Appendix

Managing Entrepreneurial Ventures

The Context of Entrepreneurship

Russell Simmons is an entrepreneur.[1] He cofounded Def Jam Records because the emerging group of New York hip-hop artists needed a record company, and the big record companies refused to take a chance on unknown artists. Def Jam was just one piece of Simmons's corporation, Rush Communications, which also included a management company, a clothing company called Phat Farm, a movie production house, television shows, a magazine, and an advertising agency. In 1999, Simmons sold his stake in Def Jam to Universal Music Group, and in 2004, he sold Phat Farm. Today, Simmons is involved in UniRush, a Cincinnati company that sells a prepaid Visa debit card, and Russell Simmons Argyle Culture, a clothing line aimed at older men. *USA Today* named Simmons one of the top 25 Influential People, while *Inc.* magazine named him one of America's 25 Most Fascinating Entrepreneurs.

In this appendix, we're going to look at the activities that entrepreneurs like Russell Simmons engage in. We'll start by looking at the context of entrepreneurship and then examining entrepreneurship from the perspective of the four managerial functions: planning, organizing, leading, and controlling.

What Is Entrepreneurship?

Entrepreneurship is the process of starting new businesses, generally in response to opportunities. Entrepreneurs are pursuing opportunities by changing, revolutionizing, transforming, or introducing new products or services. For example, Hong Liang Lu of UTStarcom knew that less than 10 percent of the Chinese population was served by a landline phone system and service was very poor.[2] He decided that wireless technology might be the answer. Now, his company's inexpensive cell phone service is a hit in China with more than 66 million subscribers and growing. Looking to continue his success, Lu's company is moving into other markets including Africa, Southeast Asia, India, and Panama.

Many people think that entrepreneurial ventures and small businesses are one and the same, but they're not. Some key differences distinguish the two. Entrepreneurs create **entrepreneurial ventures**—organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals. On the other hand, a **small business** is one 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.[3] A small business isn't necessarily entrepreneurial because it's small. To be entrepreneurial means that the business must be innovative, seeking out new opportunities. Even though entrepreneurial ventures may start small, they pursue growth. Some new small firms may grow, but many remain small businesses, by choice or by default.

entrepreneurship
The process of starting new businesses, generally in response to opportunities

entrepreneurial ventures
Organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals

small business
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

Why Is Entrepreneurship Important?

Entrepreneurship is, and continues to be, important to every industry sector in the United States and in most advanced countries.[4] Its importance in the United States can be shown in three areas: innovation, number of new start-ups, and job creation.

INNOVATION. Innovating is a process of changing, experimenting, transforming, revolutionizing, and a key aspect of entrepreneurial activity. The "creative destruction" process that characterizes innovation leads to technological changes and employment growth. Entrepreneurial firms act as "agents of change" by providing an essential source of new and unique ideas that may otherwise go untapped.[5] Statistics back this up. New small organizations generate 24 times more innovations per research and development dollar spent than do *Fortune* 500 organizations, and they account for more than 95 percent of new and "radical" product developments.[6] In addition, the U.S. Small Business Administration's Office of Advocacy reports that small entrepreneurial firms produce 13 to 14 times more patents per employee than large patenting firms.[7] These statistics are further proof of how important small business is to innovation in America.

NUMBER OF NEW START-UPS. Because 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. Data collected by the U.S. Small Business Administration shows that the number of new start-ups has increased every year since 2002. Estimates for 2008, the latest available data, showed that some 627,200 new businesses were created.[8]

JOB CREATION. We know that job creation is important to the overall long-term economic health of communities, regions, and nations. The latest figures show that small businesses accounted for most of the net new jobs. In fact, over the last 15 years, small businesses have created some 65 percent of the net new jobs.[9] Small organizations have been creating jobs at a fast pace even as many of the world's largest and well-known global corporations continued to downsize. These numbers reflect the importance of entrepreneurial firms as job creators.

GLOBAL ENTREPRENEURSHIP. What about entrepreneurial activity outside the United States? What kind of impact has it had? An annual assessment of global entrepreneurship called the Global Entrepreneurship Monitor (GEM) studies the impact of entrepreneurial activity on economic growth in various countries. The GEM 2009 report covered 54 countries that were divided into three clusters identified by phase of economic development: Factor-Driven economies, Efficiency-Driven economies, and Innovation-Driven economies. What did the researchers find? One of the principal aspects that GEM examines is "total early-stage entrepreneurial activity (TEA)," or the proportion of people who are involved in setting up a business. Generally, as economic development increases, the overall levels of TEA declines. With large variations found in the three different categories, however, it's obvious that countries have "unique sets of economic and social conditions that affect entrepreneurial activity." The GEM report concludes, "There is wide agreement on the importance of entrepreneurship for economic development."[10]

The Entrepreneurial Process

Entrepreneurs must address four key steps as they start and manage their entrepreneurial ventures.

The first is *exploring the entrepreneurial context.* The context includes the realities of today's economic, political/legal, social, and work environment. It's important to look at each of these aspects of the entrepreneurial context because they determine the "rules" of the game and which decisions and actions are likely to meet with success. Also, it's through exploring the context that entrepreneurs confront the next critically important step in the entrepreneurial process—*identifying opportunities and possible competitive advantages.* We know from our definition of entrepreneurship that the pursuit of opportunities is an important aspect.

Once entrepreneurs have explored the entrepreneurial context and identified opportunities and possible competitive advantages, they must look at the issues involved with actually bringing their entrepreneurial venture to life. Therefore, the next step in the entrepreneurial process is *starting the venture.* Included in this phase are researching the feasibility of the venture, planning the venture, organizing the venture, and launching the venture.

Finally, once the entrepreneurial venture is up and running, the last step in the entrepreneurial process is *managing the venture*, which an entrepreneur does by managing processes, managing people, and managing growth. We can explain these important steps in the entrepreneurial process by looking at what it is that entrepreneurs do.

What Do Entrepreneurs Do?

Describing what entrepreneurs do isn't an easy or simple task! No two entrepreneurs' work activities are exactly alike. In a general sense, entrepreneurs create something new, something different. They search for change, respond to it, and exploit it.

Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture and then dealing with start-up issues. In exploring the entrepreneurial context, entrepreneurs gather information, identify potential opportunities, and pinpoint possible competitive advantage(s). Then, armed with this information, the entrepreneur researches the venture's feasibility—uncovering business ideas, looking at competitors, and exploring financing options.

After looking at the potential of the proposed venture and assessing the likelihood of pursuing it successfully, the entrepreneur proceeds to plan the venture. Planning includes such activities as developing a viable organizational mission, exploring organizational culture issues, and creating a well-thought-out business plan. Once these planning issues have been resolved, the entrepreneur must look at organizing the venture, which involves choosing a legal form of business organization, addressing other legal issues such as patent or copyright searches, and coming up with an appropriate organizational design for structuring how work is going to be done.

Only after these start-up activities have been completed is the entrepreneur ready to actually launch the venture. Such a launch involves setting goals and strategies, and establishing the technology-operations methods, marketing plans, information systems, financial-accounting systems, and cash flow management systems.

Once the entrepreneurial venture is up and running, the entrepreneur's attention switches to managing it. What's involved with actually managing the entrepreneurial venture? An important activity is managing the various processes that are part of every business: making decisions, establishing action plans, analyzing external and internal environments, measuring and evaluating performance, and making needed changes. Also, the entrepreneur must perform activities associated with managing people including selecting and hiring, appraising and training, motivating, managing conflict, delegating tasks, and being an effective leader. Finally, the entrepreneur must manage the venture's growth including such activities as developing and designing growth strategies, dealing with crises, exploring various avenues for financing growth, placing a value on the venture, and perhaps even eventually exiting the venture.

Social Responsibility and Ethics Issues Facing Entrepreneurs

As they launch and manage their ventures, entrepreneurs are faced with the often-difficult issues of social responsibility and ethics. Just how important are these issues to entrepreneurs? An overwhelming majority of respondents (95%) in a study of small companies believed that developing a positive reputation and relationship in communities where they do business is important for achieving business goals.[11] However, despite the importance these individuals placed on corporate citizenship, more than half lacked formal programs for connecting with their communities. In fact, some 70 percent of the respondents admitted that they failed to consider community goals in their business plans.

