PART ONE:

INTRODUCTION TO
ENTREPRENEURSHIP
& INTRAPRENEURSHIP
CHAPTER 1

ENTREPRENEURSHIP AND THE ENTREPRENEUR

Learning Objectives

1. To understand the essence of entrepreneurship
2. To identify the major characteristics of the entrepreneur
3. To be able to relate and integrate the process of venture initiation and development into a workable action model

Topic Outline

Introduction
The Classical Entrepreneur
History of Entrepreneurship
Characterizing The Entrepreneur
Entrepreneurs: Born Or Made?
The Enterprising Model
Conclusion
References
Review Questions

“We say here that everybody wants to be a chicken’s head, not a bull’s toenail.”

(Chien-Shien Wang, Taiwan’s former vice minister for economic affairs, on why there are so many small businesses in his country.)
INTRODUCTION

“Twenty years ago, Fortune 500 companies in the U.S. hired over 70 percent of college graduates. Today, Fortune 500 companies hire less than 7 percent of college graduates and the entrepreneurial enterprises hire over 80 percent. More than 40 percent of students start a business within one year of graduation” (“History of the Center,” 2000). These businesses employ 55 percent of the total American work force. When we think of the entrepreneur, we often visualize the small business. While most, if not all, business ideas begin “small,” a great deal of focus is placed upon entrepreneurial ideas that have grown into sizable corporations. In examining the entrepreneur we should not get entwined in the small vs. large argument, but rather focus on the individual that made his or her dream come true. The individual who is able, through painstaking effort, to transform a simple idea into a moneymaking, successful venture is the real, classical entrepreneur.

THE CLASSICAL ENTREPRENEUR

The word entrepreneur evolved from the French “entreprendre,” meaning to undertake. To undertake a business, to translate words into action, this is how we view today’s entrepreneur. The Webster’s definition of entrepreneur is: “One who organizes, manages, and assumes the risks of a business or enterprise” (Merriam-Webster, 1999). This definition applies to an entrepreneur’s desire to undertake an idea and implement it through a business plan, with the essential goal of making a profit. The word itself expresses the dynamic nature of entrepreneurship and the inherent contradictions in the attempt to balance the need for a venture’s flexibility with the need for coordination. Additionally, the word entrepreneurship also reflects the inherent difficulties in balancing three seemingly impossible acts: the entrepreneurial problem as far as the choice of products and markets are concerned; the engineering problem in terms of the development of a production process for these products and their distribution in the targeted markets; and finally, the administrative problem of designing the appropriate managerial structures and processes to ensure the venture’s effective organization, in anticipation of the next entrepreneurial problem, as the venture grows and evolves.

Entrepreneurs come in all shapes, sizes, and colors. They are young and old, male and female. Some are successful in their endeavors, while many are not. However, one common bond exists among all entrepreneurs: they have implemented their thoughts in a cohesive, concerted effort. Words become action, and hopes become realities.

Economist Joseph A. Schumpeter (1939) views the entrepreneur as an innovator, as well as a manager. Schumpeter continues this line of reasoning by arguing that entrepreneurial profit evolves from innovation, from procuring an item, a commodity at a lower unit cost than any competitor. However, subsequent comments serve as a
caveat to any entrepreneur hoping to rest upon past accomplishments. Schumpeter warned of the continuous prospect of creative destruction: Once in existence, almost all enterprises feel threatened and put on the defensive. Schumpeter (1939) also provided a historical review of the problem associated with assigning specific definitions to the term entrepreneur. Cantillon, the fifteenth century French economist, was apparently the first to introduce the term entrepreneur. Cantillon defined the entrepreneur as the agent who purchases the various means of production for ultimate assembly or combination into marketable products. Cantillon recognized that a degree of uncertainty and risk entered into the entrepreneurial activity (Schumpeter).

Adam Smith, the father of private enterprise, influenced heavily by Cantillon, viewed the entrepreneur as a minor contributor to the workings of the economic system. The businessman, according to Smith, provided capital and nothing else to the productive process. The role can be likened to that of the catalyst that serves to initiate and incite a chemical reaction, but serves no useful subsequent function (Schumpeter, 1939). Chester I. Barnard advanced the belief that a relationship exists between the entrepreneur and innovation. To Barnard, the entrepreneur was the one who conceives, discovers, and promotes innovative activities in business operation. Innovation is essential to all formal organizations. In an environment that is constantly changing, it is crucial to have the capacity to sense and affect change if an organization is to survive. Harbison and Myers developed the notion of the organization builder. To them, the organization builder is “the catalytic agent in the process of industrialization, i.e., he/she acts and reacts with economic and social environments to bring about economic change” (Harbison & Myers, 1959, p. 17). On the other hand, Collins and Moore (1964) concluded, after an exhaustive review of conflicting terminologies, that when utilizing the term entrepreneur, “we shall (only) mean the innovating entrepreneur who has developed an ongoing business activity where none existed before” (p. 20).

Perhaps the most candid and frank views and definitions of the entrepreneur are provided first by Schöllhammer and Kuriloff (1979, pp. 8-12) who wrote that entrepreneurs, in the modern sense, are the self-starters and doers who have organized and built successful enterprises since the Industrial Revolution, and secondly by Ronstadt as quoted by Kuratko and Hodgetts (1989):

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources. (p. 8)
EXHIBIT 1-1

The Evolution of the Entrepreneur

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<th>Name</th>
<th>Description</th>
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<td>Smith</td>
<td>Catalyst initiating a chemical reaction</td>
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<td>Schumpeter</td>
<td>Innovator</td>
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<td>Barnard</td>
<td>Conceives, discovers, and promotes innovative action</td>
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<td>Harbison &amp; Myers</td>
<td>Organization builder who brings economic change</td>
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<td>Collins &amp; Moore</td>
<td>Developer of a business activity where none existed before</td>
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<tr>
<td>Ronstadt</td>
<td>One who infuses value into a product or service</td>
</tr>
<tr>
<td>Today’s Entrepreneur</td>
<td>Undertakes, implements, and transforms dreams into realities by creating value where none was perceived to exist before</td>
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In this context, we should reserve the term “enterprise” for actions, which entail carrying out innovations. For the individuals who carry them out, we should reserve the term “entrepreneurs.” This terminological decision is based on a historical fact and a theoretical proposition, namely, that carrying out innovations is the only function, which is fundamental in history and essential in theory to the type usually designated by that term. In order to prosper in the long run, the entrepreneur must continually initiate innovative actions and reactions in a competitive economic system (Dale, 1970, p. 28).

What has historically separated the entrepreneur from the masses is the fact that they undertook a business idea. They implemented where others dreamed. They transformed dreams into realities. They tried, and perhaps even failed, where others merely weighed their options. Entrepreneurs charge, while others hesitate. They run when others walk, and they leap when others hope.

