Growth Strategies for Entrepreneurial Ventures

Strategic Entrepreneurial Growth

Strategic Planning and Emerging Firms

- Most entrepreneurs' planning for their ventures is informal and unsystematic.
- The need for formal, systematic planning arises when:
  - The firm is expanding with constantly increasing personnel size and market operations
  - A high degree of uncertainty exists
  - There is strong competition
  - There is a lack of adequate experience, either technological or business

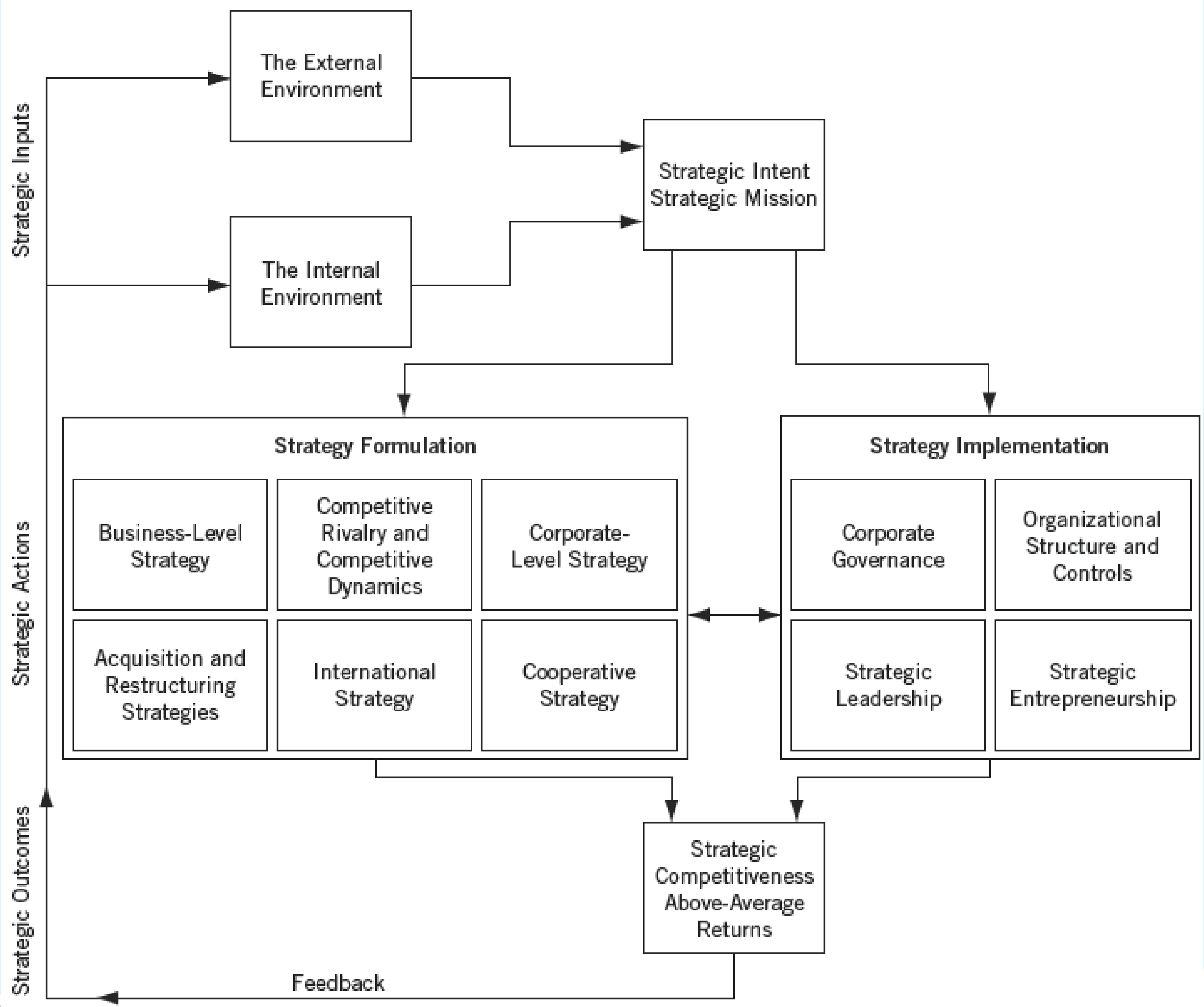
The Nature of Strategic Planning

- Strategic Planning
  - The formulation of long-range plans for the effective management of environmental **opportunities** and **threats** in light of a venture's **strengths** and **weaknesses**.
  - Includes:
    - Defining the venture's mission
    - Specifying achievable objectives
    - Developing strategies
    - Setting policy guidelines

The Nature of Strategic Planning (cont'd)

- Basic Steps in Strategic Planning:
  1. Examine the internal and external environments of the venture (SWOT: strengths, weaknesses, opportunities, threats).
  2. Formulate the venture's long-range and short-range strategies (mission, objectives, strategies, policies).
  3. Implement the strategic plan (programs, budgets, procedures).
  4. Evaluate the performance of the strategy.
  5. Take follow-up action through continuous feedback.

The Strategic Management Process



Source: Michael A. Hitt, R. Duane Ireland, and Robert E. Hoskisson, *Strategic Management: Competitiveness & Globalization*, 10th ed. (Mason, OH: Cengage Learning, 2013), 5. Reprinted with permission of Cengage/South-Western , Publishing.

Key Dimensions Influencing a Firm's Strategic Planning Activities

- Demand on strategic managers' time
- Decision-making speed
- Problems of internal politics
- Environmental uncertainty
- The entrepreneur's vision
  - *Step 1:* *Commitment to an open planning process*.
  - *Step 2:* *Accountability to a corporate conscience*.
  - *Step 3:* *Establishment of a pattern of subordinate participation in the development of the strategic plan*.

The Lack of Strategic Planning

- Reasons for the Lack of Strategic Planning
  1. Time scarcity
  2. Lack of knowledge
  3. Lack of expertise/skills
  4. Lack of trust and openness
  5. Perception of high cost

The Value of Strategic Planning

- Findings of Strategic Planning Studies
  - Strategic planning is of value to a venture and that planning influences a venture's survival.
- Benefits of Long-Range Planning
  - Cost savings
  - More efficient resource allocation
  - Improved competitive position
  - More timely information
  - More accurate forecasts
  - Reduced feelings of uncertainty
  - Faster decision making
  - Fewer cash-flow problems

