of the organization, and we're going to strategically and financially support this skunkworks for the purpose of identifying opportunities and ideas that might benefit the organization in the future. The culture within a skunkworks is usually quite different than in the rest of the organization. Established organizations often have a culture of, we know what we're doing; we know how to drive success; let's do it very, very well. The culture in a skunkworks is, we don't know what we're going to do in the future; we don't know how we're going to do it; and we don't certainly know how we'll do it well; so let's figure it out.

Skunkworks have generated a lot of ideas for a lot of organizations that have gone from being successful organizations in one decade, to more successful organizations in subsequent decades, as they reinvent themselves -- in part,, because of the entrepreneurial activity, thus intrapreneurial activity -- that occurred in their skunkworks.

Some organizations, whether or not they have a skunkworks activity encourage what's often called bootlegging, where employees are encouraged, or required to spend part of their ordinary work week identifying opportunities for the future of the organization. So instead of pulling them out of the day-to-day operations, as is done with the skunkworks, employees are asked: Do your work, focus on what we do, focus on our core business, but I also want you to use some time thinking about entrepreneurial ideas. Evaluate whether the organization should invest in those ideas, and whether they have merit for the future success of the organization.

Building Support:

Sometimes an individual employee, independent of a bootlegging program or skunkworks program in a large organization, will take the initiative in identifying an opportunity, coming up with an idea that can benefit the organization in the future. In most organizations, when an individual employee identifies a new opportunity and idea for capitalizing on it, and presents it to the organization, the organization says, I'm sorry; that's not what we do.

In an organization that encourages independent thinking about future opportunities, the employee is likely to take that idea forward, to see if the organization is interested in it. Often, if the organization's not interested, the organization loses two things: They lose the employee, who says, I'm going to pursue this on my own; and they lose the potential future value of that idea. One of the things that differentiates good from very good organizations is how finely attuned they are to the ideas -- the entrepreneurial ideas -- brought to them by their employees. For the individual employee who has that idea, to capitalize on an opportunity, it's important that that employee develop a network of important, relevant allies within the organization. It's important that the employee talk early to his or her immediate boss and explain the opportunity and the idea, and hopefully get the boss on board to either help evaluate that it is or is not a good fit for the organization, or maybe even become a champion and a partner in moving the idea forward.

Whether it's your boss or not, it's very important to develop cheerleaders or champions of that new idea. At the very least, champions of moving the idea to the next level, to evaluate whether it might have merit. The next level might be the development of a business plan to help the organization evaluate whether that idea should be pursued. Sometimes, when individuals come up with ideas within the organization, those ideas aren't formally sanctioned yet by the organization, so the employee engages in what's often called horse trading, where they hunt around -- they dig around -- for support, for time, for money, for resources that might enable them to at least get to the point of proof of concept for their idea. Ideally, the employee is seeking the blessing and support of relevant, appropriate, higher-level officials, and they're hoping that they'll have the opportunity to present a plan -- at least the executive summary of a business plan -- to decision makers in the organization who can decide whether or not to pursue this idea.

So, when an individual in the organization comes up with an entrepreneurial idea on his or her own, there are multiple possible outcomes: One, the employee leaves the organization, pursues the idea on his or her own; two, the organization helps to evaluate the merits of the idea, and if it's judged to have positive merits, the idea is moved forward in the organization; or three, the idea dies, and the opportunity is never capitalized on.

The Balancing Act:

Corporate entrepreneurship -- intrapreneurship -- requires a very fine balancing act. Remember that entrepreneurial activities generate most of the wealth, most of the new jobs, in most economies. Recognize and accept that entrepreneurial activities may have greater potential payoff for an organization than their current core business, but they also have greater risk, so an organization has to be careful that it does not damage its core business by taking on excessive risk of intrapreneurial business activities.

The balancing act also includes deciding how many new projects, how many new ventures an organization should pursue. Over-reliance on too few new projects can lead to deep failures, and leave the organization with a damaged core business, and reduced opportunities for the future. That might motivate an organization to pursue a lot of venture opportunities, but, if they pursue too many, that the resources, the focus, can be diffused, and the probability of success of any one of those ventures can be compromised. So, organizations have to balance between their current core business, and the riskier, but potentially greater return, intrapreneurial ventures.

Entrepreneurial ventures inside an organization, and investments can lead to loss of focus on core business. That's one of the reasons why programs like skunkworks are so popular: To treat intrapreneurship as a separate venture that helps to define the future of the organization.

Summary:

Let's wrap up by taking a look at how one regular person became an entrepreneur and built her business. See how this success story aligns with the content of this topic that we've been discussing. Let's look at Pillow Pets.

Remember that the majority of new jobs, radical innovation, and new wealth around the world are the result of entrepreneurial activity. The goal of entrepreneurship is to create value -- financial and/or social -- by identifying and capitalizing on new opportunities. Entrepreneurship is a process. Through this process, an entrepreneur recognizes an opportunity, assembles the team and resources needed to execute, and creates an organization that produces value by taking its product or service to market. A business plan that fully describes a planned venture, and clearly defines the path to success is the cornerstone for persuading investors, employees, and partners to commit to the venture.

Effective, large organizations often rely on and encourage internal entrepreneurial behavior to identify and pursue the ideas that will drive their future success. We call this intrapreneurship.