HISTORY OF ENTREPRENEURSHIP

In the beginning of human history, mankind was an agrarian society and the first entrepreneurs were farmers, artisans, or craftsmen. True entrepreneurial recognition came much later, during the Mercantilism period in Louis XIV’s France in the
eighteenth century, which created merchant entrepreneurs. Cantillon, as mentioned earlier, was the first to associate the “risk-bearing” activities of the economy with the term “entrepreneur.” The industrial revolution in England brought forth entrepreneur/industrialists and later entrepreneurial service industries developed. There are a lot of similarities between entrepreneurs at the end of nineteenth century and “Internet entrepreneurs” at the beginning of twenty-first century. A success manual from the late nineteenth century advocated that “never before in the world’s history was competition in every calling and pursuit as fierce as now in this latter half of the (nineteenth) century. Those who don’t play by the new rules would be trampled underfoot in the rush and roar of the nineteenth century” (Useem, 1999, pp. 159-160). For example, people during the 1890s started shopping from Sears Roebuck and Montgomery Ward catalogs, while now shopping is done from the Internet. What both periods have in common is the kind of people who shaped the new way of “doing things” and who recognized the value of:

- The fundamental changes in the world that presented new opportunities
- The new strategies that were needed to take advantage of these changes
- The new kinds of organizational structures that were needed to execute those strategies
- The implementation of a value creating vision into action

Another historical perspective of entrepreneurship is the more recent revolution of a business firm’s organizational structure. There have been four distinct phases of organizational transformation. The first phase was the evolutionary development of professional managers. Phase two started when these professional managers determined that their companies could operate many different conglomerate businesses, such as an oil firm owning and operating a retail store, or a sugar company owning and operating hotels. Over time, the weaknesses of this model became more pronounced, and during the 1970s a new third phase emerged when most conglomerates started unraveling. As the conglomerates proved their inefficiency, this third entrepreneurial phase became a true force. These entrepreneurs emerged by undertaking financial ventures, turnaround improvements of old businesses, or building up businesses from nothing, such as Sam Walton, Bill Gates, and Charles Schwab. These entrepreneurial creations have ushered a new wave of alliances of competing and non-competing companies with entrepreneurial roots, without of course negating the entrepreneurial phase, which is far from over, especially with the advent of the Internet (Chakravarty, 1998). The future of entrepreneurship is indeed today, and the opportunities are limitless because the bricks and mortar days have been replaced with bricks and “clicks.”
CHARACTERIZING THE ENTREPRENEUR

Jean Baptiste Say in the early nineteenth century, and Joseph Schumpeter, the twentieth century economic genius, began writing about entrepreneurship and its impact on the economic development of a country. Additionally, for many years psychologist David C. McClelland studied a particular human motive, the need to achieve. In his landmark effort, The Achieving Society, McClelland (1961) tested a hypothesis “that a society with a generally high level of need for achievement will produce more energetic entrepreneurs, who in turn produce more rapid economic development” (p. 205). The need for achievement is the most dominant among the psychological drives that motivate the entrepreneur according to McClelland, and can be classified into three broad categories:

1. Entrepreneurs like to set goals for themselves and measure their performance against stringent standards of excellence. They want to succeed and compare themselves only to their own specifically conceived criteria.
2. Entrepreneurs are interested and actively involved in unique accomplishments. They want to be distinctive, to protrude, and to stand out among others.
3. Entrepreneurs are not “buck passers.” Coinciding with their achievement motivation is the acceptance of responsibility for all their actions. (pp. 36-46)

McClelland (1961) and his associates also provided a more comprehensive list of tested entrepreneurial characteristics. Some of these include:

- Individuals high in need for achievement are moderate risk takers.
- Entrepreneurs wish to operate in situations in which they can obtain a sense of personal achievement.
- Entrepreneurs perceive their probability of succeeding as very high.
- Entrepreneurs are not strongly motivated by material rewards.
- Entrepreneurs desire and need constant progress reports and personal performance assessments. (pp. 36-46)

One additional entrepreneurial personality characteristic deserves mention here. Shapero (1978) conducted a number of research efforts focusing on the concept of locus of control. Shapero’s observations emphasize the fact that entrepreneurs, in general, feel that they can influence events to their own benefit or detriment. Their strong internal locus of control contrasts with people who are “externals” and believe that rewards or punishments in life come through fate, luck, or chance (Shapero).

Economic breakdowns should be blamed precisely on the lack of entrepreneurship and lack of entrepreneurial type decision-making. A basic characteristic of most entrepreneurial decision-making is its on-going nature and the entrepreneurial desire
to see things through (Cole, 1959, p. 14). An entrepreneur’s work is not over until the decision he or she made has been implemented and executed. In such circumstances, while most of us would probably settle for the status quo, entrepreneurs act. Reasons for this go to the very heart of human creativity and can rarely be expressed in anything other than terms, such as animal spirit, instinct, drive, purpose, or sheer self-righteousness because the entrepreneur believes he or she is right, while everyone else is wrong (Casson, 1991, p. 14).

### ENTREPRENEURS: BORN OR MADE?

While entrepreneurs have many unique characteristics, there is a main idea still missing. Previous research in entrepreneurship has often focused on identifying the personal characteristics or traits that distinguish entrepreneurs from the general population, rather than adopting a process-oriented approach (Low & Macmillan, 1988; Boyd & Vozikis, 1994). Additionally, many of these identified characteristics are not exclusively held by entrepreneurs, but rather possessed by many successful individuals (Brockhaus, 1982; Brockhaus & Horwitz, 1986; Gartner, 1985). The one important characteristic that is missing is the trait of self-efficacy, which has been defined as a person’s belief in his or her capability to perform a task (Gist, 1987; Boyd & Vozikis, 1994). Self-efficacy plays a very important role in the development of entrepreneurial intentions and actions and confirms that the main entrepreneurial drive comes from “inside,” because individuals will not be successful entrepreneurs if they do not believe in themselves. Through education, or actual work experience, one can readily acquire specific attitudes, knowledge, and skills in the business functions of accounting, finance, marketing, etc., but the spark needed to fire that entrepreneurial spirit must come from “within.”

While we can easily identify a number of individuals who exhibit “inborn” native entrepreneurial characteristics, it seems that theory leans toward the position that anyone can develop, refine, and emerge as a *bona fide*, successful entrepreneur. Minniti and Bygrave (1999) advocate that people who are alert to an entrepreneurial environment where “disequilibrium” exists, in the sense of continuous change, and have the ability to cope with uncertainty can be “made” into entrepreneurs. This complements of course Schumpeter’s ideas, where the entrepreneur is the one who *creates* the disequilibrium, rather than merely reacting to changes. Alert individuals can react to market opportunities and act upon them when they are convinced that the utility received from undertaking an entrepreneurial venture exceeds the utility received from any alternative income-producing activity. Some detect these marketing opportunities, and some do not. Those who do can be labeled entrepreneurs, and those who do not cannot be labeled entrepreneurs. Minniti and Bygrave further identify three simultaneous elements that reinforce the decision to allow one to be labeled an entrepreneur:
- The subjective initial personal endowment of the entrepreneur, such as family background, education, and personal history
- The institutional and economic state of the specific economic setting of an entrepreneurial venture, such as property rights, taxes, inflation rate, and opportunity cost of engaging in entrepreneurial activities
- The existing level of entrepreneurial activity in that specific economic setting as perceived and evaluated by the individual entrepreneur, such as networking, and support system for entrepreneurial activities (p. 3)

Furthermore, some specific events in one’s lifetime increase or decrease the prospect of becoming an entrepreneur. An inheritance or a sudden gift, for example, increases the probability of becoming self-employed, especially since most entrepreneurial ventures begin not with bank loans but with one’s own or family funds (Blanchflower & Oswald, 1998).

Can entrepreneurship be taught? This is debatable unless the characteristics of an entrepreneur are separated, conceptually speaking, from the entrepreneurship process. The basic assumption guiding this text is that entrepreneurship cannot be “forcefully” taught, and nobody can be forced to become an entrepreneur. Rather, this course will endeavor to transpose the student into the mind frame of an entrepreneur or intrapreneur! This requires the creation of worthwhile and positive outcomes as a result of hard work and initiative on the part of the student. In order to accomplish these positive outcomes the entrepreneurial process can be taught in terms of:

1. **Analysis of facts** by collecting information and evaluating knowledge on the possibility of the existence of a value concept
2. **Active thinking** by synthesizing, planning, integrating, and assigning meaning to the knowledge related to this value concept
3. **Application of the knowledge** by initiating the venture and validating the value concept
4. **Active doing** by the effective management and development of the venture, thus advancing the relevance of the knowledge about the value concept by ensuring its growth and survival

Hopefully, the initial exposure you receive here will inspire many of you to consider creating your own business idea by building your confidence. As our old friend, the late Jeff Bracker, an entrepreneurship professor at the University of Louisville used to say: “Competence can be bought, or acquired. Confidence, never!” The atmosphere provided by our free market economy is most amenable for budding entrepreneurs. However, the spark needed to fire that entrepreneurial spirit must come from within. Through schooling or actual work experience, you can readily acquire and become truly confident about the required **FAKTS** of entrepreneurship, the building blocks of venture development:
Every plan needs structure, and a complex task such as what needs to be accomplished here requires a course of action that will bring structure, and lay the foundations for the transformation of a plan into a real-life firm. The enterprising model offered here is comprised of four parts, which are outlined below in more detail:

**Part I: Introduction to Entrepreneurship and Intrapreneurship**
Part I delineates the evolution of the entrepreneur as an individual with distinctive characteristics through the application of individual entrepreneurial efforts (Chapter 1) or entrepreneurial activities and processes in a corporate setting in order to develop entrepreneurial pockets of corporate innovation (Chapter 2), fulfilling the essential role of entrepreneurship, namely by evaluating the feasibility of the venture’s value concept and “putting it all together” in a business plan (Chapter 3), as well as developing a success framework by identifying overall success requirements (Chapter 4).