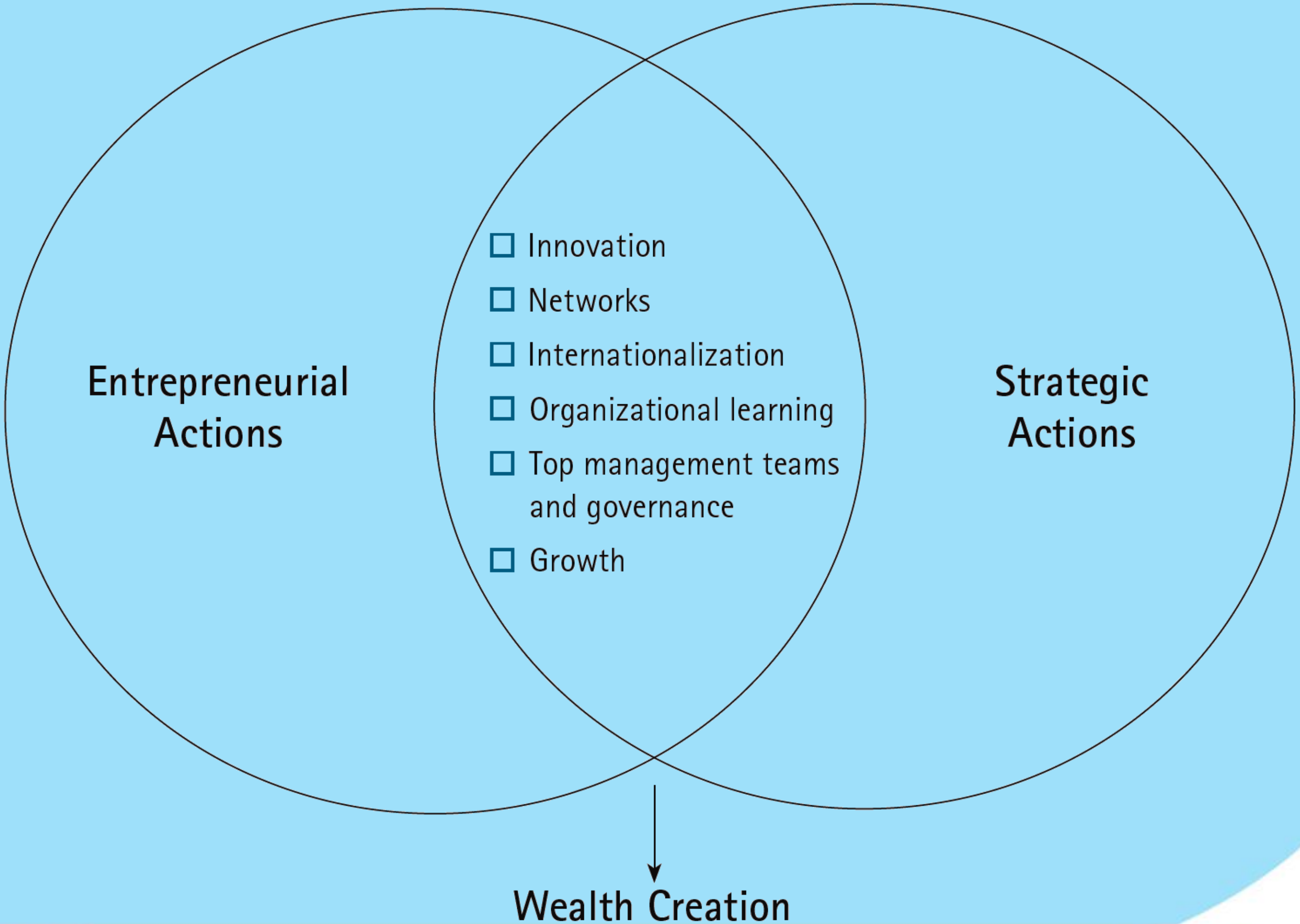
Strategic Planning Levels (cont'd)

- Strategic Planning Categories
  - Category I: No written plan
  - Category II: Moderately sophisticated planning
  - Category III: Sophisticated planning
    - Results: More than 88% of firms with Category II or III planning performed at or above the industry average compared with only 40% of firms with Category I planning.
- All research indicates:
  - Firms that engage in strategic planning are more effective than those that do not.
  - The planning process, rather than merely the plans, is a key to successful performance.

Fatal Visions in Strategic Planning

- Fatal mistakes that entrepreneurs fall prey to in their attempt to implement a strategy:
  - Fatal Vision #1: Misunderstanding industry attractiveness
  - Fatal Vision #2: No real competitive advantage
  - Fatal Vision #3: Pursuing an unattainable competitive position
  - Fatal Vision #4: Compromising strategy for growth
  - Fatal Vision #5: Failure to explicitly communicate the venture's strategy to employees

The Integration of Entrepreneurial and Strategic Actions



Source: R. Duane Ireland, Michael A. Hitt, S. Michael Camp, and Donald L. Sexton, "Integrating Entrepreneurship and Strategic Management Actions to Create Firm Wealth," *Academy of Management Executive* 15(1) (February 2001): 51.

Strategic Positioning: Entrepreneurial Edge

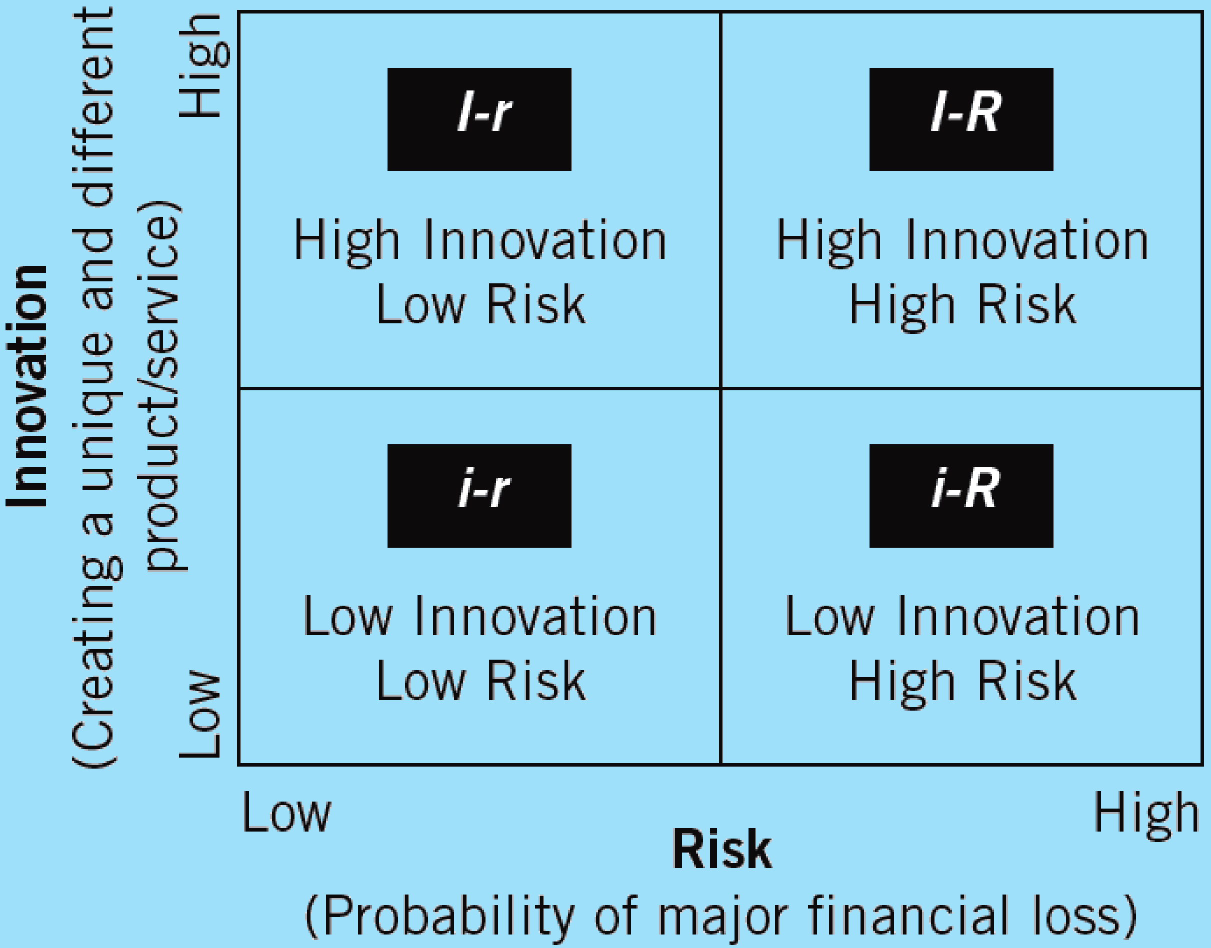
- Strategic Positions
  - Are often not obvious, and finding them requires creativity and insight.
  - Are unique positions that have been available but simply overlooked by established competitors.
  - Can help entrepreneurial ventures prosper by occupying a position that a competitor once held but has ceded through years of imitation and straddling.

