

BUS108

W4

Chapter 5

Managing Enterprenially



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Learning Outcomes:

1. Embrace the capacity of entrepreneurial *thinking* and *practices* to *add value* in both new and existing organizations.
2. Identify *opportunities* and build the business case for launching an entrepreneurial/intrapreneurial venture.
3. Choose *appropriate organizational structures* to support an entrepreneurial culture.
4. Make *appropriate choices* in leading an entrepreneurial venture.
5. Deploy *appropriate control structures* to respond to the *unique challenges* faced by entrepreneurial ventures.



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The Context of Entrepreneurship (1 of 15)

Entrepreneurship

The process of starting new organizations, generally in response to *opportunities*.

Social Enterprises/Ventures

Organizations that are started in response to *needs* within the community.



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The Context of Entrepreneurship (2 of 15)

Entrepreneurial Ventures Add Value

Creative Destruction (Joseph Schumpeter)

The entrepreneur creates an opportunity through innovation and then takes advantage of it. In the process of transformation that accompanies a radical innovation, the way things were done before is "destroyed."

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The Context of Entrepreneurship (3 of 15)

Entrepreneurially Alert (Israel Kirzner)

Entrepreneurs are able to perceive the opportunities for entrepreneurial profits by being sensitive to signals in the marketplace.

- Role is to constantly look for imbalances in what people need and what is available (opportunities) and then take advantage of them.

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The Context of Entrepreneurship (4 of 15)

- Opportunities can be **recognized, discovered, or enacted**.
- A **recognition strategy** works best when both supply and demand are known
- Entrepreneur relies on his or her experience and actively employs sophisticated search techniques to **discover** the opportunity
- When neither supply nor demand is known and the entrepreneur creates something new, or **enacts** an opportunity.

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The Context of Entrepreneurship (5 of 15)

Entrepreneurial Ventures

Organizations that are pursuing opportunities, are characterized by innovative practices, and have growth and financial viability as their main goals.

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The Context of Entrepreneurship (6 of 15)

Small Business

An organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices; and has relatively little impact on its industry.

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The Context of Entrepreneurship (7 of 15)

Why Is Entrepreneurship Important?

- Innovation
- Number of new start-ups
- Job Creation
- Global Entrepreneurship

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The Context of Entrepreneurship (8 of 15)

Innovation

A process of changing, experimenting, transforming, and revolutionizing, and it's a key aspect of entrepreneurial activity.

- New small organizations generate 24 times more innovations per research and development dollar spent than do *Fortune* 500 organizations.
- They account for more than 95 percent of new and "radical" product developments.



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The Context of Entrepreneurship (9 of 15)

Number of New Start-Ups

All businesses—whether they fit the definition of entrepreneurial ventures or not—were new start-ups at one point in time, the most suitable measure we have of the important role of entrepreneurship is to look at the number of new firms over a period of time.

- As of December 2012 there were almost 1.2 million small businesses in Canada and between 2002 and 2007 an average of 104 000 new small businesses were created annually in Canada.



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The Context of Entrepreneurship (10 of 15)

Job Creation

Job creation is important to the overall long-term economic health of communities, regions, and nations.

- Businesses with fewer than 100 employees represent 98.2 percent of the total business establishments in Canada.
- Small businesses employ 7.7 million employees, or Sixty-nine percent of the Canadian private workforce and were responsible for creating 77.7 percent of all private jobs from 2002 to 2012.



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The Context of Entrepreneurship (11 of 15)

Global Entrepreneurship

Global Entrepreneurship Monitor (GEM) - studies the impact of entrepreneurial activity on economic growth in various countries.

- The 2013 GEM report covered 70 economies and surveyed 197 000 adults and estimated that "nearly half the world's entrepreneurs are between the ages of 25 and 45 while in all geographic regions 25–34 year olds showed the highest rates of entrepreneurial activity.

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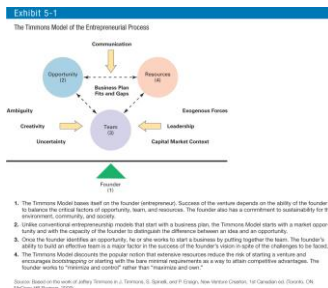
The Context of Entrepreneurship (12 of 15)

What Do Entrepreneurs Do?

- Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture and then dealing with start-up issues. Then the entrepreneur:
- researches the venture's feasibility
- proceeds to plan the venture
- organizing the venture
- launches the venture
- Switches into more of a managerial role

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Exhibit 5-1 The Timmons Model of the Entrepreneurial Process



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The Context of Entrepreneurship (13 of 15)

Social Responsibility Facing Entrepreneurs

- The International Standards Organization has developed standards for sustainability and for social responsibility.
- There are some entrepreneurs who take their social responsibilities seriously.
- Entrepreneurs have pursued opportunities with products and services that protect the global environment.