**Part II: Venture Initiation**
Part II presents the development of a framework for the venture’s value concept “niche” idea, which begins by systematically seeking and conceptualizing this value opportunity concept (Chapter 5), in a demand-driven opportunity strategic target market (Chapter 6), by projecting the potential returns and its timetables for the venture’s financial prospects (Chapter 7), and specifying the need for personal and additional financial and overall commitment (Chapter 8), and finally, by designing the framework for the venture’s infrastructure consisting of the product and the marketing considerations (Chapter 9), organizational and operational considerations (Chapter 10), and legal considerations (Chapter 11).

**Part III: Venture Management**
The entrepreneurial or intrapreneurial venture’s “ability to execute” once the venture is launched, is ensured only by organizing and staffing the venture with skilled individuals and providing them with competent managerial leadership with FAKTS (Chapter 12), and by providing solid financial money management and control (Chapter 13).

**Part IV: Venture Development**
Whether a venture proposal constitutes a real “deal,” depends on whether its survival
and growth are ensured by **protecting**, **improving**, and **expanding** the venture’s value concept and sustainable competitive advantage edge through effective growth management, development, and/or “harvesting” (Chapter 14), and finally, by examining additional future expansion possibilities of the venture’s value concept by assessing its growth and development prospects through internationalization (Chapter 15).

In addition to the text and the material that it highlights, at the end of each chapter there is a section entitled “**Reflections From the Front Lines of LifeGuard,**” a bridge between theory and practice that presents the thoughts and contemplations of a nascent entrepreneur in the process of a real-life venture startup. These sections are written by John R. Fitzpatrick III, President and CEO of LifeGuard America, a venture that aims at dramatically improving the organ procurement and transplant industry and consequently saving the lives of many who are waiting for transplant organs around the country. John has over fifteen years of senior leadership experience in such companies as Hewlett-Packard and Harley-Davidson and in his most recent role as President and CEO of Indian Motorcycle Company in Gilroy, California, which he left in May of 2001 to start LifeGuard America in Tulsa, Oklahoma. He has been working since then to bring LifeGuard America to a point where the management team, strategic partners, and the value concept itself are fully tested and ready to deliver services. John is a 1978 graduate of the University of Tulsa’s Electrical Engineering College and served twelve years as a fighter pilot with Tulsa’s 125th Tactical Fighter Squadron while working at FlightSafety (1980-1981), Hewlett Packard (1981-1987), and Advanced Graphics Systems (1987-1994). John and his wife, Luanne, have been married for seventeen years, and they have two wonderful girls, Kelli Kathleen and Ashlee Anne.

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**CONCLUSION**

The characteristics of the entrepreneur and the intrapreneur and their impact on the venture’s performance have been a subject of long academic debates. However, they inherently rely on several **FAKTS** that seem to be universally accepted. Entrepreneurs and intrapreneurs possess **Financial skills** to help them avoid strategic and financial pitfalls. They have a compelling but realistic **Attitude** about their venture’s possibilities. They are the world’s experts on the potential of their products and services because they **Know** their specific product, market and industry. They have a clear vision of the enterprise’s current and future state of affairs because their **Timing** is perfect at the juncture of economic, financial, competitive, and personal circumstances when everything has come together. This enables them to provide direction and effective communication to other organizational members as well as convey confidence to investors. Finally, entrepreneurs and intrapreneurs possess the organizational, communication, and competence **Skills** to effectively manage operational processes, and formulate and implement strategies. These **FAKTS** constitute the fundamental blocks of venture initiation and development.
## ADDITIONAL WEBSITE INFORMATION

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<td>Links to a profile of the entrepreneur, myths about entrepreneurs, and self analysis.</td>
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<td>Brief biographies of the people who had a profound impact on business in the 20th century.</td>
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<td>In depth information about the study carried out by David McClelland.</td>
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<td><a href="http://www.dushkin.com/connectext/psy/ch11/survey11.mhtml">www.dushkin.com/connectext/psy/ch11/survey11.mhtml</a></td>
<td>Provides a brief survey to test your own locus of control as well as other websites that give information about locus of control.</td>
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REFERENCES


KEY TERMS

Entrepreneur: To undertake (French).

Entrepreneurial Problem: Concerned with the choice of products and markets.

Engineering Problem: Concerned with the development of a production process for these products and their distribution in the targeted markets.
Administrative problem: Concerned with designing the appropriate managerial structures and processes to ensure the venture’s effective organization, in anticipation of the next entrepreneurial problem, as the venture grows and evolves.

Enterprise: A term reserved for action, which entails carrying out innovations.

Entrepreneurs: A term reserved for the individuals who carry out the action of an enterprise.

Mercantilism: A period during Louis XIV’s eighteenth century France that created merchant entrepreneurs.

Industrial Revolution: A period in England that brought forth entrepreneur/industrialists.

Internetentrepreneurs: A title given to entrepreneurs of the twentieth century.

Need for Achievement: The most dominant among the psychological drives that motivate the entrepreneur.

Locus of control: The distinct feeling that one can either influence events to their own benefit or detriment, or hold the belief that rewards or punishments in life come through fate, luck, or chance.

Analysis of Facts: Collecting information and evaluating knowledge on the possibility of the existence of a value concept.

Active Thinking: Synthesizing, planning, integrating, and assigning meaning to the knowledge related to this value concept.

Application of Knowledge: Initiating the venture and validating the value concept.

Active Doing: The effective management and development of the venture that advances the relevance of the knowledge and the value concept and ensures its growth and survival.

FAKTS of Entrepreneurship: Financials, Attitude, Knowledge, Timing, Skills.
**REVIEW QUESTIONS**

1. In what ways are the *FAKTS* of entrepreneurship universally accepted by each entrepreneur?
2. Are entrepreneurs born or made?
3. Discuss the concept of self-efficacy.
4. What does the word “entrepreneur” mean to you?
5. Can entrepreneurship be taught?
6. Briefly describe the evolution of the entrepreneur through the ages.

**REFLECTIONS FROM THE FRONT LINES OF LifeGuard America**

How does one become an “entrepreneur”? Are entrepreneurs born, raised or converted from some other stock? Looking back, I must confess that my entrepreneurship began at a very young age. My father was a genius, period. It doesn’t hurt, I guess, that he graduated from Berkeley in the 1940s with honors, had Enrico Fermi as a physics professor, and sat in on monthly breakfast talks with Mr. Fermi and Albert Einstein at a local Berkeley café. There are few people that I have ever met in my life that have the ability to conceive, process and design in three-dimensional space while at the same time able to communicate effectively to those of us who cannot. His incredible abilities led him to a path of entrepreneurship in the Oil & Gas industry that is, to this day, without equal. In 25 years he amassed over seventeen patents and started seven different companies with products that remain state-of-the-art twenty-one years after his all too early death. It was in the shadow of this giant that I watched, learned and “apprenticed” for thirty some years.