Strategic Approaches: Position, Leverage, Opportunities

	Position	Leverage	Opportunities
Strategic logic	Establish position	Leverage resources	Pursue opportunities
Strategic steps	Identify an attractive market Locate a defensible position Fortify and defend	Establish a vision Build resources Leverage across markets	Jump into the confusion Keep moving Seize opportunities Finish strong
Strategic question	Where should we be?	What should we be?	How should we proceed?
Source of advantage	Unique, valuable position with tightly integrated activity system	Unique, valuable, inimitable resources	Key processes and unique simple rules
Works best in	Slowly changing, well-structured markets	Moderately changing, well-structured markets	Rapidly changing, ambiguous markets
Duration of advantage	Sustained	Sustained	Unpredictable
Risk	It will be too difficult to alter position as conditions change	Company will be too slow to build new resources as conditions change	Managers will be too tentative in executing on promising opportunities
Performance goal	Profitability	Long-term dominance	Growth

Source: *Harvard Business Review* from "Strategy as Simple Rules," by Kathleen M. Eisenhardt and Donald N. Sull (January 2001): 109.

The Entrepreneurial Strategy Matrix: Independent Variables



Education to take you places

Source: Matthew C. Sonfield and Robert N. Lussier, "The Entrepreneurial Strategic Matrix: A Model for New and Ongoing Ventures." Reprinted with permission from *Business Horizons*, May/June 1997, by the trustees at Indiana University, Kelley School of Business.

United States International University-Africa

The Entrepreneurial Strategy Matrix: Appropriate Strategies

Innovation (Low – High) / Risk (Low – High)

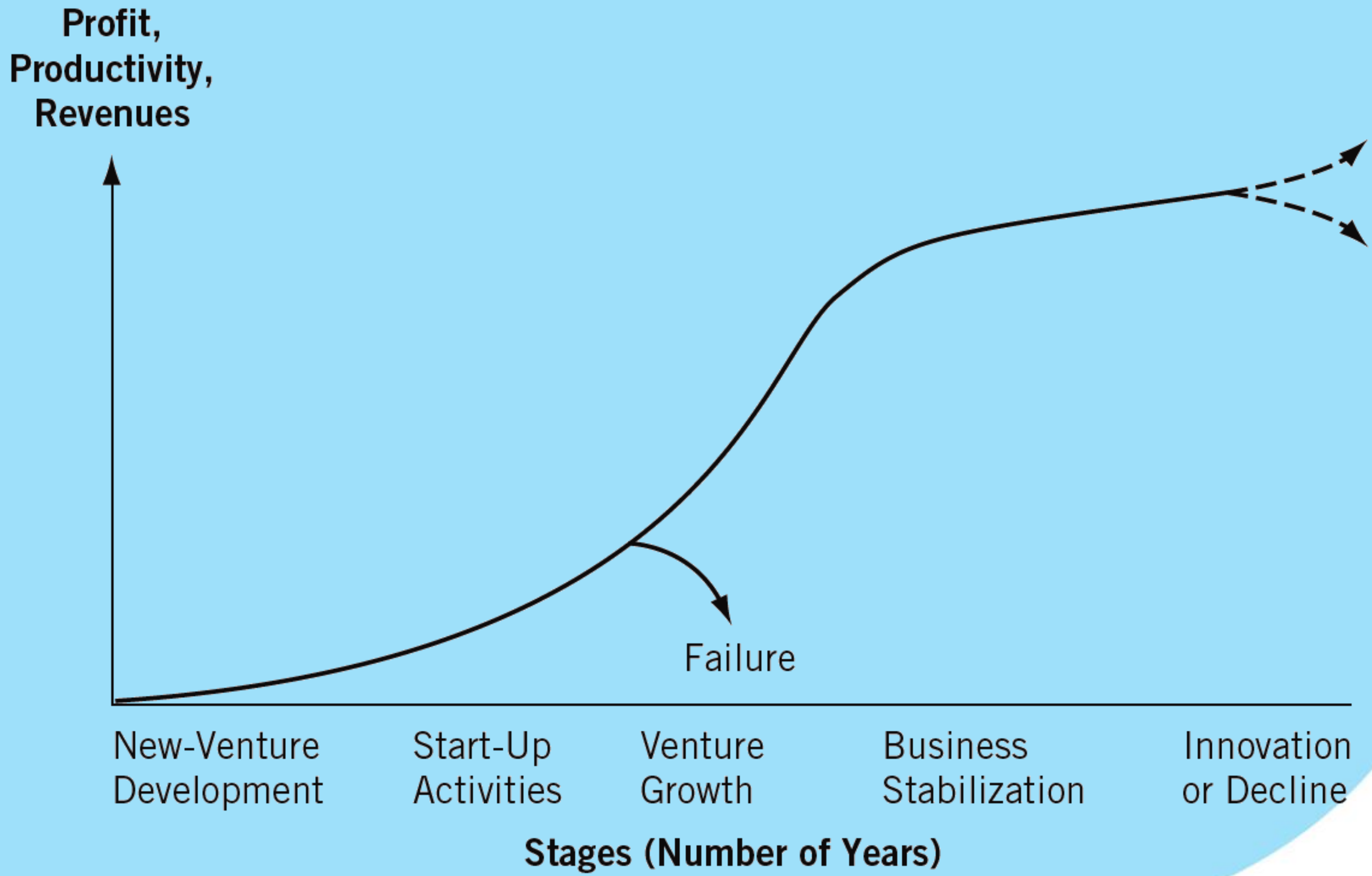
Innovation \ Risk	Low	High
High	**I-r** • Move quickly • Protect innovation • Lock in investment and operating costs via control systems, contracts, and other measures	**I-R** • Reduce risk by lowering investment and operating costs • Maintain innovation • Outsource high-investment operations • Joint venture options
Low	**i-r** • Defend present position • Accept limited payback • Accept limited growth potential	**i-R** • Increase innovation; develop a competitive advantage • Reduce risk • Use business plan and object analysis • Minimize investment • Reduce financing costs • Franchise option • Abandon venture?

Source: Matthew C. Sonfield and Robert N. Lussier, "The Entrepreneurial Strategic Matrix: A Model for New and Ongoing Ventures." Reprinted with permission from *Business Horizons*, May/June 1997, by the trustees at Indiana University, Kelley School of Business.