Yet, some entrepreneurs take their social responsibilities seriously. For example, Alicia Polak used to work on Wall Street, helping companies go public. In 2004, she founded the Khayelitsha Cookie Company in Khayelitsha, South Africa, 30 minutes from Cape Town. She now employs 11 women from the impoverished community to bake cookies and brownies that are sold to high-end hotels, restaurants, and coffee houses throughout South Africa. Polak says, "My driving force in this company is that I want them [the hundreds of thousands of people living in poverty in South Africa] out of those shacks. I want to help change their lives using this company as a vehicle."[12]

Other entrepreneurs have pursued opportunities with products and services that protect the global environment. For example, Univenture Inc. of Columbus, Ohio, makes recyclable sleeves and packaging for disc media. Its products are better for the environment as compared with the traditional jewel boxes most compact disks are packaged in. Ross Youngs, founder and president/CEO, says, "Our products won't break. If someone throws it away, it's because they don't want it. Hopefully they will end up in the recycle bin because our products are recyclable."[13]

Ethical considerations also play a role in decisions and actions of entrepreneurs. Entrepreneurs do need to be aware of the ethical consequences of what they do. The example they set—particularly for other employees—can be profoundly significant in influencing behavior.

If ethics are important, how do entrepreneurs stack up? Unfortunately, not well! In a survey of employees from different sizes of businesses who were asked if they thought their organization was highly ethical, 20 percent of employees at companies with 99 or fewer employees disagreed.[14]

Start-Up and Planning Issues

Although pouring a bowl of cereal may seem like a simple task, even the most awake and alert morning person has probably ended up with cereal on the floor. Philippe Meert, a product designer based in Erpe-Mere, Belgium, has come up with a better way. Meert sensed an opportunity to correct the innate design flaw of cereal boxes and developed the Cerealtop, a plastic cover that snaps onto a cereal box and channels the cereal into a bowl.[15]

The first thing that entrepreneurs like Philippe Meert must do is to identify opportunities and possible competitive advantages. Once they've identified the opportunities, they're ready to start the venture by researching its feasibility and then planning for its launch. These start-up and planning issues are what we're going to look at in this section.

Identifying Environmental Opportunities and Competitive Advantage

How important is the ability to identify environmental opportunities? Consider the following: More than 4 million baby boomers turn 50 every year. Almost 8,000 turned 60 each day in starting in 2006. More than 57.5 million baby boomers are projected to be alive in 2030, which would put them between the ages of 66 and 84. J. Raymond Elliott, CEO of Zimmer Holdings, is well aware of that demographic trend. Why? His company, which makes orthopedic products, including reconstructive implants for hips, knees, shoulders, and elbows, sees definite marketing opportunities.[16]

In 1994, when Jeff Bezos first saw that Internet usage was increasing by 2,300 percent a month, he knew that something dramatic was happening. "I hadn't seen growth that fast outside of a Petri dish," he said. Bezos was determined to be a part of it. He quit his successful career as a stock market researcher and hedge fund manager on Wall Street and pursued his vision for online retailing, now the Amazon.com Web site.[17]

What would you have done had you seen that type of number somewhere? Ignored it? Written it off as a fluke? The skyrocketing Internet usage that Bezos observed and the recognition of the baby boomer demographic by Elliott's Zimmer Holdings are prime examples of identifying environmental opportunities. Remember the discussion in Chapter 9 that opportunities are positive trends in external environmental factors. These trends provide unique and distinct possibilities for innovating and creating value. Entrepreneurs need to be able to pinpoint these pockets of opportunities that a changing context provides. After all, "organizations do not see opportunities, individuals do."[18] And they need to do so quickly, especially in dynamic environments, before those opportunities disappear or are exploited by others.[19]

The late Peter Drucker, a well-known management author, identified seven potential sources of opportunity that entrepreneurs might look for in the external context.[20] These include the unexpected, the incongruous, the process need, industry and market structures, demographics, changes in perception, and new knowledge.

1. *The unexpected.* When situations and events are unanticipated, opportunities can be found. The event may be an unexpected success (positive news) or an unexpected failure (bad news). Either way, it may present opportunities for entrepreneurs to pursue. For instance, the dramatic increase in fuel prices has proved to be a bonanza for companies that offer solutions. For instance, Jeff Pink, CEO of EV Rental Cars, uses only hybrid vehicles. The company's utilization rate—the percentage of days a vehicle is out generating revenue—is about 90 percent.[21] The unexpected increase in fuel prices proved to be an opportunity for this entrepreneur. And for RSA Security, the unexpected opportunity came in the form of identity theft. Art Coviello's company develops software that helps make online transactions more secure. He stated, "A lot of factors are about to turn in RSA's favor, namely the need for more secure, traceable financial transactions in a world beset by online fraud and identity theft."[22]
2. *The incongruous.* When something is incongruous, it exhibits inconsistencies and incompatibilities in the way it appears. Things "ought to be" a certain way, but aren't. When conventional wisdom about the way things should be no longer holds true, for whatever reason, opportunities are present. Entrepreneurs who are willing to "think outside the box"—that is, to think beyond the traditional and conventional approaches—may find pockets of potential profitability. Sigi Rabinowicz, founder and president of Tefron, an Israeli firm, recognized incongruities in the way that women's lingerie was made. He knew that a better way was possible. His company spent more than a decade adapting a circular hosiery knitting machine to make intimate apparel that is nearly seamless.[23] Another example of how the incongruous can be a potential source of entrepreneurial opportunity is Fred Smith, founder of FedEx, who recognized in the early 1970s the inefficiencies in the delivery of packages and documents. His approach was: Why not? Who says that overnight delivery isn't possible? Smith's recognition of the incongruous led to the creation of FedEx, now a multibillion-dollar corporation.
3. *The process need.* What happens when technology doesn't immediately come up with the "big discovery" that's going to fundamentally change the nature of some product or service? What happens is the emergence of pockets of entrepreneurial opportunity in the various stages of the process as researchers and technicians continue to work for the monumental breakthrough. Because the full leap hasn't been possible, opportunities abound in the tiny steps. Take the medical products industry, for example. Although researchers haven't yet discovered a cure for cancer, many successful entrepreneurial biotechnology ventures have been created as knowledge about a possible cure continues to grow.
4. *Industry and market structures.* When changes in technology change the structure of an industry and market, existing firms can become obsolete if they're not attuned to the changes or are unwilling to change. Even changes in social values and consumer tastes can shift the structures of industries and markets. These markets and industries become open targets for nimble and smart entrepreneurs. For instance, while working part-time at an auto body shop while finishing his engineering graduate degree, Joe Born wondered if the industrial paint buffer used to smooth out a car's paint job

could be used to smooth out scratches on CDs. He tried it out on his favorite Clint Black CD that had been ruined and the newly polished CD played flawlessly. After this experience, Born spent almost four years perfecting his disk repair kit invention, the SkipDr.[24] The arena of the Internet provides several good examples of existing industries and markets being challenged by upstart entrepreneurial ventures. For instance, eBay has prospered as an online intermediary between buyers and sellers. eBay's CEO says that the company's job is connecting people, not selling them things. And connect them, they do! The online auction firm has more than 275 million registered users.[25]