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The Context of Entrepreneurship (14 of 15)

Ethical Issues Facing Entrepreneurs

- Entrepreneurs need to be aware of the ethical consequences of what they do.
- In a survey of employees from different sizes of businesses who were asked whether they thought their organization was highly ethical, 20 percent of employees at companies with 99 or fewer employees disagreed.



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The Context of Entrepreneurship (15 of 15)

The Entrepreneurial Process

- Entrepreneurs must address four key steps as they start and manage their entrepreneurial ventures:
 - *exploring the entrepreneurial context*
 - *identifying opportunities and possible competitive advantages*
 - *starting the venture*
 - *managing the venture*



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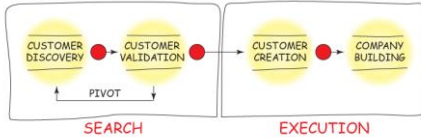
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Exhibit 5-2: A Model for Company Building

Exhibit 5-2

A Model for Company Building



Source: Steven Blank & Jerry Engel, "The Lean LaunchPad Educators Teaching Handbook," July 2012.

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Start-Up and Planning Issues for an Entrepreneurial Venture (1 of 7)

A Model for Company Building

The Steps:

1. Customer discovery
2. Customer validation
3. Customer creation
4. Company-building

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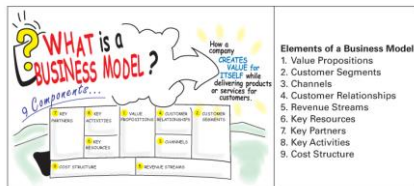
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Exhibit 5-3: The Elements of a Business Model

Exhibit 5-3

The Elements of a Business Model



Source: Steven Blank & Jerry Engel, "The Lean LaunchPad Educators Teaching Handbook," July 2012.

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Start-Up and Planning Issues for an Entrepreneurial Venture (2 of 7)

Embracing Failure as Learning

- A natural part of the start-up process in the search to establish a business model
- Once a business model (it knows its market, customers, product/service, channel, pricing, etc.) is found, the organization moves from search to execution.

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Start-Up and Planning Issues for an Entrepreneurial Venture (3 of 7)

Researching a Venture's Feasibility

• Generating Ideas – Where do ideas come from?

- Working in the industry
- personal interests or hobbies
- familiar and unfamiliar products and services
- opportunities in external environmental sectors

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Start-Up and Planning Issues for an Entrepreneurial Venture (4 of 7)

Evaluating Ideas

Feasibility Study:

An analysis of the various aspects of a proposed entrepreneurial venture that is designed to determine the feasibility of the venture.

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Exhibit 5-4 Evaluating Potential Ideas

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

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Start-Up and Planning Issues for an Entrepreneurial Venture (5 of 7)

Researching a Venture's Feasibility: Researching Competitors

Value Proposition:

An analysis of the benefits, costs, and value that an organization can deliver to customers and other groups within and outside of the organization.

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Exhibit 5-5 Evaluating Potential Competitors

What types of products or services are competitors offering?
What are the major characteristics of these products or services?
What are the strengths and weaknesses of competitors' products?
How do competitors handle marketing, pricing, and distributing?
What do competitors attempt to do differently from other companies?
Do they appear to be successful at it? Why or why not?
What are they good at?
What competitive advantage(s) do they appear to have?
What are they not so good at?
What competitive disadvantage(s) do they appear to have?
How large and profitable are these competitors?

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Start-Up and Planning Issues for an Entrepreneurial Venture (6 of 7)

Researching Financing

- Getting financing isn't always easy
 - Early in a venture,
 - peers "friends, fools, and family."
 - Maturity
 - Angel investors
 - professional venture capital firms.
 - accelerator programs

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Start-Up and Planning Issues for an Entrepreneurial Venture (7 of 7)

Planning a Venture: Developing a Business Plan

Business Plan:

Written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited.

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Issues in Organizing an Entrepreneurial Venture (1 of 14)

There are four organizing issues an entrepreneur must address:

- Organizational design and structure
- Human resource management
- How to stimulate and make changes
- The continuing importance of innovation

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Issues in Organizing an Entrepreneurial Venture (2 of 14)

Organizational Design and Structure

- Organizational structure tends to evolve with intentional planning by the entrepreneur.
- The structure may be very simple—one person does whatever is needed.
- As the entrepreneurial venture grows, new functional areas need people.