Venture Development Stages

- Life-Cycle Stages of an Enterprise (Chandler)
  1. Initial expansion and accumulation of resources
  2. Rationalization of the use of resources
  3. Expansion into new markets to assure the continued use of resources
  4. Development of new structures to ensure continuing mobilization of resources

A Venture's Typical Life Cycle

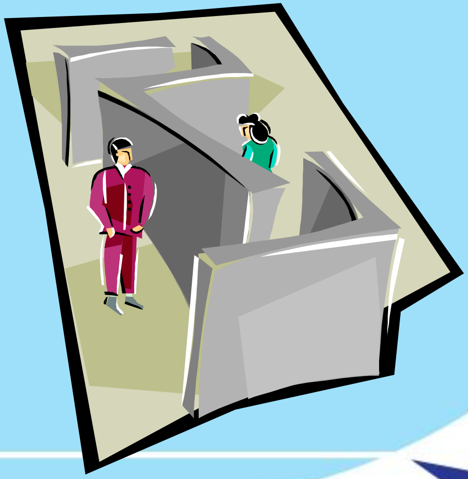


Major Stages in a Venture's Life Cycle

New-venture development	Activities associated with the initial formulation of the new venture's general philosophy, mission, scope, and direction.
Start-up activities	Creating a formal business plan, searching for capital, carrying out marketing activities, and developing the entrepreneurial team.
Growth	Leadership transitions from an entrepreneurial one-person focus to a managerial team-orientation to cope the growth of the venture.
Business stabilization	A "swing" stage that precedes the period when the firm either swings toward greater profitability or toward decline and failure.
Innovation or decline	The firm either continues its success by acquiring other innovative firms and develops new products/services or it goes into decline.

Transitioning from Entrepreneurial to Managerial

- Impediments to Transition:
  - A highly centralized decision-making system
  - An overdependence on one or two key individuals
  - An inadequate managerial skills and training
  - A paternalistic atmosphere



The Entrepreneurial Culture versus the Administrative Culture

	Entrepreneurial Focus		Administrative Focus	
	Characteristics	**Pressures**	**Characteristics**	**Pressures**
Strategic Orientation	Driven by perception of opportunity	Diminishing opportunities Rapidly changing technology, consumer economics, social values, and political rules	Planning systems and cycles	Social contracts Performance measurement criteria
Commitment to Seize Opportunities	Revolutionary, with short duration	Action orientation Narrow decision windows Acceptance of reasonable risks Few decision constituencies	Evolutionary, with long duration	Acknowledgement of multiple constituencies Negotiation about strategic course Risk reduction Coordination with existing resource base
Commitment of Resources	Many stages, with minimal exposure at each stage	Lack of predictable resource needs Lack of control over the environment Social demands for appropriate use of resources Foreign competition Demands for more efficient use	A single stage, with complete commitment out of decision	Need to reduce risk Incentive compensation Turnover in managers Capital budgeting systems Formal planning systems
Control of Resources	Episodic use or rent of required resources	Increased resource specialization Long resource life compared with need Risk of obsolescence Risk inherent in the identified opportunity Inflexibility of permanent commitment to resources	Ownership or employment of required resources	Power, status, and financial rewards Coordination of activity Efficiency measures Inertia and cost of change Industry structures
Management Structure	Flat, with multiple informal networks	Coordination of key noncontrolled resources Challenge to hierarchy Employees' desire for independence	Hierarchy	Need for clearly defined authority and responsibility Organizational culture Reward systems Management theory

Education to take you places

Source: *Harvard Business Review*. An exhibit from "The Heart of Entrepreneurship," by Howard H. Stevenson and David E. Gumpert, March/April 1985, 89.

Balancing the Focus: Entrepreneurial versus Managerial

- **The Entrepreneur's Point of View**
  - Where is the opportunity?
  - How do I capitalize on it?
  - What resources do I need?
  - How do I gain control over them?
  - What structure is best?

- **The Administrative Point of View**
  - What resources do I control?
  - What structure determines our organization's relationship to its market?
  - How can I minimize the impact of others on my ability to perform?
  - What opportunity is appropriate?

Understanding the Growth Stage

- Key Factors During the Growth Stage
  - Control
    - Does the control system imply trust?
    - Does the resource allocation system imply trust?
    - Is it easier to ask permission than to ask forgiveness?
  - Responsibility
    - Creating a sense of responsibility that establishes flexibility, innovation, and a supportive environment.
  - Tolerance of failure
    - Moral failure
    - Personal failure
    - Uncontrollable failure
  - Change

Understanding the Growth Stage

- Successful growth-oriented firms have exhibited consistent themes:
  - The entrepreneur is able to envision and anticipate the firm as a larger entity.
  - The team needed for tomorrow is hired and developed today.
  - The original core vision of the firm is constantly and zealously reinforced.
  - New “big-company” processes are introduced gradually as supplements to, rather than replacements for, existing approaches.
  - Hierarchy is minimized.
  - Employees hold a financial stake in the firm.

Handling Environmental Changes and Trends

- Internal Constraints on Managing Growth
  - Lack of growth capital
  - Limited spans of control
  - Loss of entrepreneurial vitality
- Key Steps in Managing Growth and Change:
  - Creating a growth task force
  - Planning for growth with strategies
  - Maintaining a growth culture
  - Developing an outside board of advisors

Building an Entrepreneurial Company in the Twenty-First Century

- Building Dynamic Capabilities:
  - *Internally*—through the utilization of the creativity and knowledge from employees
  - *Externally*—through the search for external competencies to complement the firm's existing capabilities
- What Entrepreneurs Do:
  - Perceive a unique opportunity
  - Pursue the opportunity
  - Believe that success of the venture is possible

Future Goals

Perceived Capability	Change	Status Quo
Possible	Entrepreneur	Satisfied manager
Blocked	Frustrated manager	Classic bureaucrat