5. *Demographics.* The characteristics of the world population are changing. These changes influence industries and markets by altering the types and quantities of products and services desired and customers' buying power. Although many of these changes are fairly predictable if you stay alert to demographic trends, others aren't as obvious. Either way, significant entrepreneurial opportunities can be realized by anticipating and meeting the changing needs of the population. For example, Thay Thida was one of three partners in Khmer Internet Development Services (KIDS) in Phnom Penh, Cambodia. She and her cofounders saw the opportunities in bringing Internet service to Cambodians and profited from their entrepreneurial venture.[26]
6. *Changes in perception.* Perception is one's view of reality. When changes in perception take place, the facts do not vary, but their meanings do. Changes in perception get at the heart of people's psychographic profiles—what they value, what they believe in, and what they care about. Changes in these attitudes and values create potential market opportunities for alert entrepreneurs. For example, think about your perception of healthy foods. Changes in our perception of whether certain food groups are good has brought about product and service opportunities for entrepreneurs to recognize and capture. For example, John Mackey started Whole Foods Market in Austin, Texas, as a place for customers to purchase food and other items free of pesticides, preservatives, sweeteners, and cruelty. Now, as the world's number one natural foods chain, Mackey's entrepreneurial venture consists of about 275 stores in the United States, Canada, and the United Kingdom.[27] Michael and Ellen Diamant changed the perception that baby necessities—diaper bags, bottle warmers, and bottle racks—couldn't be fashionable. Their baby gear company, Skip Hop, offers pricey products that design-conscious new parents have embraced.[28]
7. *New knowledge.* New knowledge is a significant source of entrepreneurial opportunity. Although not all knowledge-based innovations are significant, new knowledge ranks pretty high on the list of sources of entrepreneurial opportunity! It takes more than just having new knowledge, though. Entrepreneurs must be able to do something with that knowledge and to protect important proprietary information from competitors. For example, French scientists are using new knowledge about textiles to develop a wide array of innovative products to keep wearers healthy and smelling good. Neyret, the Parisian lingerie maker, created lingerie products woven with tiny perfume microcapsules that stay in the fabric through about 10 washings. Another French company, Francital, developed a fabric treated with chemicals to absorb perspiration and odors.[29]

Being alert to entrepreneurial opportunities is only part of an entrepreneur's initial efforts. He or she must also understand competitive advantage. As we discussed in Chapter 9, when an organization has a competitive advantage, it has something that other competitors don't; does something better than other organizations; or does something that others can't. Competitive advantage is a necessary ingredient for an entrepreneurial venture's long-term success and survival. Getting and keeping a competitive advantage is tough. However, it is something that entrepreneurs must consider as they begin researching the venture's feasibility.

Researching the Venture's Feasibility—Generating and Evaluating Ideas

On a trip to New York, Miho Inagi got her first taste of the city's delicious bagels. After her palate-expanding experience, she had the idea of bringing bagels to Japan. Five years after her first trip to New York and a subsequent apprenticeship at a New York bagel business, Miho opened Maruichi Bagel in Tokyo. After a struggle to get the store up and running, it now has a loyal following of customers.[30]

It's important for entrepreneurs to research the venture's feasibility by generating and evaluating business ideas. Entrepreneurial ventures thrive on ideas. Generating ideas is an innovative, creative process. It's also one that will take time, not only in the beginning stages of the entrepreneurial venture, but throughout the life of the business. Where do ideas come from?

GENERATING IDEAS. Studies of entrepreneurs have shown that the sources of their ideas are unique and varied. One survey found that "working in the same industry" was the major source of ideas for an entrepreneurial venture (60% of respondents).[31] Other sources included personal interests or hobbies, looking at familiar and unfamiliar products and services, and opportunities in external environmental sectors (technological, sociocultural, demographics, economic, or legal-political).

What should entrepreneurs look for as they explore these idea sources? They should look for limitations of what's currently available, new and different approaches, advances and breakthroughs, unfilled niches, or trends and changes. For example, John C. Diebel, founder of Meade Instruments Corporation, the Irvine, California, telescope maker, came up with the idea of putting computerized attachments on the company's inexpensive consumer models so that amateur astronomers could enter on a keypad the coordinates of planets or stars they wanted to see. The telescope would then automatically locate and focus on the desired planetary bodies. It took the company's engineers two years to figure out how to do it, but Meade now controls more than half the amateur astronomy market.[32]

EVALUATING IDEAS. Evaluating entrepreneurial ideas revolves around personal and marketplace considerations. Each of these assessments will provide an entrepreneur with key information about the idea's potential. Exhibit A-1 describes some questions that entrepreneurs might ask as they evaluate potential ideas.

EXHIBIT A-1

Evaluating Potential Ideas

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

EXHIBIT A-2

Feasibility Study

A. Introduction, historical background, description of product or service
1. Brief description of proposed entrepreneurial venture
2. Brief history of the industry
3. Information about the economy and important trends
4. Current status of the product or service
5. How you intend to produce the product or service
6. Complete list of goods or services to be provided
7. Strengths and weaknesses of the business
8. Ease of entry into the industry, including competitor analysis

B. Accounting considerations
1. Pro forma balance sheet
2. Pro forma profit and loss statement
3. Projected cash flow analysis

C. Management considerations
1. Personal expertise—strengths and weaknesses
2. Proposed organizational design
3. Potential staffing requirements
4. Inventory management methods
5. Production and operations management issues
6. Equipment needs

D. Marketing considerations
1. Detailed product description
2. Identify target market (who, where, how many)
3. Describe place product will be distributed (location, traffic, size, channels, etc.)
4. Price determination (competition, price lists, etc.)
5. Promotion plans (role of personal selling, advertising, sales promotion, etc.)

E. Financial considerations
1. Start-up costs
2. Working capital requirements
3. Equity requirements
4. Loans—amounts, type, conditions
5. Breakeven analysis
6. Collateral
7. Credit references
8. Equipment and building financing—costs and methods

F. Legal considerations
1. Proposed business structure (type; conditions, terms, liability, responsibility; insurance needs; buyout and succession issues)
2. Contracts, licenses, and other legal documents

G. Tax considerations: sales/property/employee; federal, state, and local

H. Appendix: charts/graphs, diagrams, layouts, résumés, etc.

A more structured evaluation approach that an entrepreneur might want to use is a **feasibility study**—an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility. Not only is a well-prepared feasibility study an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one, it can serve as a basis for the all-important business plan.

A feasibility study should give descriptions of the most important elements of the entrepreneurial venture and the entrepreneur's analysis of the viability of these elements. Exhibit A-2 provides an outline of a possible approach to a feasibility study. Yes, it covers a lot of territory and takes a significant amount of time, energy, and effort to prepare it. However, an entrepreneur's potential future success is worth that investment.

Researching the Venture's Feasibility—Competitors

Part of researching the venture's feasibility is looking at the competitors. What would entrepreneurs like to know about their potential competitors? Here are some possible questions:

What types of products or services are competitors offering?

What are the major characteristics of these products or services?

What are their products' strengths and weaknesses?
How do they handle marketing, pricing, and distributing?
What do they attempt to do differently from other competitors?
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?

For instance, the CEO of The Children's Place carefully examined the competition as he took his chain of children's clothing stores nationwide. Although he faces stiff competition from the likes of GapKids, J.C. Penney, and Gymboree, he feels that his company's approach to manufacturing and marketing will give it a competitive edge.[33]

Once an entrepreneur has this information, he or she should assess how the proposed entrepreneurial venture is going to "fit" into this competitive arena. Will the entrepreneurial venture be able to compete successfully? This type of competitor analysis becomes an important part of the feasibility study and the business plan. If, after all this analysis, the situation looks promising, the final part of researching the venture's feasibility is to look at the various financing options. This step isn't the final determination of how much funding the venture will need or where this funding will come from but is simply gathering information about various financing alternatives.

Researching the Venture's Feasibility—Financing

Getting financing isn't always easy. For instance, when William Carey first proposed building a liquor distributor business in Poland, more than 20 investment banking houses in New York passed on funding his idea. Carey recalls, "They didn't know Poland, and the business was small. We were ready to give up." Then, a New York investment banking boutique agreed to fund the venture. Today, Carey's company, CEDC (Central European Distribution), has more than 3,000 employees and sales revenues that top $1.1 billion.[34]

Because funds likely will be needed to start the venture, an entrepreneur must research the various financing options. Possible financing options available to entrepreneurs are shown in Exhibit A-3.

EXHIBIT A-3
Possible Financing Options

- Entrepreneur's personal resources (personal savings, home equity, personal loans, credit cards, etc.)
- Financial institutions (banks, savings and loan institutions, government-guaranteed loan, credit unions, etc.)
- **Venture capitalists**—external equity financing provided by professionally managed pools of investor money
- **Angel investors**—a private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture
- **Initial public offering (IPO)**—the first public registration and sale of a company's stock
- National, state, and local governmental business development programs
- Unusual sources (television shows, judged competitions, etc.)

feasibility study
An analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

venture capitalists
External equity financing provided by professionally managed pools of investor money

angel investors
A private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture

initial public offering (IPO)
The first public registration and sale of a company's stock

Planning the Venture—Developing a Business Plan

Planning is also important to entrepreneurial ventures. Once the venture's feasibility has been thoroughly researched, the entrepreneur then must look at planning the venture. The most important thing that an entrepreneur does in planning the venture is developing a **business plan**—a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited.