It is hard to say whether I actually learned or just came to appreciate and imitate my father’s actions. I believe that by witnessing his undaunted spirit while launching a new company with products that were ground breaking in their field, I came to appreciate and aspire to that same goal: to make a difference. His words still ring in my ears, “Be good at something first; then and only then can you extend yourself into the world making it a better place.” Born, raised or converted? I guess it doesn’t much matter. Once entrepreneurism gets into your blood, it becomes a way of life and good or bad, there is no turning back.

**DISCUSSION QUESTIONS ON LifeGuard America**

1. Does it appear that Mr. Fitzpatrick was an unknowing apprentice to entrepreneurship?
2. How would an apprenticeship differ from being “taught” entrepreneurship?
3. What do you think is meant by Mr. Fitzpatrick’s reference to conversion?
CHAPTER 2

CORPORATE ENTREPRENEURSHIP

Learning Objectives

1. To explain why corporate entrepreneurship or intrapreneurship is a real source of new businesses and an activity encouraged by many larger firms
2. To compare and contrast the advantages and disadvantages of corporate venturing efforts
3. To identify the primary characteristics, attitudes, and philosophies usually attributed to corporate surfs
4. To identify the four stages of the corporate entrepreneurship process and the various activities comprising each stage
5. To identify the challenges faced by corporate management during the corporate entrepreneurship process and how their resolution can contribute to the success of a corporate venture

Topic Outline

Introduction
Corporate Venturing, Entrepreneurship, And Intrapreneurship
   The Benefits Of Corporate Entrepreneurship
   Popularizing The Concept Of Corporate Entrepreneurship
   The Advantages Offered By Larger Firms To Venturing Efforts
The Corporate Entrepreneur
   The Trials And Tribulations Of The Corporate Entrepreneur
   Some Additional Costs And Benefits To Consider
The Corporate Entrepreneurship Process
   Initiating The Process: Choosing An Idea
   Planning The Venture
   Managing The Venture From Survival To Growth
   Integrating The Venture Into The Organization
Conclusion
References
Review Questions

“Every time you put a new idea into action you find ten people who thought of it first, but they only thought of it.”

(Unknown)
INTRODUCTION

Individual entrepreneurs have become our mythic heroes, and their success, as well as the excitement, action, and dynamism surrounding their ventures, is broadcast daily in business journals, newspapers, and other forms of news media around the country. Entrepreneurship as a legitimate alternative career path has captured the imagination of the American public and educational institutions like no other time in our business history, as well as transferred as a concept to other countries to promote economic development (Lado & Vozikis, 1997).

Discussions of entrepreneurship, however, cannot afford to simply focus on smaller or emerging ventures and ignore larger firms. Only 3-4 percent of the millions of businesses in the United States employ more than 500 workers. Together, however, they account for over 38 percent of the total working population (Birch, 1987). This is a substantial number of workers, without a doubt, but can they play a role in entrepreneurship? Can senior managers turn corporate employees into bona fide entrepreneurs? Can organizations, generally perceived as bureaucratic and conservative, adjust to the radically different mindset needed for corporate entrepreneurship? Can these large firms, which need to depend on coordination and centralization for sheer survival reasons, create conditions of flexibility from within, so entrepreneurial activities can spring and flourish?

If organizations can make this paradigm shift, corporate entrepreneurship or intrapreneurship becomes another yet alternative mode of entry for potential entrepreneurs. But this type of entry strategy differs significantly from the more traditional methods of independent entrepreneurship addressed earlier. For one thing, ownership is typically not part of the bargain between the parent firm and the corporate entrepreneur, and even if it is, it is generally a token amount provided as an incentive to engage into intrapreneurial activities. Ownership usually remains firmly in the hands of the corporation that provided the intrapreneurial environment. Furthermore, the corporate entrepreneur’s personal wealth is not at risk, nor are financial resources as difficult to obtain. Even with these differences, however, bringing a new product or service to market within the context of a larger firm offers many of the same challenges as independent entrepreneurship does. It is a way for aspiring entrepreneurs working for a corporation and unable or not yet willing to experience some of the same highs and lows that independent entrepreneurs do, to engage in entrepreneurial activities that add value to the organization which employs them.
CORPORATE VENTURING, ENTREPRENEURSHIP, AND INTRAPRENEURSHIP

Corporate entrepreneurs, corporate venturers, intrapreneurs, product or business champions, business innovators...At one time or another, all of these terms have been used to describe the broad range of entrepreneurial activities undertaken by an individual or a team employed by a large organization or their subsidiary, and within the framework of this large organization. Kolchin and Hyclak (1987) for example, define intrapreneurship not as a concept, but rather as a “managerial philosophy.” Invariably, researchers and authors have drawn distinctions between these labels, but these terms can safely be used interchangeably, as long as they engage, as Covin and Miles (1999) argue, in some sustained regeneration, organizational rejuvenation, strategic renewal, or strategic domain redefinition. It follows then, that the responsibility of intrapreneurs, as individuals or groups, is to identify a new business opportunity from various venture ideas that constitutes a process of renewal or innovation within a large organization and ultimately bring it to market (Sharma & Chrishman, 1999). Corporate resources may or may not be used, but because of the fact that the intrapreneurs are employed by the corporation, the ownership of the venture idea and the potential benefits from its commercialization remains predominantly in the hands of the firm.

Not surprisingly, ownership is a critical issue. There are many examples of entrepreneurs who worked for substantial periods of time in their companies and came up with new business ideas. But their ideas were frequently developed outside the confines of their employers’ organizations, and at the right “timing” juncture as explained earlier, they left to start their own firms. Howard Head, the developer of metal skis, and the metal tennis racket, as well as Chester Carlson, the founder of xerography, typify these individuals. Both men identified potential business opportunities while working with established firms, but chose not to use their employers’ resources and probably lose ownership of their ideas. Instead, they left their companies, took their vision and ideas with them, and followed their respective entrepreneurial strategies to success. This type of “latent entrepreneurs” does not fit the model of the corporate entrepreneur, but rather they resemble the independent entrepreneur discussed earlier.

Adding confusion to the definition issue is that the process of corporate entrepreneurship is frequently customized to fit each firm’s unique characteristics. There are distinct differences in generalized process of corporate venturing. Some firms use a deliberate and highly structured corporate entrepreneurship framework, while other firms pursue a relatively unstructured approach in their intrapreneurial activities. This does not mean that one approach is better than the other, but rather illustrates that most firms modify their intrapreneurial activities to fit their own unique circumstances. For example, a systematic intrapreneurial opportunity search process may be intentionally designed by a firm’s senior management to ensure that any new business opportunities reflect the firm’s core strategy and mission. In contrast other
firms may follow the “anything goes” approach and leave things relatively unstructured. Accordingly, employees either have relatively few guidelines and have plenty of free time to work on their intrapreneurial projects, or because of corporate restrictions, they may have to circumvent the system in order to find the time and the resources needed to develop their ideas.

In the introduction of the 1990 Strategic Management Journal issue devoted to corporate entrepreneurship, Guth and Ginsberg (1990, p. 5) break down the concept into two parts: the development of new business ventures inside an already established business, and the further development and renewal of an organization’s existing underlying key ideas.

**Benefits Of Corporate Entrepreneurship**

Advocates of corporate entrepreneurship profess that our larger and more established organizations have little choice but to encourage entrepreneurial behavior. They claim that corporate entrepreneurship increases innovation, productivity, and morale; provides employees with a better feel for their markets; and enables firms to retain their most talented workers. If these claims are true, a sense of entrepreneurial spirit should be encouraged among employees if only to maintain a firm’s competitive position in their marketplace. To date, however, the purported benefits are based for the most part, on anecdotal evidence only, rather than good exploratory research. While this does not negate the value of corporate entrepreneurship, it reinforces the need to understand its pros and cons before buying into the idea and committing the firm to corporate venturing efforts.