The Managerial versus the Entrepreneurial Mind-Set

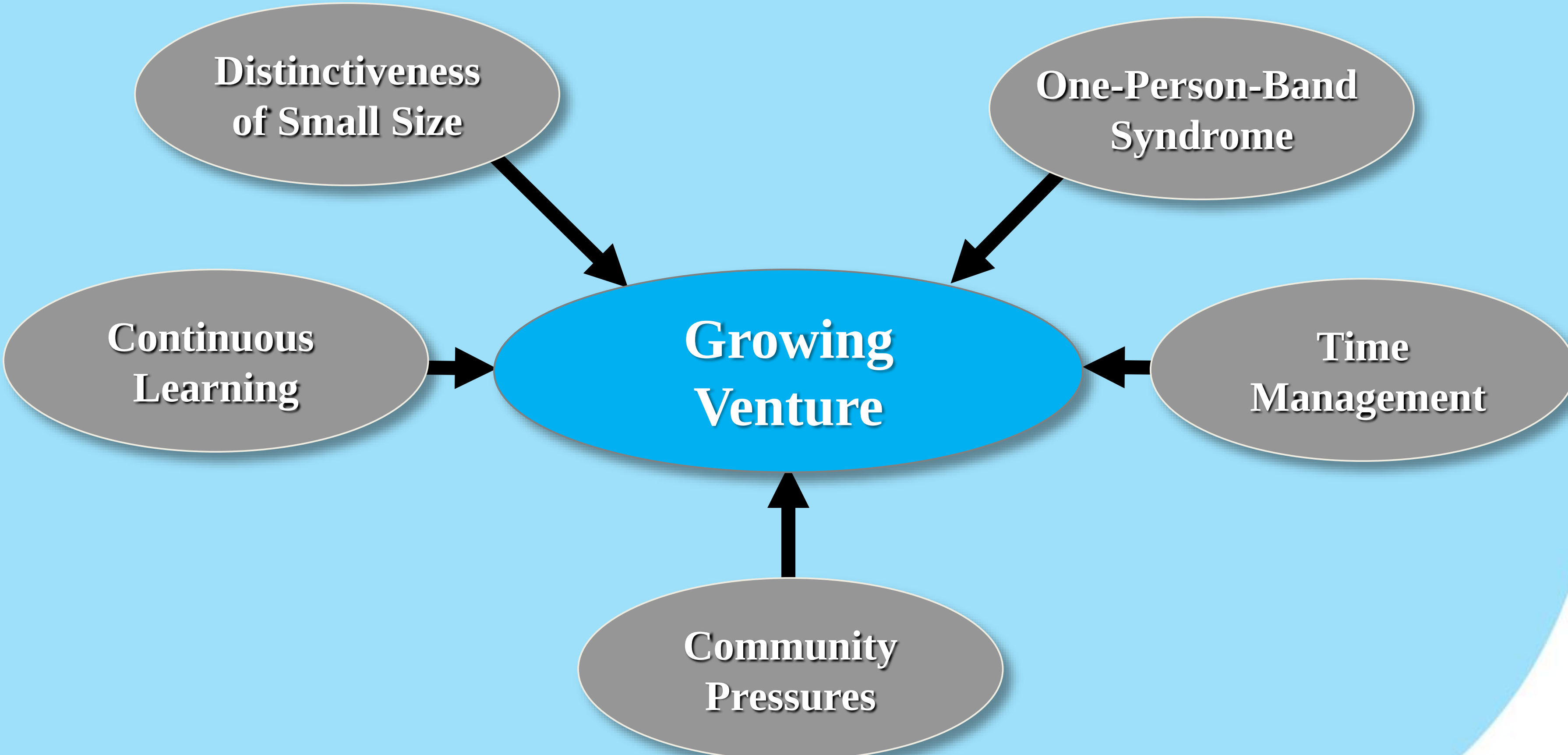
	Managerial Mind-Set	Entrepreneurial Mind-Set
Decision-making assumptions	The past is the best predictor of the future. Most business decisions can be quantified.	A new idea or an insight from a unique experience is likely to provide the best estimate of emerging trends.
Values	The best decisions are those based on quantitative analyses. Rigorous analyses are highly valued for making critical decisions.	New insights and real-world experiences are more highly valued than results based on historical data.
Beliefs	Law of large numbers: Chaos and uncertainty can be resolved by systematically analyzing the right data.	Law of small numbers: A single incident or several isolated incidents quickly become pivotal for making decisions regarding future trends.
Approach to problems	Problems represent an unfortunate turn of events that threaten financial projections. Problems must be resolved with substantiated analyses.	Problems represent an opportunity to detect emerging changes and possibly new business opportunities.

Source: Mike Wright, Robert E. Hoskisson, and Lowell W. Busenitz, "Firm Rebirth: Buyouts as Facilitators of Strategic Growth and Entrepreneurship," *Academy of Management Executive* 15, no.1(2001): 114.

Key Elements for an Entrepreneurial Firm

- An Entrepreneurial Firm
  - Increases opportunity for its employees, initiates change, and instills a desire to be innovative.
- How to remain adaptive and innovative:
  - Share the entrepreneur's vision
  - Increase the perception of opportunity
  - Institutionalize change as the venture's goal
  - Instill the desire to be innovative:
    - A reward system
    - An environment that allows for failure
    - Flexible operations
    - The development of venture teams

Unique Managerial Concerns of Growing Ventures



Critical Steps in Effective Time Management

Assessment → **Prioritization** → **Creation of procedures** → **Delegation**

Assessment

Analyzing daily activities and ranking them in order of importance

Prioritization

Dividing and categorizing activities based on the manager's ability to devote the necessary time to the task

Creation of procedures

Handling repetitive daily activities is made easier if instructions are provided

Delegation

Creating procedures for various tasks allows for others to carry out those tasks

Achieving Entrepreneurial Leadership in the New Millennium

- Entrepreneurial Leadership
  - Arises when an entrepreneur attempts to manage the fast-paced, growth oriented company.
- Components of Entrepreneurial Leadership
  - Determining the firm's purpose or vision.
  - Exploiting and maintaining the core competencies.
  - Developing human capital.
  - Sustaining an effective organizational culture.
  - Emphasizing ethical practices.
  - Establishing balanced organizational controls.

Strategic Leaders

- ✓ synergistic combination of managerial and visionary leadership
- ✓ emphasis on ethical behavior and value-based decisions
- ✓ oversee operating (day-to-day) and strategic (long-term) responsibilities
- ✓ formulate and implement strategies for immediate impact and preservation of long-term goals to enhance organizational survival, growth, and long-term viability
- ✓ have strong, positive expectations of the performance they expect from their superiors, peers, subordinates, and themselves
- ✓ use strategic controls and financial controls, with emphasis on strategic controls
- ✓ use, and interchange, tacit and explicit knowledge on individual and organizational levels
- ✓ use linear and nonlinear thinking patterns
- ✓ believe in strategic choice, that is, their choices make a difference in their organizations and environment

Source: W. Glenn Rowe, "Creating Wealth in Organizations: The Role of Strategic Leadership," *Academy of Management Executive* 15, no. 1 (2001): 82.

Strategic, Visionary, and Managerial Leadership (cont'd)

Visionary Leaders	Managerial Leaders
✓ are proactive, shape ideas, change the way people think about what is desirable, possible, and necessary	✓ are reactive; adopt passive attitudes toward goals; goals arise out of necessities, not desires and dreams; goals based on past
✓ work to develop choices, fresh approaches to long standing problems; work from high-risk positions	✓ view work as an enabling process involving some combination of ideas and people interacting to establish strategies
✓ are concerned with ideas; relate to people in intuitive and empathetic ways	✓ relate to people according to their roles in the decision-making process
✓ feel separate from their environment; work in, but do not belong to, organizations; sense of who they are does not depend on work	✓ see themselves as conservators and regulators of existing order; sense of who they are depends on their role in organization
✓ influence attitudes and opinions of others within the organization	✓ influence actions and decisions of those with whom they work
✓ concerned with insuring future of organization, especially through development and management of people	✓ involved in situations and contexts characteristic of day-to-day activities
✓ more embedded in complexity, ambiguity, and information overload; engage in multifunctional, integrative tasks	✓ concerned with, and more comfortable in, functional areas of responsibilities
✓ know less than their functional area experts	✓ expert in their functional area
✓ more likely to make decisions based on values	✓ less likely to make value-based decisions
✓ more willing to invest in innovation, human capital, and creating and maintaining an effective culture to ensure long-term viability	✓ engage in, and support, short-term, least-cost behavior to enhance financial performance figures
✓ focus on tacit knowledge and develop strategies as communal forms of tacit knowledge that promote enactment of a vision	✓ focus on managing the exchange and combination of explicit knowledge and ensuring compliance to standard operating procedures
✓ utilize nonlinear thinking	✓ utilize linear thinking
✓ believe in strategic choice, that is, their choices make a difference in their organizations and environment	✓ believe in determinism, that is, the choices they make are determined by their internal and external environments

Source: W. Glenn Rowe, "Creating Wealth in Organizations: The Role of Strategic Leadership," *Academy of Management Executive* 15, no. 1 (2001): 82.