For many would-be entrepreneurs, developing and writing a business plan seems like a daunting task. However, a good business plan is valuable. It pulls together all of the elements of the entrepreneur's vision into a single coherent document. The business plan requires careful planning and creative thinking. But if done well, it can be a convincing document that serves many functions. It serves as a blueprint and road map for operating the business. And the business plan is a "living" document, guiding organizational decisions and actions throughout the life of the business, not just in the start-up stage.

If an entrepreneur has completed a feasibility study, much of the information included in it becomes the basis for the business plan. A good business plan covers six major areas: executive summary, analysis of opportunity, analysis of the context, description of the business, financial data and projections, and supporting documentation.

EXECUTIVE SUMMARY. The executive summary summarizes the key points that the entrepreneur wants to make about the proposed entrepreneurial venture. These points might include a brief mission statement; primary goals; brief history of the entrepreneurial venture, maybe in the form of a timeline; key people involved in the venture; nature of the business; concise product or service descriptions; brief explanations of market niche, competitors, and competitive advantage; proposed strategies; and selected key financial information.

ANALYSIS OF OPPORTUNITY. In this section of the business plan, an entrepreneur presents the details of the perceived opportunity. Essentially, details include (1) sizing up the market by describing the demographics of the target market, (2) describing and evaluating industry trends, and (3) identifying and evaluating competitors.

ANALYSIS OF THE CONTEXT. Whereas the opportunity analysis focuses on the opportunity in a specific industry and market, the context analysis takes a much broader perspective. Here, the entrepreneur describes the broad external changes and trends taking place in the economic, political-legal, technological, and global environments.

DESCRIPTION OF THE BUSINESS. In this section, an entrepreneur describes how the entrepreneurial venture is going to be organized, launched, and managed. It includes a thorough description of the mission statement; a description of the desired organizational culture; marketing plans including overall marketing strategy, pricing, sales tactics, service-warranty policies, and advertising and promotion tactics; product development plans such as an explanation of development status, tasks, difficulties and risks, and anticipated costs; operational plans including a description of proposed geographic location, facilities and needed improvements, equipment, and work flow; human resource plans including a description of key management persons, composition of board of directors including their background experience and skills, current and future staffing needs, compensation and benefits, and training needs; and an overall schedule and timetable of events.

FINANCIAL DATA AND PROJECTIONS. Every effective business plan contains financial data and projections. Although the calculations and interpretation may be difficult, they are absolutely critical. No business plan is complete without financial information. Financial plans should cover at least three years and contain projected income statements, pro forma cash flow analysis (monthly for the first year and quarterly for the next two), pro forma balance sheets, breakeven analysis, and cost controls. If major equipment or other capital purchases are expected, the items, costs, and available collateral should be listed. All financial projections and analyses should include explanatory notes, especially where the data seem contradictory or questionable.

SUPPORTING DOCUMENTATION. For this important component of an effective business plan, the entrepreneur should back up his or her descriptions with charts, graphs, tables, photographs, or other visual tools. In addition, it might be important to include information (personal and work-related) about the key participants in the entrepreneurial venture.

Just as the idea for an entrepreneurial venture takes time to germinate, so does the writing of a good business plan. It's important for the entrepreneur to put serious thought and consideration into the plan. It's not an easy thing to do. However, the resulting document should be valuable to the entrepreneur in current and future planning efforts.

Organizing Issues

Donald Hannon, president of Graphic Laminating Inc. in Solon, Ohio, redesigned his organization's structure by transforming it into an employee-empowered company. He wanted to drive authority down through the organization so employees were responsible for their own efforts. One way he did this was by creating employee teams to handle specific projects. Employees with less experience were teamed with veteran employees. He says, "I want to build a good team and give people the ability to succeed. Sometimes that means giving them the ability to make mistakes, and I have to keep that in perspective. The more we allow people to become better at what they do, the better they will become—and the better we all will do."[35]

Once the start-up and planning issues for the entrepreneurial venture have been addressed, the entrepreneur is ready to begin organizing the entrepreneurial venture. Then, the entrepreneur must address five organizing issues: the legal forms of organization, organizational design and structure, human resource management, stimulating and making changes, and the continuing importance of innovation.

Legal Forms of Organization

The first organizing decision that an entrepreneur must make is a critical one. It's the form of legal ownership for the venture. The two primary factors affecting this decision are taxes and legal liability. An entrepreneur wants to minimize the impact of both of these factors. The right choice can protect the entrepreneur from legal liability as well as save tax dollars, in both the short run and the long run.

What alternatives are available? The three basic ways to organize an entrepreneurial venture are sole proprietorship, partnership, and corporation. However, when you include the variations of these basic organizational alternatives, you end up with six possible choices, each with its own tax consequences, liability issues, and pros and cons. These six choices are sole proprietorship, general partnership, limited liability partnership (LLP), C corporation, S corporation, and limited liability company (LLC). Let's briefly look at each one with their advantages and drawbacks. (Exhibit A-4 summarizes the basic information about each organizational alternative.)

SOLE PROPRIETORSHIP. A **sole proprietorship** is a form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts. The legal requirements for establishing a sole proprietorship consist of obtaining the necessary local business licenses and permits. In a sole proprietorship, income and losses "pass through" to the owner and are taxed at the owner's personal income tax rate. The biggest drawback, however, is the unlimited personal liability for any and all debts of the business.

business plan
A written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

sole proprietorship
A form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts

Structure	Ownership Requirements	Tax Treatment	Liability	Advantages	Drawbacks
Sole proprietorship	One owner	Income and losses "pass through" to owner and are taxed at personal rate	Unlimited personal liability	*Low start-up costs* Freedom from most regulations *Owner has direct control* All profits go to owner *Easy to exit business*	Unlimited personal liability *Personal finances at risk* Miss out on many business tax deductions *Total responsibility* May be more difficult to raise financing
General partnership	Two or more owners	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Unlimited personal liability	*Ease of formation* Pooled talent *Pooled resources* Somewhat easier access to financing *Some tax benefits*	Unlimited personal liability *Divided authority and decisions* Potential for conflict *Continuity of transfer of ownership*
Limited liability partnership (LLP)	Two or more owners	Income and losses "pass through" to partner and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Limited, although one partner must retain unlimited liability	*Good way to acquire capital from limited partners*	Cost and complexity of forming can be high *Limited partners cannot participate in management of business without losing liability protection*
C corporation	Unlimited number of shareholders; *no limits on types of stock or voting arrangements*	Dividend income is taxed at corporate and personal shareholder levels; *losses and deductions are corporate*	Limited	*Limited liability* Transferable ownership *Continuous existence* Easier access to resources	Expensive to set up *Closely regulated* Double taxation *Extensive record keeping* Charter restrictions
S corporation	Up to 75 shareholders; *no limits on types of stock or voting arrangements*	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocation to partners*	Limited	*Easy to set up* Enjoy limited liability protection and tax benefits of partnership *Can have a tax-exempt entity as a shareholder*	Must meet certain requirements *May limit future financing options*
Limited liability company (LLC)	Unlimited number of "members"; *flexible membership arrangements for voting rights and income*	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Limited	*Greater flexibility* Not constrained by regulations on C and S corporations *Taxed as partnership, not as corporation*	Cost of switching from one form to this can be high *Need legal and financial advice in forming operating agreement*

EXHIBIT A-4

Legal Forms of Business Organization

GENERAL PARTNERSHIP. A **general partnership** is a form of legal organization in which two or more business owners share the management and risk of the business. Even though a partnership is possible without a written agreement, the potential and inevitable problems that arise in any partnership make a written partnership agreement drafted by legal counsel a highly recommended thing to do.