This has resulted in a substantial number of medium- and larger-size firms working to overcome the traditional perception that big is necessarily bad as far as entrepreneurial activities are concerned. What these firms realize is that many of their employees possess the kinds of ideas and entrepreneurial skills on which both parties can capitalize. If enough ideas can be generated, it is a good bet that some will be cultivated into significant new business ventures. The trick is to find these people and foster that potential. To do so, firms are trying hard to overcome the traditional obstacles to implementing innovative ideas. They are learning how to recognize and accommodate the differences between standard corporate practices and the procedures, philosophies, and systems (or lack of the same) that a venturing effort requires. In other words, businesses serious about setting up internal venturing efforts cannot just tell their employees to go out and be creative. Instead, they first must do some serious soul searching about their ability to implement programs often incompatible with their usual methods. If they choose to go ahead, changes in their practices and philosophies will be necessary. Obviously, trying to mobilize an entire firm to accommodate new ventures is an ambitious task, but if successful, the financial and psychic rewards from a successful new business can be substantial for both the company and the corporate entrepreneur.
The idea of corporate entrepreneurship really picked up steam with the publication of Gifford Pinchot’s (1985) book, *Intrapreneuring*. Media coverage, along with the “pop” aspect of the term, made intrapreneuring one of the buzzwords of the ‘80s. While the term was new, the idea was not. Larger firms have long acknowledged the need for entrepreneurship within their boundaries, but seldom, until recently, have they made such highly-publicized attempts to encourage it in their organizations. Their shift in thinking regarding this process can be traced to four reasons. They are:

1. **Increasingly poor competitive positions in dynamic marketplaces.** The flexibility, quality, and rapid response offered by smaller businesses has led to the erosion of significant competitive positions in key markets traditionally dominated by more established firms. On occasion, larger firms have literally had their markets stolen away by smaller, more aggressive entrepreneurial companies. As a reaction, some firms initiate intrapreneural efforts in an attempt to restructure themselves into smaller units possessing characteristics similar to those of their more innovative competitors.

2. **Inability to implement innovative ideas.** Firms find themselves with no shortage of innovative ideas; they are hobbled, however, by their inability to implement them, to bring them to market. Businesses are questioning the effectiveness of their centralized management structures – can they adapt to changes in the marketplace as needed? Can they stay in touch with their customers and state-of-the-art technology? Circumventing their tried-and-true systems of analysis and control to accommodate new business ideas is one response. Reorganizing into smaller, more entrepreneurial units is another.

3. **“Vulture” Capitalists.** Without an infrastructure set up to encourage and reward creative ideas, the best talent and the newest technologies are being lured away by venture, or as some call them, “vulture” capitalists possessing abundant resources and the promise of making entrepreneurial dreams come true. Competition is no longer isolated to products and services, but instead, has shifted to a struggle to retain the firms’ best employees. If dissatisfaction with their firms’ procedures and philosophies become too much to bear, talented employees find it easy to locate better opportunities. In some firms, product development efforts are slowed down, short-circuited, or completely derailed by a lack of talented secondary personnel able to step in and replace technical specialists who depart for greener pastures and their own entrepreneurial dreams.
1. **Unproductive mergers and acquisitions.** Firms believing that mergers and acquisitions are a cheap way of obtaining assets and technologies oftentimes find their strategies counterproductive. Participants in the merger mania craze of the ’70s, ’80s, and ’90s frequently encountered difficulties in integrating dissimilar cultures and resources. Not only do firms lose key people but also many newly-acquired entrepreneurial businesses find their competitive advantages squandered and their highly-prized freedom to be more constrained than originally thought. As problems and costs multiply with acquired firms, internal venturing efforts become a more acceptable alternative.

By pointing to the reasons outlined above, advocates of corporate entrepreneurship are able to convince senior management (in many companies they are senior management) of the benefits of venturing. Other firms jump on the bandwagon because it is “fashionable,” or their competitors are doing it. Some firms choose to set up elaborate internal systems to promote venturing, while others set up more freewheeling and unstructured approaches. Peters and Waterman (1982) described the latter:

> All of these companies were making a purposeful trade-off. They were creating almost radical decentralization and autonomy, with its attendant overlap, messiness around the edges, lack of coordination, internal competition, and somewhat chaotic conditions, in order to breed the entrepreneurial spirit. They had forsworn a measure of tidiness in order to achieve regular innovation. (p. 201).

Another group of businesses uses consultants and/or intrapreneurship “schools” to educate their employees. For example, in the mid-1970s, a Swedish firm, Foresight Inc., set up one of the first schools to teach intrapreneurship. Companies using their services were required to select from a group of volunteers those employees felt to have the greatest intrapreneurial potential and the most promising new business ideas. Selected individuals were sent to Foresight Inc. and instructed in the fundamentals of intrapreneurship and implementing their ideas. On returning to their firms, participants were expected to resume their normal activities. Whatever free time they had available was used to develop their ideas into business plans, which were subsequently presented to their senior management staffs. If an idea was deemed feasible, start-up capital was supplied to get the new venture off the ground and the project was either integrated into the firm as a new product or service, or spun off into a subsidiary business (Arbose, 1982).
The Advantages Offered by Larger Firms to Venturing Efforts

Corporate entrepreneurship has become more popular with the realization that a large firm’s size, expertise, and resources can provide significant advantages over the independent entrepreneurship process. Pinchot (1985), for instance, identifies four potential advantages provided by the larger firm: (1) marketing clout, (2) a technology base, (3) financial resources, and (4) personnel resources.

1. **Marketing clout.** Unlike the entrepreneur who must start from scratch convincing potential customers of the value of a new product or service, the intrapreneur comes equipped with an established company name. More often than not, this implies staying power in the marketplace, the ability to pay bills, prior successes, and organizational expertise. Legitimacy is accorded the venture right from the start, an attribute particularly handy when attempting to secure and negotiate initial contracts with suppliers and distributors.

2. **Technology base.** The intrapreneur is provided access to substantial technological resources, including people with technical skills and proprietary knowledge. Technical facilities, including laboratories for start-up and prototype work, and manufacturing pilot plants may also be available to cut overhead and scale-up costs. Fortunately, proprietary knowledge can be exchanged freely within the firm because an implied (and sometimes explicit) trust exists among company personnel. On the other hand, independent entrepreneurs who frequently come into contact with consultants, suppliers, distributors, potential customers, and others, no doubt have to be more concerned over the possible theft of proprietary knowledge.

3. **Financial resources.** While it is easy to view a parent firm as an always-reliable source of funding, the reality for most companies is that development funds are generally limited by the number and variety of potential investments available. Hence, internal competition for resources is often vigorous. Even with the prospects of strong competition, however, the internal fundraising process pales in comparison to the independent entrepreneur’s plight in raising capital. No doubt, capital is more easily accessible when a venture starts off with senior-level support and a budget allocated for venturing efforts. Sometimes, the venture may even benefit from the corporate mentality of throwing money at problems until they are resolved. The venture may actually get more funds than needed--usually an entrepreneur’s dream come true. But a word of caution. While the cliché reads: “Never look a gift horse in the mouth,” over-funding can work against a start-up venture. Many have failed for the
unusual reason that they had too much money. Just how they manage to do this is not well researched, but some experts suggest that ventures with too much money never learn how to conserve their resources for the tougher times ahead. They lose their “hungry” feeling and get lazy. They stop finding ways to shave costs, they lose their competitive edge, and they begin to settle for second-best. Indeed, Fashion Portfolio, a venture begun by Levi Strauss and Co., Inc. was given twice as much space as seemingly needed, had 58 employees when 16-20 would probably have been sufficient, and provided a constant flow of money from the parent firm. Shortly after they began the venture, Levi’s abandoned it due to poor performance and a lack of fit with their corporate strategy.