The International Environment: Global Opportunities

- Global Entrepreneurs
  - Rely on global networks for resources, design, and distribution.
  - Are adept at recognizing opportunities that require agility, certainty, and ingenuity with a global perspective.
  - Must be global thinkers in order to design and adopt strategies for different countries.

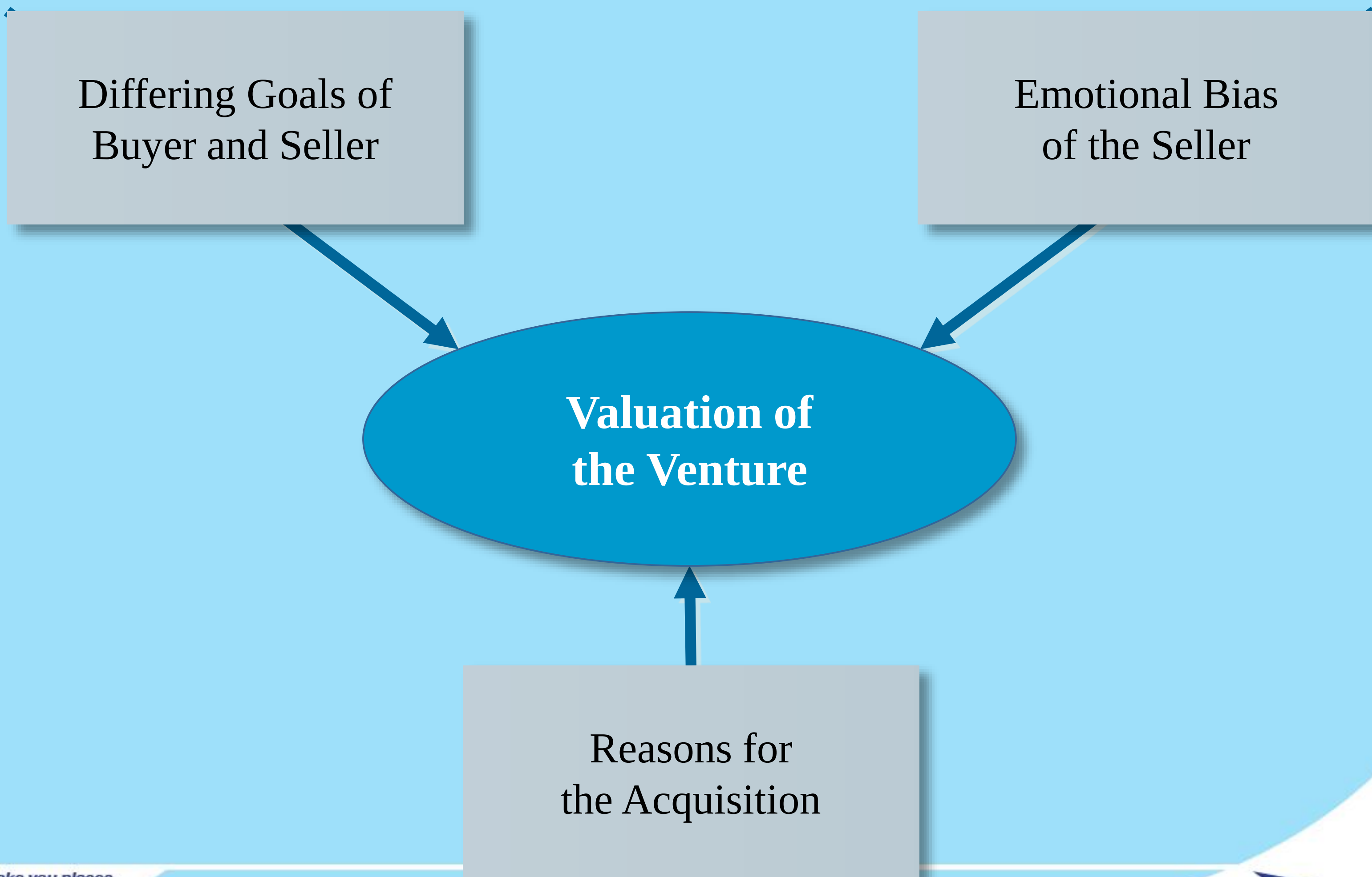
Growth Strategies for Entrepreneurial Ventures

Valuation of Entrepreneurial Ventures

The Importance of Business Valuation

- Business valuation is essential when:
  - Buying or selling a business, division, or major asset
  - Establishing an employee stock option plan (ESOP) or profit-sharing plan for employees
  - Raising growth capital through stock warrants or convertible loans
  - Determining inheritance tax liability (potential estate tax liability)
  - Giving a gift of stock to family members
  - Structuring a buy/sell agreement with stockholders
  - Attempting to buy out a partner
  - Going public with the firm or privately placing the stock

Underlying issues when acquiring a venture



Reasons for an Acquisition

- Developing more growth-phase products by acquiring a firm that has developed new products in the acquirer’s industry
- Increasing the number of customers by acquiring a firm whose current customers will broaden substantially the acquirer’s customer base
- Increasing market share by acquiring a firm in the acquirer’s industry
- Improving or changing distribution channels by acquiring a firm with recognized superiority in the acquirer’s current distribution channel

Reasons for an Acquisition (cont'd)

- Expanding by product line by acquiring a firm whose products complement and complete the acquirer's product line
- Developing or improving customer service operations by acquiring a firm with an established service operation, as well as a customer service network that includes the acquirer's products
- Reducing operating leverage and increasing absorption of fixed costs by acquiring a firm that has a lower degree of operating leverage and can absorb the acquirer's fixed costs

Reasons for an Acquisition (cont'd)

- Using idle or excess plant capacity by acquiring a firm that can operate in the acquirer's current plant facilities
- Integrating vertically, either backward or forward, by acquiring a firm that is a supplier or distributor
- Reducing inventory levels by acquiring a firm that is a customer (not an end user) and adjusting the acquirer's inventory levels to match the acquired firm's orders
- Reducing indirect operating costs by acquiring a firm that will allow elimination of duplicate operating costs (for example, warehousing and distribution)
- Reducing fixed costs by acquiring a firm that will permit elimination of duplicate fixed costs

Evaluation of an Acquisition

- A firm’s potential to pay for itself during a reasonable period of time
- The difficulties that the new owners will face during the transition period
- The amount of security or risk involved in the transaction; changes in interest rates
- The effect on the firm’s value if a turnaround is required
- The number of potential buyers
- Current managers’ intentions to remain with the firm
- The taxes associated with the purchase or sale of the enterprise