LIMITED LIABILITY PARTNERSHIP (LLP). The **limited liability partnership (LLP)** is a legal organization formed by general partner(s) and limited partner(s). The general partners actually operate and manage the business. They are the ones who have unlimited liability. At least one general partner is necessary in an LLP, but any number of limited partners are allowed. These partners are usually passive investors, although they can make management suggestions to the general partners. They also have the right to inspect the business and make copies of business records. The limited partners are entitled to a share of the business's profits as agreed to in the partnership agreement, and their risk is limited to the amount of their investment in the LLP.

C CORPORATION. Of the three basic types of ownership, the corporation (also known as a C corporation) is the most complex to form and operate. A **corporation** is a legal business entity that is separate from its owners and managers. Many entrepreneurial ventures are organized as a **closely held corporation** which, very simply, is a corporation owned by a limited number of people who do not trade the stock publicly. Whereas the sole proprietorship and partnership forms of organization do not exist separately from the entrepreneur, the corporation does. The corporation functions as a distinct legal entity and, as such, can make contracts, engage in business activities, own property, sue and be sued, and of course, pay taxes. A corporation must operate in accordance with its charter and the laws of the state in which it operates.

S CORPORATION. The **S corporation** (also called a subchapter S corporation) is a specialized type of corporation that has the regular characteristics of a corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met. The S corporation has been the classic organizing approach for getting the limited liability of a corporate structure without incurring corporate tax. However, this form of legal organization must meet strict criteria. If any of these criteria are violated, a venture's S status is automatically terminated.

LIMITED LIABILITY COMPANY (LLC). The **limited liability company (LLC)** is a relatively new form of business organization that's a hybrid between a partnership and a corporation. The LLC offers the liability protection of a corporation, the tax benefits of a partnership, and fewer restrictions than an S corporation. However, the main drawback of this approach is that it's quite complex and expensive to set up. Legal and financial advice is an absolute necessity in forming the LLC's **operating agreement**, the document that outlines the provisions governing the way the LLC will conduct business.

SUMMARY OF LEGAL FORMS OF ORGANIZATION. The organizing decision regarding the legal form of organization is an important one because it can have significant tax and

general partnership
A form of legal organization in which two or more business owners share the management and risk of the business

limited liability partnership (LLP)
A form of legal organization consisting of general partner(s) and limited liability partner(s)

corporation
A legal business entity that is separate from its owners and managers

closely held corporation
A corporation owned by a limited number of people who do not trade the stock publicly

S corporation
A specialized type of corporation that has the regular characteristics of a C corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met

limited liability company (LLC)
A form of legal organization that's a hybrid between a partnership and a corporation

operating agreement
The document that outlines the provisions governing the way an LLC will conduct business

liability consequences. Although the legal form of organization can be changed, it's not an easy thing to do. An entrepreneur needs to think carefully about what's important, especially in the areas of flexibility, taxes, and amount of personal liability in choosing the best form of organization.

Organizational Design and Structure

The choice of an appropriate organizational structure is also an important decision when organizing an entrepreneurial venture. At some point, successful entrepreneurs find that they can't do everything alone. More people are needed. The entrepreneur must then decide on the most appropriate structural arrangement for effectively and efficiently carrying out the organization's activities. Without some suitable type of organizational structure, the entrepreneurial venture may soon find itself in a chaotic situation.

In many small firms, the organizational structure tends to evolve with little intentional or deliberate planning by the entrepreneur. For the most part, the structure may be simple—one person does whatever is needed. As the entrepreneurial venture grows and the entrepreneur finds it increasingly difficult to go it alone, employees are brought on board to perform certain functions or duties that the entrepreneur can't handle. These individuals tend to perform those same functions as the company grows. Then, as the entrepreneurial venture continues to grow, each of these functional areas may require managers and employees.

With the evolution to a more deliberate structure, the entrepreneur faces a whole new set of challenges. All of a sudden, he or she must share decision making and operating responsibilities. This transition is typically one of the most difficult things for an entrepreneur to do—letting go and allowing someone else to make decisions. *After all*, he or she reasons, *how can anyone know this business as well as I do*? Also, what might have been a fairly informal, loose, and flexible atmosphere that worked well when the organization was small may no longer be effective. Many entrepreneurs are greatly concerned about keeping that "small company" atmosphere alive even as the venture grows and evolves into a more structured arrangement. But having a structured organization doesn't necessarily mean giving up flexibility, adaptability, and freedom. In fact, the structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently.

Organizational design decisions in entrepreneurial ventures revolve around the six key elements of organizational structure discussed in Chapter 10: work specialization, departmentalization, chain of command, span of control, amount of centralization-decentralization, and amount of formalization. Decisions about these six elements will determine whether an entrepreneur designs a more mechanistic or organic organizational structure (concepts also discussed in Chapter 10). When would each be preferable? A mechanistic structure would be preferable when cost efficiencies are critical to the venture's competitive advantage, when more control over employees' work activities is important, if the venture produces standardized products in a routine fashion, and when the external environment is relatively stable and certain. An organic structure would be most appropriate when innovation is critical to the organization's competitive advantage; for smaller organizations where rigid approaches to dividing and coordinating work aren't necessary; if the organization produces customized products in a flexible setting; and where the external environment is dynamic, complex, and uncertain.

Human Resource Management Issues in Entrepreneurial Ventures

As an entrepreneurial venture grows, additional employees will need to be hired to perform the increased workload. As employees are brought on board, the entrepreneur faces certain human resource management (HRM) issues. Two HRM issues of particular importance to entrepreneurs are employee recruitment and employee retention.

EMPLOYEE RECRUITMENT. An entrepreneur wants to ensure that the venture has the people to do the required work. Recruiting new employees is one of the biggest challenges that entrepreneurs face. In fact, the ability of small firms to successfully recruit appropriate employees is consistently rated as one of the most important factors influencing organizational success.

Entrepreneurs, particularly, are looking for high-potential people who can perform multiple roles during various stages of venture growth. They look for individuals who "buy into" the venture's entrepreneurial culture—individuals who have a passion for the business. Unlike their corporate counterparts who often focus on filling a job by matching a person to the job requirements, entrepreneurs look to fill in critical skills gaps. They're looking for people who are exceptionally capable and self-motivated, flexible, multiskilled, and who can help grow the entrepreneurial venture. While corporate managers tend to focus on using traditional HRM practices and techniques, entrepreneurs are more concerned with matching characteristics of the person to the values and culture of the organization; that is, they focus on matching the person to the organization.

EMPLOYEE RETENTION. Getting competent and qualified people into the venture is just the first step in effectively managing the human resources. An entrepreneur wants to keep the people he or she has hired and trained. Sabrina Horn, president of The Horn Group based in San Francisco, understands the importance of having good people on board and keeping them. In the rough-and-tumble, intensely competitive public relations industry, Sabrina knows that the loss of talented employees could harm client services. To contend with this issue, she offers employees a wide array of desirable benefits such as raises each year, profit sharing, trust funds for employees' children, paid sabbaticals, personal development funds, and so forth. But more importantly, Sabrina recognizes that employees have a life outside the office and treats them accordingly. This type of HRM approach has kept her employees loyal and productive.[36]

A unique and important employee retention issue entrepreneurs must deal with is compensation. Whereas traditional organizations are more likely to view compensation from the perspective of monetary rewards (base pay, benefits, and incentives), smaller entrepreneurial firms are more likely to view compensation from a total rewards perspective. For these firms, compensation encompasses psychological rewards, learning opportunities, and recognition in addition to monetary rewards (base pay and incentives).[37]

Stimulating and Making Changes

We know that the context facing entrepreneurs is one of dynamic change. Both external and internal forces (see Chapter 6) may bring about the need for making changes in the entrepreneurial venture. Entrepreneurs need to be alert to problems and opportunities that may create the need to change. In fact, of the many hats an entrepreneur wears, that of change agent may be one of the most important.[38] If changes are needed in the entrepreneurial venture, often it is the entrepreneur who first recognizes the need for change and acts as the catalyst, coach, cheerleader, and chief change consultant. Change isn't easy in any organization, but it can be particularly challenging for entrepreneurial ventures. Even if a person is comfortable with taking risks—as entrepreneurs usually are—change can be hard. That's why it's important for an entrepreneur to recognize the critical role he or she plays in stimulating and implementing change. For instance, Jeff Fluhr, CEO of StubHub, Inc., is well aware of the important role he plays in stimulating and implementing changes. As the leading Internet player in the ticket reselling market, Fluhr had to continually look for ways to keep his company competitive. One change was the creation of an exclusive advertising agreement with the National Hockey League to promote StubHub.com on NHL.com.[39] StubHub is now a division of eBay.