4. **Personnel resources.** Skilled personnel, familiar with their firm’s corporate strategy and resources may be available to help build and develop the new venture. They already understand the firm’s capabilities, and perhaps even more important, know the “ins and outs” of getting things done in a large firm. Skills such as cannibalizing, scavenging, and bootlegging, among others, come in handy when needing to circumvent the normal corporate control systems that oftentimes block innovative efforts.

Organizations may benefit in other, more intangible ways from the venturing process. For example, Shapero (1985) asserts:

Entrepreneurship benefits organizations by bringing out or generating behaviors valuable to organizational survival and successful performance. For an organization, an increase in the tolerance of ambiguity among its managers means the ability to deal with uncertainty in a positive way. An increase in optimism, creativity, and the ability to take initiative and act independently means an increase in behaviors highly appropriate to the task dealing with today’s tough international marketplace. The greatest benefit from entrepreneurship for an organization is achievement of focused motivation that cannot be realized through other means. Entrepreneurship acts as a powerful lens focusing individual motivation and energy in a way unmatched by all the manipulations of industrial psychologists and organization developers. (p. 4)

### THE CORPORATE ENTREPRENEUR

Regardless of the approach used to foster corporate venturing, a necessary early step is to identify employees possessing entrepreneurial capabilities. Unfortunately, tests do not exist that can be considered valid indicators of entrepreneurial potential. Neither are psychological profiles of the prototypical corporate entrepreneur of much use. What researchers do agree upon, however, is that the manager of an entrepreneurial
unit requires skills different from the manager of an existing operating unit. Pinchot’s (1985) comparison of the characteristics and traits of traditional managers, traditional entrepreneurs, and intrapreneurs found wide discrepancies between the manager and the intrapreneur. At the same time, however, he recognizes many similarities between the entrepreneur and the intrapreneur. Pinchot’s work provides some interesting insights into the intrapreneur as an individual, but it reflects his bias toward a solo entrepreneur, initially working on his/her own initiative to develop new business ideas for their companies. The characteristics possessed by his intrapreneurs are those necessary to successfully navigate his view of the intrapreneurial process: networking the idea, bootlegging resources, and team-building.

Pinchot’s (1985) view of intrapreneurship is not the only model available. Slightly different approaches to corporate entrepreneurship exist in some firms, which use a more deliberate search process to generate new opportunities. In this case, firms often look for individuals possessing a mixture of characteristics – the independence and networking qualities of Pinchot’s solo intrapreneurs and the discipline and administrative skills of more traditional corporate managers.

Carrier (1996) found that intrapreneurs have similar psychological profiles, even though the contexts in which they operate are different. For example, intrapreneurs are motivated by promotion rather than independence, even though they value the freedom and the extra resources that promotion will bring to them, as well as the ability, authority, and power to take further entrepreneurial initiatives in other areas of the organization. Another reward valued by the intrapreneur that was identified in Carrier’s study, was ownership of capital stock as additional compensation and incentive. Not surprisingly, this type of corporate entrepreneur must recognize the advantages offered by a large company in terms of the marketing and financial clout, and the personnel and technological resources, and learn to capitalize upon them within the constraints established by a firm’s philosophy toward risk and return. To this end, autonomy must be accommodated, but at the same time, it has to be tempered by the reality of getting things done through the usually bureaucratic organization.

Beyond the characteristics mentioned above, corporate entrepreneurs must have an incredible capacity to learn from failure. Thomas Edison, perhaps more the inventor than entrepreneur, may best exemplify this philosophy. He is reputed to have said to someone asking about the 2000 plus failures he had while developing the light bulb: “They were not failures but successes. I now know over 2000 ways that the light bulb will not work.” Turning every setback into a learning experience is critical to long-term success.
The Trials And Tribulations Of The Corporate Entrepreneur

At every step of the way lie pitfalls, traps, and obstacles waiting to bog down the corporate entrepreneur in endless mazes of red tape and untold frustration. Coalitions formed by groups and individuals around the issues in which they have vested interests may either support or endanger entrepreneurial ventures. It pays for corporate entrepreneurs to know how to minimize their political exposure and how to maneuver politically within their firms when necessary. One way of doing this is to secure senior-level corporate sponsors who can protect and shelter the venture from those unsympathetic to the entrepreneurship effort.

Another way is to recognize supporters and detractors for who they are and the stakes for which they are playing. Appropriate responses can then be made to reduce the venture’s exposure and to effectively protect it from any detractors.

Almost invariably, corporate entrepreneurs start with little more than their ideas and a position in their organizations. The issue becomes, then, how to persuade senior management that their projects are viable business opportunities, rather than just good ideas. Persuasion and team-building skills are a necessity. Corporate entrepreneurs have to be able to share their visions with other employees, to sell them on their ideas, and to get them to join their venturing teams. No easy task, this requires substantial interpersonal skills. But more firms are insisting that employees joining venture teams put their careers at risk, i.e., link their future with their venture’s performance. The rationale for giving up job security makes corporate entrepreneurs that much more committed to attaining success with their own ideas, but it also makes the recruiting process that much more difficult.

Considerable danger faces venture managers unable to secure internal support and/or convince key supporters of the worth of their projects (George & MacMillan, 1986). Therefore, without the commitment and support of critical players, such as other executives, workers, suppliers, distributors, and potential customers, essential resources may be delayed or denied and projects may die a fast death. It is crucial, therefore, that all risks be identified. Not just those of the venture team, but also those of the venture’s various support groups. For instance, what are the risks of the customer? What if the venture cannot comply with delivery dates? If the new product does not perform as promised? What risks are assumed by suppliers? By distributors? Will the new venture threaten in any way their supporters’ current businesses, and if so, how? All of these concerns and more must be planned for in advance or the venture faces the possible loss of critical members of their support group.

As the venture progresses, corporate entrepreneurs frequently face new problems with their firms’ control and reporting mechanisms. Finding a balance between the freedom and autonomy needed by the venture and corporate requirements for controlling and safeguarding company resources has oftentimes proven difficult. Parent firms
requiring even petty decisions to be justified to corporate management are a prime example of a stumbling block. They can cause agonizing and frustrating delays for corporate entrepreneurs needing to make rapid decisions and who can seldom take no for an answer. Unfortunately, second-guessing and corporate interference have eliminated more than their share of new ventures. Witness the problems faced by Exxon’s information processing ventures in the 1970s. Exxon executives shackled their ventures by requiring corporate approval for such trivial decisions as advertising campaigns. No doubt, the lack of autonomy contributed to the ventures’ poor performance, which ultimately led to Exxon’s decision to eliminate many of their entrepreneurial efforts.

Corporate entrepreneurs must possess the highest level of self-confidence in both their abilities and their ventures. They must live with the uncertainty of companies who struggle to have patience for one year, not to mention the five it might take to prove that a venture is indeed a success. Not surprisingly, hanging over the corporate venturer’s head is the threat of having less-than-supportive senior managers. Unsympathetic to the venturing effort, they wait for the one mistake that will let them politic against it, and if successful, they will be there to pick up the leftovers for their own operations. Even with a corporate sponsor protecting the venture, and no matter how hard the corporate venturer may try to convince detractors of the value of venturing, they are not easily persuaded if it does not fit their agenda. In general, the best we can offer the corporate entrepreneur to counter this danger is to learn how to move freely across organizational boundaries, to exercise political skills when and where necessary, to obtain resources even when scarcity prevails, and to convince senior managers to empower them with the kinds of freedom and decision making responsibilities required for successful venturing efforts. In a nutshell, the corporate entrepreneur must protect the venture whenever possible and learn how to personally survive and prosper in the corporate world.