Considering a Firm's Operations and Potential

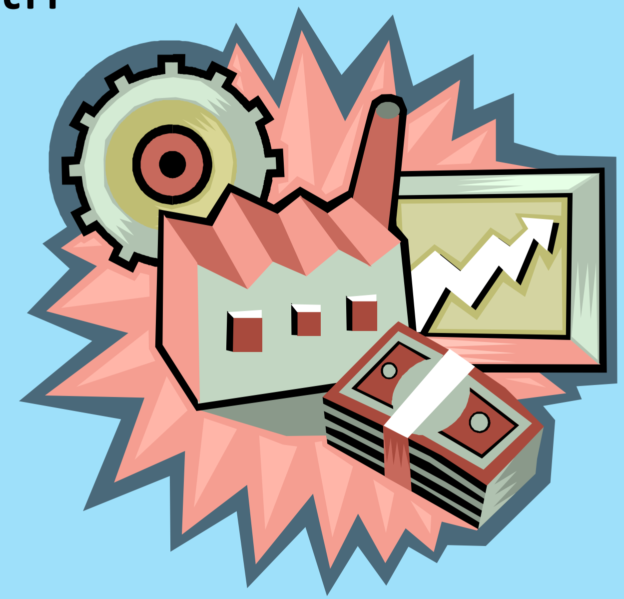
- An Objective Evaluation of:
  - Potential of the firm to pay for itself during a reasonable period of time
  - Difficulties likely to occur during the transition period
  - Security or risk of the transaction; interest rate changes
  - Effect on the firm's value if a turnaround is required
  - Number of potential buyers
  - Current managers' intentions to remain with the firm
  - Taxes associated with the purchase or sale of an enterprise

Due Diligence Questions

- Why is this business being sold?
- What is the physical condition of the business?
- How many key personnel will remain?
- What is the degree of competition?
- What are the conditions of the lease?
- Do any liens against the business exist?
- Will the owner sign a covenant not to compete?
- Are any special licenses required?
- What are the future trends of the business?
- How much capital is needed to buy?

Analyzing the Business

- Many closely held ventures have the following shortcomings:
  - Lack of management depth
  - Undercapitalization
  - Insufficient controls
  - Divergent goals



Establishing a Firm's Value

- Valuation Methods
  - Adjusted Tangible Book Value
    - Computing a firm's net worth as the difference between total assets and total liabilities; adjusting the value of assets to reflect their true economic worth such as balance sheet and income statement adjustments that include:
      - bad debt reserves
      - low-interest, long-term debt securities
      - investments in affiliates
      - loans and advances to officers, employees, or other companies

Establishing a Firm's Value (cont'd)

- Valuation Methods (cont'd)
  - Price/Earnings Ratio (Multiple of Earnings) Method
    - Useful in valuing publicly held corporations.
    - Valuation is determined by dividing the market price of the common stock by the earnings per share.
    - Major drawbacks:
      - The stock of a private company is not publicly traded.
      - The stated net income of a private company may not truly reflect its actual earning power.
      - The sale of a large controlling block of stock of closely held business can command a premium.
      - It is very difficult to find a truly comparable publicly held company, even in the same industry.

Establishing a Firm’s Value

- Valuation Methods (cont’d)
  - Discounted Earnings Method
    - The firm’s discounted cash flows are dollars earned in the future (based on projections) that worth less than dollars earned today (due to the loss of purchasing power).
    - “Timing” of projected income or cash flows is a critical factor.
  - The process of discounting cash flows:
    - Expected cash flow is estimated.
    - An appropriate discount rate is determined.
    - A reasonable life expectancy of the firm is determined.
    - The firm’s value is determined by discounting the estimated cash flow by the appropriate discount rate over the expected life of the business.

Additional Factors in the Valuation Process

- Additional factors that may influence the final valuation of the venture:
  - Avoiding start-up costs
    - Buyers are willing to pay more than the evaluated price for an existing firm to avoid start-up costs.
  - Accuracy of projections
    - The sales and earnings of a venture are always projected on the basis of historical financial and economic data.
  - Control factor
    - The degree of control an owner legally has over the firm can affect its valuation; more control, more value.

Growth Strategies for Entrepreneurial Ventures

Harvesting the Entrepreneurial Venture

Harvesting the Venture: A Focus on the Future

- Harvest Plan
  – Defines how and when the owners and investors will realize an actual cash return on their investment.
- Reasons for Harvesting
  – To maintain managerial control and succession for successful continued operations.
  – To initiate a “liquidity event” that will generate a significant amount of cash for the investors.
  – An IPO (initial public offering) has become a reality.
  – Most realistic opportunity is a sale of the business.

Advantages and Disadvantages of Family Controlled Firms

- Advantages
  - Long-term orientation
  - Greater independence of action
  - Family culture as a source of pride
  - Greater resilience in hard times
  - Less bureaucratic and impersonal
  - Financial benefits
  - Knowing the business
- Disadvantages
  - Less access to capital markets may curtail growth
  - Confusing organization
  - Nepotism
  - Spoiled-kid syndrome – owner is boss
  - Paternalistic/autocratic rule
  - Financial strain
  - Succession dramas

The Management Succession Strategy

- Management Succession
  - Is the transition of managerial decision making
  - Is one of the greatest challenges confronting owners and entrepreneurs in privately held businesses.
- Research on private firms shows:
  - Many go out of existence after 10 years; only 3 out of 10 survive into a second generation.
  - Only 16% make it to a third generation.
  - Their average life expectancy is 24 years, which is also the average tenure for founders of a business.

Barriers to Succession Planning in Privately Held Businesses

Founder/Owner	Family
Death anxiety	Death as taboo
Company as a symbol	• Discussion is a hostile act
• Loss of identity	• Fear of loss/abandonment
• Concern about legacy	Fear of sibling rivalry
Dilemma of choice	Change of spouse’s position
Generational envy	
• Loss of power	

Source: Manfred F. R. Kets de Vries, “The Dynamics of Family-Controlled Firms: The Good News and the Bad News,” *Organizational Dynamics* (winter 1993): 68.

Pressures and Interests in a Family Business

	Inside the Family	Outside the Family
	Family Managers	**Employees**
Inside the Business	Hanging onto or getting hold of company control Selection of family members as managers Continuity of family investment and involvement Building a dynasty Rivalry	Rewards for loyalty Sharing of equity, growth, and success Professionalism Bridging family transitions Stake in the company
	The Relatives	**The Outsiders**
Outside the Business	Income and inheritance Family conflicts and alliances Degree of involvement in the business	Competition Market, product, supply, and technology influence Tax laws Regulatory agencies

Source: Adapted and reprinted by permission of the *Harvard Business Review*. An Exhibit from "Transferring Power in the Family Business," by Louis B. Barnes and Simon A. Hershon (July/August 1976): 106.