During any type of organizational change, an entrepreneur also may have to act as chief coach and cheerleader. Because organizational change of any type can be disruptive and scary, the entrepreneur must explain the change to employees and encourage change efforts by supporting employees, getting them excited about the change, building them up, and motivating them to put forth their best efforts.

Finally, the entrepreneur may have to guide the actual change process as changes in strategy, technology, products, structure, or people are implemented. In this role, the entrepreneur answers questions, makes suggestions, gets needed resources, facilitates conflict, and does whatever else is necessary to get the change(s) implemented.

The Importance of Continuing Innovation

In today's dynamically chaotic world of global competition, organizations must continually innovate new products and services if they want to compete successfully. Innovation is a key characteristic of entrepreneurial ventures and, in fact, it's what makes the entrepreneurial venture "entrepreneurial."

What must an entrepreneur do to encourage innovation in the venture? Having an innovation-supportive culture is crucial. What does such a culture look like?[40] It's one in which employees perceive that supervisory support and organizational reward systems are consistent with a commitment to innovation. It's also important in this type of culture that employees not perceive their workload pressures to be excessive or unreasonable. And research has shown that firms with cultures supportive of innovation tend to be smaller, have fewer formalized human resource practices, and less abundant resources.[41]

Leading Issues

The employees at designer Liz Lange's company have to be flexible. Many don't have job descriptions, and everyone is expected to contribute ideas and pitch in with tasks in all departments. Lange says, "The phrase 'That's not my job' doesn't belong here." In return, Lange is a supportive leader who gives her employees considerable latitude.[42]

Leading is an important function of entrepreneurs. As an entrepreneurial venture grows and people are brought on board, an entrepreneur takes on a new role—that of a leader. In this section, we want to look at what's involved with the leading function. First, we're going to look at the unique personality characteristics of entrepreneurs. Then we're going to discuss the important role entrepreneurs play in motivating employees through empowerment and leading the venture and employee teams.

Personality Characteristics of Entrepreneurs

Think of someone you know who is an entrepreneur. Maybe it's someone you personally know or maybe it's someone like Bill Gates of Microsoft. How would you describe this person's personality? One of the most researched areas of entrepreneurship has been the search to determine what—if any—psychological characteristics entrepreneurs have in common, what types of personality traits entrepreneurs have that might distinguish them from non-entrepreneurs, and what traits entrepreneurs have that might predict who will be a successful entrepreneur.

Is there a classic "entrepreneurial personality"? Trying to pinpoint specific personality characteristics that all entrepreneurs share has the same problem as identifying the trait theories of leadership—that is, being able to identify specific personality traits that *all* entrepreneurs share. This challenge hasn't stopped entrepreneurship researchers from listing common traits, however. For instance, one list of personality characteristics included the following: high level of motivation, abundance of self-confidence, ability to be involved for the long term, high energy level, persistent problem solver, high degree of initiative, ability to set goals, and moderate risk-taker. Another list of characteristics of "successful" entrepreneurs included high energy level, great persistence, resourcefulness, the desire and ability to be self-directed, and relatively high need for autonomy.

Another development in defining entrepreneurial personality characteristics was the proactive personality scale to predict an individual's likelihood of pursuing entrepreneurial ventures. We introduced the **proactive personality** trait in Chapter 14. Recall that it's a personality trait of individuals who are more prone to take actions to influence their environment—that is, they're more proactive. Obviously, an entrepreneur is likely to exhibit proactivity as he or she searches for opportunities and acts to take advantage of those opportunities. Various items on the proactive personality scale were found to be good indicators of a person's likelihood of becoming an entrepreneur, including gender, education, having an entrepreneurial parent, and possessing a proactive personality. In addition, studies have shown that entrepreneurs have greater risk propensity than do managers. However, this propensity is moderated by the entrepreneur's primary goal. Risk propensity is greater for entrepreneurs whose primary goal is growth versus those whose focus is on producing family income.

Motivating Employees Through Empowerment

At Sapient Corporation (creators of Internet and software systems for e-commerce and automating back-office tasks such as billing and inventory), cofounders Jerry Greenberg and J. Stuart Moore recognized that employee motivation was vitally important to their company's ultimate success.[43] They designed their organization so individual employees are part of an industry-specific team that works on an entire project rather than on one small piece of it. Their rationale was that people often feel frustrated when they're doing a small part of a job and never get to see the whole job from start to finish. They figured people would be more productive if they got the opportunity to participate in all phases of a project.

When you're motivated to do something, don't you find yourself energized and willing to work hard at doing whatever it is you're excited about? Wouldn't it be great if all of a venture's employees were energized, excited, and willing to work hard at their jobs? Having motivated employees is an important goal for any entrepreneur, and employee empowerment is an important motivational tool entrepreneurs can use.

Although it's not easy for entrepreneurs to do, employee empowerment—giving employees the power to make decisions and take actions on their own—is an important motivational approach. Why? Because successful entrepreneurial ventures must be quick and nimble, ready to pursue opportunities and go off in new directions. Empowered employees can provide that flexibility and speed. When employees are empowered, they often display stronger work motivation, better work quality, higher job satisfaction, and lower turnover.

For example, employees at Butler International, Inc., a technology consulting services firm based in Montvale, New Jersey, work at client locations. President and CEO Ed Kopko recognized that employees had to be empowered to do their jobs if they were going to be successful.[44] Another entrepreneurial venture that found employee empowerment to be a strong motivational approach is Stryker Instruments in Kalamazoo, Michigan, a division of Stryker Corporation. Each of the company's production units is responsible for its operating budget, cost reduction goals, customer-service levels, inventory management, training, production planning and forecasting, purchasing, human resource management, safety, and problem solving. In addition, unit members work closely with marketing, sales, and R&D during new product introductions and continuous improvement projects. Says one team supervisor, "Stryker lets me do what I do best and rewards me for that privilege."[45]

Empowerment is a philosophical concept that entrepreneurs have to "buy into." This doesn't come easily. In fact, it's hard for many entrepreneurs to do. Their life is tied up in the business. They've built it from the ground up. But continuing to grow the entrepreneurial venture is eventually going to require handing over more responsibilities to employees. How can entrepreneurs empower employees? For many entrepreneurs, it's a gradual process.

Entrepreneurs can begin by using participative decision making in which employees provide input into decisions. Although getting employees to participate in decisions isn't quite taking the full plunge into employee empowerment, at least it's a way to begin tapping into the collective array of employees' talents, skills, knowledge, and abilities.

proactive personality
A personality trait that describes individuals who are more prone to take actions to influence their environments

Another way to empower employees is through delegation—the process of assigning certain decisions or specific job duties to employees. By delegating decisions and duties, the entrepreneur is turning over the responsibility for carrying them out.

When an entrepreneur is finally comfortable with the idea of employee empowerment, fully empowering employees means redesigning their jobs so they have discretion over the way they do their work. It's allowing employees to do their work effectively and efficiently by using their creativity, imagination, knowledge, and skills.

If an entrepreneur implements employee empowerment properly—that is, with complete and total commitment to the program and with appropriate employee training—results can be impressive for the entrepreneurial venture and for the empowered employees. The business can enjoy significant productivity gains, quality improvements, more satisfied customers, increased employee motivation, and improved morale. Employees can enjoy the opportunities to do a greater variety of work that is more interesting and challenging.

In addition, employees are encouraged to take the initiative in identifying and solving problems and doing their work. For example, at Mine Safety Appliances Company in Pittsburgh, Pennsylvania, employees are empowered to change their work processes in order to meet the organization's challenging quality improvement goals. Getting to this point took an initial 40 hours of classroom instruction per employee in areas such as engineering drawing, statistical process control, quality certifications, and specific work instruction. However, the company's commitment to an empowered workforce has resulted in profitability increasing 57 percent over the last four years and 95 percent of the company's employees achieving multi-skill certifications.[46]

The Entrepreneur as Leader

The last topic we want to discuss in this section is the role of the entrepreneur as a leader. In this role, the entrepreneur has certain leadership responsibilities in leading the venture and in leading employee work teams.