Some Additional Costs And Benefits To Consider

To this point, we have identified an extensive assortment of potential costs and benefits associated with the venturing process. Of course, other issues exist which can impact the organization or the corporate entrepreneur either pro or con. For example, benefits may be gained from using the venture as a laboratory, such as experimenting with new techniques, structural innovations, cultural changes, etc. Experiments deemed successful in new venture projects can be tried with considerably less risk in other parts of the parent organization. Ventures may also create new jobs and increase the positive economic impact of a firm on the local community. Some firms are, in a sense, “forced” to plan for success, i.e., to prepare their second-line employees to eventually step in and take over for individuals targeted for venturing efforts.
The risks for potential corporate entrepreneurs must also be considered. No doubt, pressures to perform financially are substantial, but social pressures may be as much a concern. Because corporate entrepreneurs may be perceived as “risk-takers,” they may be seen by some as not being team players, rather, mavericks out to feather their own nests at the expense of their firms. The hoped-for integration of the new venture into the parent firm can be endangered. Jealousy and resentment toward members of the venture team may also surface, at which point corporate interference is usually just a short step behind. For example, a few years ago, XEROX Corporation announced a new venture product called Yardbird, a low-cost copying machine designed to make 36-inch wide copies for the technical market. Several executives responsible for all other copier marketing functions attempted to gain control of the Yardbird machine. Until senior management stepped forth and reaffirmed their commitment to corporate venturing, the Yardbird project was in danger of becoming just another item in XEROX’s marketing strategy.

Of course not all venture managers are embattled entrepreneurs confronted by hostile executives on all sides waiting to pick up the pieces when their ventures inevitably fail. On more occasions than not, the corporate entrepreneur has substantial support within the organization. Not just from senior-level sponsors, but support also may come from executives and workers in all parts of the firm. Employees hoping to be part of the next venturing effort recognize their stake in the venture’s success and will offer help whenever and wherever possible. As venturing efforts build winning track records, opportunities to be creative and independent become more common. When this happens, claims of improved morale, productivity, and innovation begin to surface.

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**THE CORPORATE ENTREPRENEURSHIP PROCESS**

So far we have discussed corporate entrepreneurship in terms of what it is, who is involved and what characteristics they possess, and the costs and benefits associated with venturing efforts. Now it is time to turn to the venturing process itself, to try to make sense of what Peters and Waterman (1982) described as, “messiness around the edges, lack of coordination, internal competition, and somewhat chaotic conditions.”

Fortunately, the literature on the subject provides us some help in organizing a framework to examine the process. Antoncic and Hisrich (2001) advocate that in order for the intrapreneurial process to be successful, four dimensions must characterize it: a commitment to new business venturing, innovativeness per se, self-renewal, and proactiveness. Russell (1999) further advocates that any intrapreneurial process should concentrate on the improvement of the firm’s competencies and the extension of opportunities to do so through an internally generated innovation process. Finally, Cunningham and Lischeron (1991) propose a model of the entrepreneurial process that takes the form of a reiterative stage process of evaluation, planning, acting and managing, and continuously reassessing the need for change.
It is quite obvious that any intrapreneurial effort should be a process, and should not merely incorporate the mere identification of new ideas, products, and philosophies (Rule & Irwin, 1988), but also a process of problem solving and teamwork, as well, as a structural rearrangement of the organization to promote the vital forces critical to the organization’s continued development and success (Reilly & DiAngelo, 1987). By combining the issues advanced by the work of these authors as well as others, four stages in the corporate entrepreneurship process can be identified, characterized by proactive change, innovation, and structural accommodation of entrepreneurial activities:

1. Initiating the process
2. Planning the venture
3. Managing the venture from survival to growth
4. Integrating the venture into the parent organization

By no means is the model comprehensive, because each venturing effort has unique features. However, the successful overall implementation of this process and the careful execution of entrepreneurial activities at each of the corporate entrepreneurship stages will create added value for the organization by proactively creating and pursuing opportunities in the environment. In contrast, neglect of this process will make the organization less focused on entrepreneurial activities and may ultimately not only fail to produce added value, but may also destroy already existing value overtime (Vozikis, Bruton, Prasad, & Merikas, 1999).

**Initiating The Process: Choosing An Idea**

Corporate entrepreneurship begins with the idea for a new product or service. Most firms are blessed with an abundance of ideas, thanks to the creativity and talents of their workforces. And these ideas emerge through every means possible from a deliberate search process conducted by the organization, to the individual who observes a need in the marketplace, to simply stumbling upon the creation of a new product and recognizing how to take advantage of it.

Generating good ideas, however, is not the only answer for a firm wanting to begin a corporate venturing effort. In truth, new business ideas are not hard to produce, but rather it is whether or not they are an opportunity that matters. How often have you heard the old adage, “a-dime-a-dozen”? This is exactly what ideas are. If you do not think so, check out the business failure statistics for your community. See how many presumably “good” business ideas have failed for one reason or another.

Successful businesspeople recognize that there is a significant difference between a good idea and a good opportunity. An opportunity is a set of conditions that enhance a firm’s chances of success. The latter is oftentimes described as:
• Answering a customer need
• Holding the promise of a stream of future tie-in products or services
• Entering an expanding market at the right time, when the window of opportunity is wide open
• Possessing an inherent “unfair” advantage that enables a company to effectively and profitably compete in the marketplace (Timmons, Smollen, & Dingee, 1985)

On the other hand, a good idea is an opinion, a belief in the validity of a yet-to-be-proven business concept. The conditions surrounding it are unknown, and they may be good or bad, but they have yet to be fully examined. In the best of all worlds, market research may eventually prove that a good idea is a good opportunity. Entrepreneurs, however, frequently get carried away with the excitement of their ideas and often fail to take that extra step to determine whether or not they actually have an opportunity. Unfortunately, ventures such as these more often than not end in failure because the chances of attracting funding, the right people for the team, and the necessary resources decrease if your «homework» is not done. But some ventures are obviously not good opportunities, yet they do not fail, strangely enough because some businesses succeed in spite of what they do, rather than because of what they do. Conditions change rapidly, and over time an idea may evolve into an opportunity. There are plenty of unsophisticated businesspeople out there, who, by their poor decisions, may help keep you in business. In other words, good planning and research is only partly responsible for the success of a venture. Luck, happenstance, timing and a host of other factors also play important roles in the survival of a business.

Companies sponsoring venturing efforts, however, don’t often have the patience to wait for ideas to evolve into opportunities or for luck to strike. They need to be more proactive, yet at the same time, recognize the constraints of operating within a large firm. Hence, opportunities must be defined in a broader context. For example, Pinchot (1985) contends that good intrapreneurial ideas meet the needs of three parties: the customers, the corporation, and the intrapreneur’s personal needs. The first, fulfilling customer needs, has already been mentioned. The second, meeting corporate needs, means that venture ideas must fit the corporation and its purposes. For example, does the idea make sense financially and practically? Will it achieve the corporation’s financial performance goals? Is the idea affordable? If not, the chance of attracting a sponsor to support such a venture is not high. What are the upside potential and the downside risk? Does the venture pose any substantial threats to the rest of the organization? If so, forget it. Does the venture fit in a practical sense with the mix of the company’s businesses?

Meeting personal needs revolves around the intrapreneurs’ wishes. Will their skills match the venture’s needs? Do they have experience in their proposed business? Do they like their venture and will they be happy working in it? Obviously, an early but difficult task for the firm is sorting through the variety of business ideas that may
be proposed and try to find the relatively few with characteristics necessary to be deemed good opportunities.

Planning The Venture

Once a new business idea is selected, converting it into a viable business enterprise is no simple task. For lack of a better term, we simply call this stage “planning the venture.” It begins more or less with a corporate entrepreneur sharing an idea with colleagues in an attempt to convince them to join a venture team, and it ends when the product is brought to market. To a great extent, forming a team is a type of pre-selling; it is just that the corporate entrepreneur is selling an idea to his/her colleagues, rather than a product to customers.

It is critical that the viability of the idea is conveyed to colleagues. Can the heart of the idea be expressed simply, in a couple of sentences? Do colleagues respond with, “I wish I had thought of that”? If potential team members aren’t completely convinced of the opportunity, or feel uncomfortable with the people involved and the possibility of corporate interference, they aren’t going to join the venture. And a corporate venture without a team is more-often-than-not doomed to failure. Team members are needed to provide complementary skills and to share the pressures and uncertainties of the venturing effort.