Key Factors in Succession

- Forcing Events
  - Happenings that cause the replacement of the owner-manager:
    - Death
    - Illness
    - Mental or psychological breakdown
    - Abrupt departure
    - Legal problems
    - Severe business decline
    - Financial difficulties
- Pressures and Interests Inside the Firm
  - Family members
  - Nonfamily employees
- Pressures and Interests Outside the Firm
  - Family members
  - Nonfamily elements

Sources of Succession

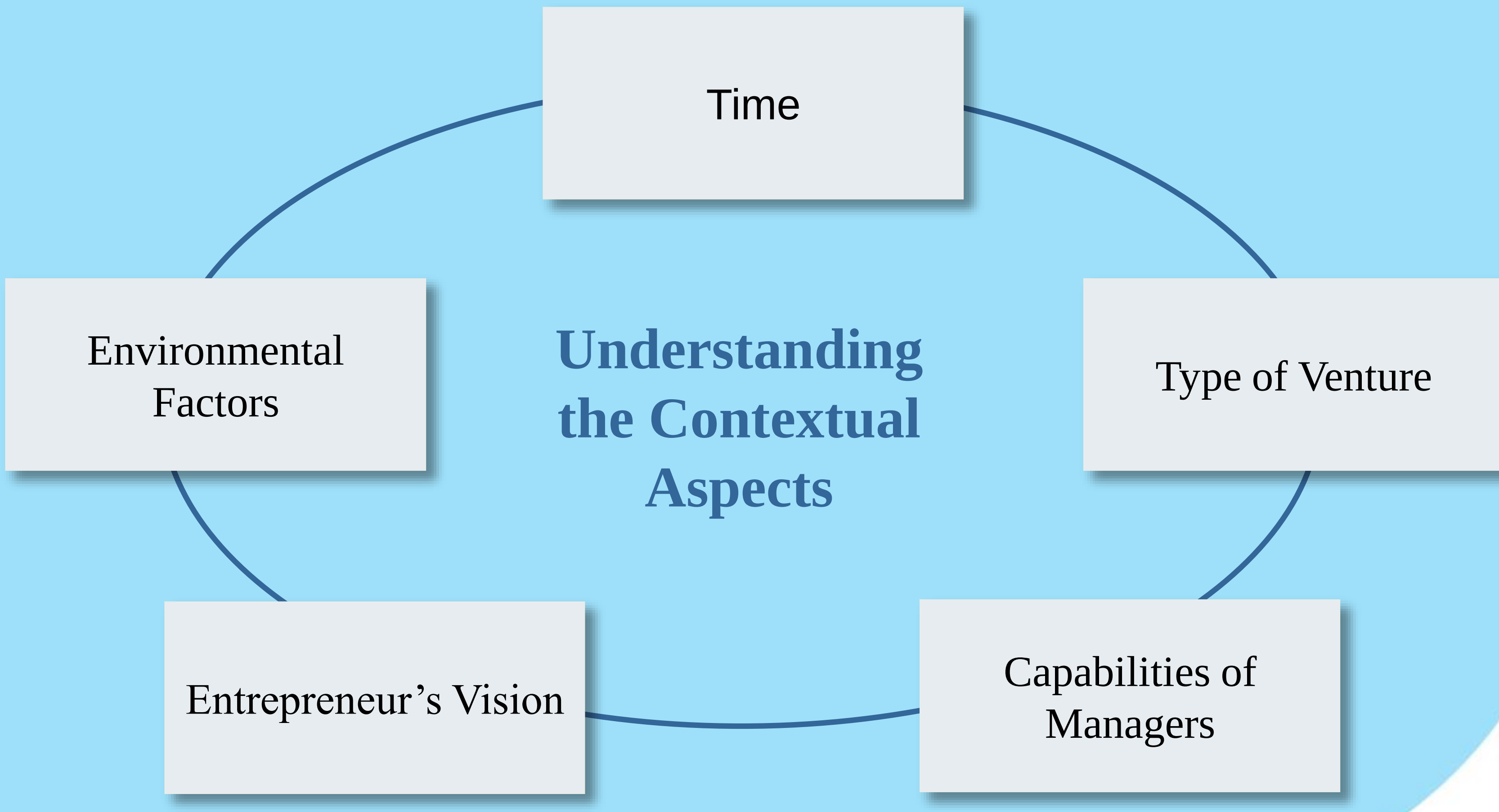
- Major Questions:
  - Inside or outside successor?
  - Which entry strategy will be implemented?
  - How will power be transferred?
  - Can the successor gain credibility with the firm’s employees?
- Types of Successors
  - Entrepreneurial successor
  - Managerial successor
  - Interim specialist

Comparison of Entry Strategies for Succession in Family Business

	Advantages	Disadvantages
Early Entry Strategy	Intimate familiarity with the nature of the business and employees is acquired. Skills specifically required by the business are developed. Exposure to others in the business facilitates acceptance and the achievement of credibility. Strong relationships with constituents are readily established.	Conflict results when the owner has difficulty with teaching or relinquishing control to the successor. Normal mistakes tend to be viewed as incompetence in the successor. Knowledge of the environment is limited, and risks of inbreeding are incurred.
Delayed Entry Strategy	The successor's skills are judged with greater objectivity. The development of self-confidence and growth independent of familial influence are achieved. Outside success establishes credibility and serves as a basis for accepting the successor as a competent executive. Perspective of the business environment is broadened.	Specific expertise and understanding of the organization's key success factors and culture may be lacking. Set patterns of outside activity may conflict with those prevailing in the family firm. Resentment may result when successors are advanced ahead of long-term employees.

Source: Jeffrey A. Barach, Joseph Ganitsky, James A. Carson, and Benjamin A. Doochin, "Entry of the Next Generation: Strategic Challenge for Family Firms," *Journal of Small Business Management* (April 1988): 53.

Developing a Succession Strategy



Developing a Succession Strategy (cont'd)

- Carrying Out the Succession Plan
  - Identify a successor
  - Groom an heir
  - Agree on a plan
  - Consider outside help

Identifying Successor Qualities

- Sufficient knowledge of the business
- Fundamental honesty and capability
- Good health; energy, alertness, and perception
- Enthusiasm about the enterprise
- Personality compatible with the business
- High degree of perseverance
- Stability and maturity
- Reasonable amount of aggressiveness
- Thoroughness and a proper respect for detail
- Problem-solving ability
- Resourcefulness
- Ability to plan and organize
- Talent to develop people
- Personality of a starter and a finisher; and appropriate agreement with the owner's philosophy about the business.

Creating a Written Succession Strategy

- Types of Succession Strategies
  1. The owner controls the management continuity strategy entirely.
  2. The owner consults with selected family members.
  3. The owner works with professional advisors.
  4. The owner works with family involvement.
  5. The owner formulates buy/sell agreements at the outset of the firm, or soon thereafter, and whenever a major change occurs.
  6. The owner considers employee stock ownership plans (ESOPs).
  7. The owner sells or liquidates the business when losing enthusiasm for it but is still physically able to go on.
  8. The owner sells or liquidates after discovering a terminal illness but still has time for the orderly transfer of management or ownership.

The Exit Strategy: Liquidity Events

- Entrepreneurs consider selling their venture for numerous reasons:
  - Boredom and burnout
  - Lack of operating and growth capital
  - No heirs to leave the business to
  - Desire for liquidity
  - Aging and health problems
  - Desire to pursue other interests

Complete Sale of the Venture

- Steps for Selling a Business
  - Step 1: Prepare a financial analysis
  - Step 2: Segregate assets
  - Step 3: Value the business
  - Step 4: Identify the appropriate timing
  - Step 5: Publicize the offer to sell
  - Step 6: Finalize the prospective buyers
  - Step 7: Remain involved through the closing
  - Step 8: Communicate after the sale