LEADING THE VENTURE. Today's successful entrepreneur must be like the leader of a jazz ensemble known for its improvisation, innovation, and creativity. Max DePree, former head of Herman Miller, Inc., a leading office furniture manufacturer known for its innovative leadership approaches, said it best in his book, *Leadership Jazz*, "Jazz band leaders must choose the music, find the right musicians, and perform—in public. But the effect of the performance depends on so many things—the environment, the volunteers playing the band, the need for everybody to perform as individuals and as a group, the absolute dependence of the leader on the members of the band, the need for the followers to play well. . . . The leader of the jazz band has the beautiful opportunity to draw the best out of the other musicians. We have much to learn from jazz band leaders, for jazz, like leadership, combines the unpredictability of the future with the gifts of individuals."[47]

The way an entrepreneur leads the venture should be much like the jazz leader—drawing the best out of other individuals, even given the unpredictability of the situation. One way an entrepreneur leads is through the vision he or she creates for the organization. In fact, the driving force through the early stages of the entrepreneurial venture is often the visionary leadership of the entrepreneur. The entrepreneur's ability to articulate a coherent, inspiring, and attractive vision of the future is a key test of his or her leadership. But if an entrepreneur can articulate such a vision, the results can be worthwhile. A study contrasting visionary and nonvisionary companies showed that visionary companies outperformed the nonvisionary ones by six times on standard financial criteria, and their stocks outperformed the general market by 15 times.[48]

LEADING EMPLOYEE WORK TEAMS. As we know from Chapter 13, many organizations—entrepreneurial and otherwise—are using employee work teams to perform organizational tasks, create new ideas, and resolve problems.

Employee work teams tend to be popular in entrepreneurial ventures. An *Industry Week* Census of Manufacturers showed that nearly 68 percent of survey respondents used teams to varying degrees.[49] The three most common ones respondents said they used included empowered teams (teams that have the authority to plan and implement process improvements), self-directed teams (teams that are nearly autonomous and responsible for many managerial activities), and cross-functional teams (work teams composed of individuals from various specialties who work together on various tasks).

These entrepreneurs also said that developing and using teams is necessary because technology and market demands are forcing them to make their products faster, cheaper, and better. Tapping into the collective wisdom of the venture's employees and empowering them to make decisions just may be one of the best ways to adapt to change. In addition, a team culture can improve the overall workplace environment and morale.

For team efforts to work, however, entrepreneurs must shift from the traditional command-and-control style to a coach-and-collaboration style (refer to the discussion of team leadership in Chapter 17). They must recognize that individual employees can understand the business and can innovate just as effectively as they can. For example, at Marque, Inc., of Goshen, Indiana, CEO Scott Jessup recognized that he wasn't the smartest guy in the company as far as production problems, but he was smart enough to realize that, if he wanted his company to expand its market share in manufacturing medical-emergency-squad vehicles, new levels of productivity needed to be reached. He formed a cross-functional team—bringing together people from production, quality assurance, and fabrication—that could spot production bottlenecks and other problems and then gave the team the authority to resolve the constraints.[50]

Controlling Issues

Philip McCaleb still gets a kick out of riding the scooters his Chicago-based company, Genuine Scooter Co., makes. However, in building his business, McCaleb has had to acknowledge his own limitations. As a self-described "idea" guy, he knew that he would need someone else to come in and ensure that the end product was *what* it was supposed to be, *where* it was supposed to be, and *when* it was supposed to be there.[51]

Entrepreneurs must look at controlling their venture's operations in order to survive and prosper in both the short run and long run. Those unique control issues that face entrepreneurs include managing growth, managing downturns, exiting the venture, and managing personal life choices and challenges.

Managing Growth

Growth is a natural and desirable outcome for entrepreneurial ventures. Growth is what distinguishes an entrepreneurial venture. Entrepreneurial ventures pursue growth. Growing slowly can be successful, but so can rapid growth.

Growing successfully doesn't occur randomly or by luck. Successfully pursuing growth typically requires an entrepreneur to manage all the challenges associated with growing—in other words, planning, organizing, and controlling for growth.

PLANNING FOR GROWTH. Although it may seem we've reverted back to discussing planning issues instead of controlling issues, actually controlling is closely tied to planning as we know from our discussion in Chapter 18 (see Exhibit 18-1). And the best growth strategy is a well-planned one.[52] Ideally, the decision to grow doesn't come about spontaneously, but instead is part of the venture's overall business goals and plan. Rapid growth without planning can be disastrous. Entrepreneurs need to address growth strategies as part of their business planning but shouldn't be overly rigid in that planning. The plans should be flexible enough to exploit unexpected opportunities that arise. With plans in place, the successful entrepreneur must then organize for growth.

ORGANIZING FOR GROWTH. The key challenges for an entrepreneur in organizing for growth include finding capital, finding people, and strengthening the organizational culture. Norbert Otto is the founder of Sport Otto, an online business based in Germany that sold almost $2 million worth of skates, skis, snowboards, and other sporting goods on eBay. As the company grows, Otto is finding that he has to be more organized.[53]

Having enough capital is a major challenge facing growing entrepreneurial ventures. The money issue never seems to go away, does it? It takes capital to expand. The processes of finding capital to fund growth are much like going through the initial financing of the venture. Hopefully, at this time the venture has a successful track record to back up the request. If it doesn't, it may be extremely difficult to acquire the necessary capital. That's why we said earlier that the best growth strategy is a planned one.

Part of that planning should be how growth will be financed. For example, The Boston Beer Company, America's largest microbrewer and producer of Samuel Adams beer, grew rapidly by focusing almost exclusively on increasing its top-selling product line. However, the company was so focused on increasing market share that it had few financial controls and an inadequate financial infrastructure. During periods of growth, cash flow difficulties would force company chairman and brewmaster Jim Koch to tap into a pool of unused venture capital funding. However, when a chief financial officer joined the company, he developed a financial structure that enabled the company to manage its growth more efficiently and effectively by setting up a plan for funding growth.[54]

Another important issue that a growing entrepreneurial venture needs to address is finding people. If the venture is growing quickly, this challenge may be intensified because of time constraints. It's important to plan the numbers and types of employees needed as much as possible in order to support the increasing workload of the growing venture. It may also be necessary to provide additional training and support to employees to help them handle the increased pressures associated with the growing organization.

Finally, when a venture is growing, it's important to create a positive, growth-oriented culture that enhances the opportunities to achieve success, both organizationally and individually. Encouraging the culture can sometimes be difficult to do, particularly when changes are rapidly happening. However, the values, attitudes, and beliefs that are established and reinforced during these times are critical to the entrepreneurial venture's continued and future success. Exhibit A-5 lists some suggestions that entrepreneurs might use to ensure that their venture's culture is one that embraces and supports a climate in which organizational growth is viewed as desirable and important. Keeping employees focused and committed to what the venture is doing is critical to the ultimate success of its growth strategies. If employees don't "buy into" the direction the entrepreneurial venture is headed, it's unlikely the growth strategies will be successful.

CONTROLLING FOR GROWTH. Another challenge that growing entrepreneurial ventures face is reinforcing already established organizational controls. Maintaining good financial records and financial controls over cash flow, inventory, customer data, sales orders, receivables, payables, and costs should be a priority of every entrepreneur—whether pursuing growth or not. However, it's particularly important to reinforce these controls

EXHIBIT A-5

Achieving a Supportive, Growth-Oriented Culture

- Keep the lines of communication open—inform employees about major issues.
- Establish trust by being honest, open, and forthright about the challenges and rewards of being a growing organization.
- Be a good listener—find out what employees are thinking and facing.
- Be willing to delegate duties.
- Be flexible—be willing to change your plans if necessary.
- Provide consistent and regular feedback by letting employees know the outcomes—good and bad.
- Reinforce the contributions of each person by recognizing employees' efforts.
- Continually train employees to enhance their capabilities and skills.
- Maintain the focus on the venture's mission even as it grows.
- Establish and reinforce a "we" spirit that supports the coordinated efforts of all the employees and helps the growing venture be successful.

when the entrepreneurial venture is expanding. It's all too easy to let things "get away" or to put them off when there's an unrelenting urgency to get things done. Rapid growth—or even slow growth—does not excuse the need to have effective controls in place. In fact, it's particularly important to have established procedures, protocols, and processes and to use them. Even though mistakes and inefficiencies can never be eliminated entirely, an entrepreneur should at least ensure that every effort is being made to achieve high levels of productivity and organizational effectiveness. For example, at Green Gear Cycling, cofounder Alan Scholz recognized the importance of controlling for growth. How? By following a "Customers for Life" strategy, which meant continually monitoring customer relationships and orienting organizational work decisions around their possible impacts on customers. Through this type of strategy, Green Gear hopes to keep customers for life. That's significant because they figured that, if they could keep a customer for life, the value would range from $10,000 to $25,000 per lifetime customer.[55]

Managing Downturns

Although organizational growth is a desirable and important goal for entrepreneurial ventures, what happens when things don't go as planned—when the growth strategies don't result in the intended outcomes and, in fact, result in a decline in performance? Significant challenges can come in managing the downturns.