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Issues in Organizing an Entrepreneurial Venture (3 of 14)

Organizational Design and Structure

- Entrepreneur must share decision making and operating responsibilities.
- The structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently.

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Issues in Organizing an Entrepreneurial Venture (4 of 14)

Human Resource Management

- **Employee Recruitment** - entrepreneurs seek high potential people who can perform multiple roles.
- **Employee Retention** - An entrepreneur wants to keep the people he or she has hired and trained.

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Issues in Organizing an Entrepreneurial Venture (5 of 14)

How to Stimulate and Make Changes

Entrepreneurs face dynamic change:

Entrepreneurs need to be alert to problems and opportunities that may create the need for change. In fact, of the many hats an entrepreneur wears, that of change agent may be one of the most important.

Issues in Organizing an Entrepreneurial Venture (6 of 14)

The Continuing Importance of Innovation

Curiosity-Driven Research:

Research directed toward acquiring new knowledge rather than toward some more practical objective (also referred to as basic research).

Issues in Organizing an Entrepreneurial Venture (7 of 14)

The Continuing Importance of Innovation

Applied Research

Research that accesses, rather than generates, new knowledge and applies it to a practical or commercial purpose.

Research and Development (R&D)

Investigative activities that an organization conducts to lead to discoveries that will help develop new products or procedures.

Exhibit 5-6 Global Innovation 1000 Study: The 10 Most Innovative Firms

Exhibit 5-6 Global Innovation 1000 Study: The 10 Most Innovative Firms

2016	2015	Company	Industry	R&D Spend*
1	1	Apple	Computing & electronics	8.1
2	2	Alphabet (Google)	Software & Internet	12.3
3	6	3M	Industrials	1.8
4	3	Tesla Motors	Automotive	.7
5	5	Amazon	Software & Internet	12.5
6	4	Samsung	Computing & electronics	12.7
7	NA	Facebook	Software & Internet	4.8
8	8	Microsoft	Software & Internet	12
9	7	General Electric	Industrials	4.2
10	9	IBM	Computing & electronics	5.2

*R&D Spend data is based on the most recent full-year figures reported prior to July 1.

Source: Based on 2016 Global Innovation 1000 Study (<http://www.strategyand.pwc.com/innovation1000>).



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Issues in Organizing an Entrepreneurial Venture (8 of 14)

Finding Opportunity with Creativity

Basadur's Applied Creativity - Min Basadur is professor of innovation at McMaster University

- **Basadur's Simplex method** combines three elements—process, skills, and profile—to find innovative solutions to fuzzy situations.
- The process includes eight steps, from formulating the problem through coming up with the solution, and finally implementing the solution.



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Issues in Organizing an Entrepreneurial Venture (9 of 14)

The three skills applied in each of the eight steps of the process ask participants to:

- Use **divergent thinking** and **brainstorming** to come up with as many alternatives as possible.
- **Defer judgment** while brainstorming alternatives to allow the group to build on wild and crazy ideas, as well as the more practical ones.
- Use **convergent and evaluative thinking** to choose the alternative that fits best.



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Issues in Leading an Entrepreneurial Venture (10 of 14)

The Entrepreneur as Leader

Drawing the best out of other individuals, even given the unpredictability of the situation.

The driving force through the early stages of the entrepreneurial venture is often the **visionary leadership** of the entrepreneur

Issues in Leading an Entrepreneurial Venture (11 of 14)

Issues in Controlling an Entrepreneurial Venture

"Speed Kills!"

The same is often true for rapidly growing companies that are unable to manage the **stresses** and **strains** caused by growth, such as the need for cash injections, a growing workforce, and the need to figure out the logistics of invoicing customers and getting paid.

Issues in Controlling an Entrepreneurial Venture (12 of 14)

Managing Growth

- The best growth strategy is a well-planned one.
- Grow strategy should be part of a venture's overall business goals and plan.
- Rapid growth without planning can be disastrous.
- The key challenges for an entrepreneur in organizing for growth include **finding capital, finding people, and strengthening the organizational culture.**

Issues in Controlling an Entrepreneurial Venture (13 of 14)

Managing Downturns

- It's important to have an up-to-date **contingency plan**, or **Plan B**, for dealing with a worst-case situation or crisis.
- An entrepreneur wants to be prepared before an emergency hits.

Issues in Controlling an Entrepreneurial Venture (14 of 14)

Exiting the Venture

Harvesting:

Exiting a venture when an entrepreneur hopes to capitalize financially on the investment in the venture.