Nobody likes to fail, especially entrepreneurs. However, when an entrepreneurial venture faces times of trouble, what can be done? How can downturns be managed successfully? The first step is recognizing that a crisis is brewing.

RECOGNIZING CRISIS SITUATIONS. An entrepreneur should be alert to the warning signs of a business in trouble. Some signals of potential performance decline include inadequate or negative cash flow, excess number of employees, unnecessary and cumbersome administrative procedures, fear of conflict and taking risks, tolerance of work incompetence, lack of a clear mission or goals, and ineffective or poor communication within the organization.[56]

Another perspective on recognizing performance declines revolves around what is known as the **"boiled frog" phenomenon** in which subtly declining situations are difficult to recognize.[57] The "boiled frog" is a classic psychological response experiment. In one case, a live frog that's dropped into a boiling pan of water reacts instantaneously and jumps out of the pan. But in the second case, a live frog that's dropped into a pan of mild water that is gradually heated to the boiling point fails to react and dies. A small firm may be particularly vulnerable to the boiled frog phenomenon because the entrepreneur may not recognize the "water heating up"—that is, the subtle decline of the situation. When changes in performance are gradual, a serious response may never be triggered or may be initiated too late to intervene effectively in the situation.

So what does the boiled frog phenomenon teach us? It teaches us that entrepreneurs need to be alert to signals that the venture's performance may be worsening. Don't wait until the water has reached the boiling point before you react.

DEALING WITH DOWNTURNS, DECLINES, AND CRISES. Although an entrepreneur hopes to never have to deal with organizational downturns, declines, or crises, a time may come when he or she must do just that. After all, nobody likes to think about things going bad or taking a turn for the worse. But that's exactly what the entrepreneur should do—think about it *before* it happens (remember feedforward control from Chapter 18).[58] It's important to have an up-to-date plan for covering crises. It's like mapping exit routes from

"boiled frog" phenomenon
A perspective on recognizing performance declines that suggests watching out for subtly declining situations

your home in case of a fire. An entrepreneur wants to be prepared before an emergency hits. This plan should focus on providing specific details for controlling the most fundamental and critical aspects of running the venture—cash flow, accounts receivable, costs, and debt. Beyond having a plan for controlling the venture's critical inflows and outflows, other actions would involve identifying specific strategies for cutting costs and restructuring the venture.

Exiting the Venture

Getting out of an entrepreneurial venture may seem to be a strange thing for entrepreneurs to do. However, the entrepreneur may decide at some point that it's time to move on. That decision may be based on the fact that the entrepreneur hopes to capitalize financially on the investment in the venture—called **harvesting**—or that the entrepreneur is facing serious organizational performance problems and wants to get out, or even on the entrepreneur's desire to focus on other pursuits (personal or business). The issues involved with exiting the venture include choosing a proper business valuation method and knowing what's involved in the process of selling a business.

BUSINESS VALUATION METHODS. Valuation techniques generally fall into three categories: (1) asset valuations, (2) earnings valuations, and (3) cash flow valuations.[59] Setting a value on a business can be a little tricky. In many cases, the entrepreneur has sacrificed much for the business and sees it as his or her "baby." Calculating the value of the baby based on objective standards such as cash flow or some multiple of net profits can sometimes be a shock. That's why it's important for an entrepreneur who wishes to exit the venture to get a comprehensive business valuation prepared by professionals.

OTHER IMPORTANT CONSIDERATIONS IN EXITING THE VENTURE. Although the hardest part of preparing to exit a venture is valuing it, other factors also should be considered.[60] These factors include being prepared, deciding who will sell the business, considering the tax implications, screening potential buyers, and deciding whether to tell employees before or after the sale. The process of exiting the entrepreneurial venture should be approached as carefully as the process of launching it. If the entrepreneur is selling the venture on a positive note, he or she wants to realize the value built up in the business. If the venture is being exited because of declining performance, the entrepreneur wants to maximize the potential return.

Managing Personal Life Choices and Challenges

Being an entrepreneur is extremely exciting and fulfilling, yet extremely demanding, often with long hours and high stress. Yet, being an entrepreneur can offer a variety of rewards, as well. In this section, we want to look at how entrepreneurs can make it work—that is, how can they be successful and effectively balance the demands of their work and personal lives?[61]

Entrepreneurs are a special group. They are focused, persistent, hardworking, and intelligent. Because they put so much of themselves into launching and growing their entrepreneurial ventures, many may neglect their personal lives. Entrepreneurs often have to make sacrifices to pursue their entrepreneurial dreams. However, they can make it work. They can balance their work and personal lives. But how?

One of the most important things an entrepreneur can do is *become a good time manager*. Prioritize what needs to be done. Use a planner (daily, weekly, monthly) to help schedule priorities. Some entrepreneurs don't like taking the time to plan or prioritize, or they think it's a ridiculous waste of time. Yet identifying the important duties and distinguishing them from those that aren't so important actually makes an entrepreneur more efficient and effective. In addition, part of being a good time manager is delegating those decisions and actions the entrepreneur doesn't have to be personally involved in to trusted employees. Although it may be hard to let go of some of the things they've always done, entrepreneurs who delegate effectively will see their personal productivity levels rise.

Another suggestion for finding that balance is to *seek professional advice* in those areas of business where it's needed. Although entrepreneurs may be reluctant to spend scarce cash, the time, energy, and potential problems saved in the long run are well worth the investment. Competent professional advisers can provide entrepreneurs with information to make more intelligent decisions. Also, it's important to *deal with conflicts* as they arise—both workplace and family conflicts. If an entrepreneur doesn't deal with conflicts, negative feelings are likely to crop up and lead to communication breakdowns. When communication falls apart, vital information may get lost, and people (employees *and* family members) may start to assume the worst. It can turn into a nightmare situation that feeds upon itself. The best strategy is to deal with conflicts as they come up. Talk, discuss, argue (if you must), but an entrepreneur shouldn't avoid the conflict or pretend it doesn't exist.

Another suggestion for achieving that balance between work and personal life is to *develop a network of trusted friends and peers.* Having a group of people to talk with is a good way for an entrepreneur to think through problems and issues. The support and encouragement offered by these people can be an invaluable source of strength for an entrepreneur.

Finally, *recognize when your stress levels are too high.* Entrepreneurs *are* achievers. They like to make things happen. They thrive on working hard. Yet, too much stress can lead to significant physical and emotional problems (as we discussed in Chapter 12). Entrepreneurs have to learn when stress is overwhelming them and to do something about it. After all, what's the point of growing and building a thriving entrepreneurial venture if you're not around to enjoy it?

REVIEW AND DISCUSSION QUESTIONS

1. What do you think would be the hardest thing about being an entrepreneur? What do you think would be the most fun thing?
2. How does the concept of social entrepreneurship (see Chapter 5) relate to entrepreneurs and entrepreneurial ventures?
3. Would a good manager be a good entrepreneur? Discuss.
4. Why do you think many entrepreneurs find it hard to step aside and let others manage their business?
5. Do you think a person can be taught to be an entrepreneur? Why or why not?
6. What do you think it means to be a successful entrepreneurial venture? How about a successful entrepreneur?

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