George and MacMillan’s (1986) study identified several other important steps in the venturing process, i.e., building consensus for the venture both inside and outside the firm and obtaining support from a senior-level sponsor. Not surprisingly, these activities go hand-in-hand. Indeed, it is crucial that the venture team work on building internal support, because, inevitably, there will be groups or individuals resistant of corporate entrepreneurship. At that point, it is incumbent upon senior-level sponsors to step forth and impress upon these groups the importance of not interfering with the venture. The real issue, then, is that supporting new business ideas must be made a goal for the entire organization, not just isolated venturing efforts.

Outside support also must be garnered for venture efforts. As noted before, suppliers, distributors, and customers may hold back resources or information at key times if they feel that a venture is not addressing their needs. They may, in fact, have a vested interest in the failure of the venture. It is not unlikely that they feel threatened by the disruption of their status quo, or that they are upset because of the novel demands made on them by the new venture. Whatever the reason, it is important to the venture’s chances of success that the commitment and support of key outside parties is obtained. George and MacMillan (1986) suggest several ways such support can be attained:

- Identify potential risk-bearers and their concerns and learn how to accommodate them. Customers, suppliers, and distributors face a variety of
very real risks with a new venture, such as, nonperformance, late delivery, poor risk/return tradeoffs, etc. Once these concerns are recognized, they need to be alleviated.

- Identify risk-sharers and the outside parties who stand to benefit if the venture succeeds. Sometimes they can help lower the costs and initial risks of the venture. Remember, if you win, they win, so they should have an interest in helping wherever possible.

- Make sure all third party and government concerns, such as product liability, performance guarantees, supplier delivery contracts, government requirements, etc. have been addressed in detail. (pp. 86-88)

Getting permission to proceed may sound relatively easy, but it encompasses a great deal more than a simple decision. In order to get to this position, the venture team must provide senior management with the kind of data and information that will convince them that this project is indeed a good opportunity, not just a good idea. Typically, this begins with the development and submission of a written business plan. If the idea looks promising, the venture team is asked to present their plan to senior management, at which point an approval or rejection is given. If approved, capital is formally committed to the project. The acquisition of resources begins in earnest after the venture is given legitimacy, i.e., once it is given the green light by senior management. Financial resources are transferred to the venture, and in some cases, outside organizations also provide funding through joint ventures, strategic alliances, or other forms of partnering. Physical resources, such as office space, equipment, research and development facilities, etc. are provided, as well as intellectual resources. New employees are either hired from outside or transfer from other areas within the firm. All of these resources and the energy of the venture team are ultimately focused on developing a prototype of the new product.

An Enterprise Resource Planning (ERP) model may be needed at this stage manned by the Management Information Technology department of the organization to make sure that resources are directed toward the intrapreneurial effort, and that productivity improvements and cost reductions, along with added value outcomes are ensured. ERP systems are necessary at this stage, because intrapreneurial activities are much more complex and far reaching within the organization from the viewpoint of implementing them, because of the many different and novel types of knowledge required. They are also complex and far reaching in terms of implementation and use, because of the fact that they may introduce fundamental changes in the way people work (Scott & Vessey, 2000). ERP systems help generate physical models, product designs, testing requirements, product documentation, user’s manuals, and a variety of other functions that are needed before presenting the product to potential customers.

Once the prototype has been developed and the venture moves into the initial selling effort, it often runs into a problem common to many businesses, not just corporate venturing efforts. That is, it finds it difficult to get their first orders. In
particular, technical intrapreneurs may have trouble because they either never learned or had to relearn, good selling skills. One recommendation for handling this problem is to identify a few critical “deals” and focus the majority of the venture’s efforts on obtaining those sales (George & MacMillan, 1986). Specific action plans, focused on getting initial sales orders from each of the targeted customers, are preferred over cultivating a broad range of end-users, many of whom may cost more to develop into good customers than they may initially be worth. In order for venture teams to progress through the above stages however, senior management must actively involve itself in the venturing effort beyond being just new business champions. Since they do not have the time needed to manage each venturing effort, they must make sure that there are appropriate guidelines and conditions, which aid a venture in its development. They also cannot abdicate their responsibility to the venture. Indeed, there are times when only senior managers can prevent or resolve some of the major problems confronting a venture. Exactly what roles senior managers play and when, are unique to each firm, but MacMillan and George (1985) identify four general challenges during the initiating and planning stages:

1. Selecting a context
2. Designing an appropriate structure
3. Committing to provide support
4. Using a venture ombudsman

Selecting a context is the initial role of senior management. If this role is not fulfilled, the firm runs the risk of wasting time and resources. They are essentially telling their employees to innovate in a vacuum with no concern for what the firm is doing now or should be doing in the future. Therefore, it is the senior management’s responsibility to identify the boundaries for their firm’s venturing efforts and ensure that all venturing efforts fit into the corporate strategy and mission. If not, the possible consequences can be dire.

Another way senior management selects a context for a firm’s entrepreneurial efforts is by developing an appropriate assortment of ventures, i.e., a portfolio of new businesses. Some companies attempt to spread their risk by supporting many different ventures. All things considered, perhaps the best way to handle the context decision is for senior managers to put together a clearly expressed venturing strategy that recognizes the firm’s strengths and weaknesses and their vision of the future. Such a strategy provides venture businesses with a clear reference point for their decision-making.

Designing an appropriate structure for a new corporate venture is quite different from the process followed by an independent entrepreneur. By virtue of starting the firm, the independent entrepreneur generally becomes the president. Vice-presidential slots tend to be filled, either immediately, or as the venture progresses, with members of the venture team. On the other hand, corporate ventures start off within the context
of a more established firm hence the “structure” must fit into the larger design of the parent organization. This means that senior management’s challenge is to ensure that conditions exist which encourage and enhance corporate venturing efforts. It means providing what Pinchot (1985) calls “freedom factors” which provide the conditions needed for a venture to grow into maturity.

Suppose you are trying to design a structure that provides freedom and autonomy to a group, yet at the same time encourages some adherence to corporate direction, procedures, and policies. Where would you start? Frankly, most people can probably identify dozens of suggestions, but pulling them all together into a cohesive package is a monumental task, and that is exactly what confronts senior management. Pinchot (1985) offers some suggestions that make good sense for most corporate venturing efforts. For example, does the firm encourage the self-appointed intrapreneur? Will intrapreneurs be as likely to have their ideas funded as the groups whose ideas were developed through the firm’s deliberate search process? Does the firm encourage the venture manager to accept “ownership” or responsibility for the project, in essence, providing an internal champion ultimately accountable for the success of the idea? If they do, do they reward this person accordingly?

Who will be the corporate entrepreneur? Choosing a manager for the venture is an area in which the senior manager must sometimes tread lightly. It is not always true that the person who develops the idea is the best venture manager. Indeed they may be the most committed and enthusiastic manager, but they also may not have the management, marketing, or financial skills required for the venture to succeed. For instance, AT&T and Exxon learned their lessons the hard way when they put in charge of several of their ventures, the technical specialists who had developed the original business ideas. Needless to say, they flopped miserably, because they were “technicians” with few business skills. Thus, it is crucial that senior management recognize the kinds of challenges offered by a new venture and place in charge a manager with the appropriate skills to shepherd it to success.

Other design features influenced by senior management include determining where the venture would be best located: within an existing division or in a specialized structure? Each location offers some advantages and disadvantages, which need to be weighed against one another before any decision is made. For instance, if isolated in a specialized structure, will the venture generate resentment and jealousy? If placed in an existing division, will the venture encounter interference?

Are funds available for investigating new ideas? Can the firm ensure that employees will have access to resources when needed, without having to go through a potentially ponderous control system? Can employees use the resources such as, people, equipment, knowledge, etc. found in other areas of the firm? Can they purchase materials from outside vendors if internal suppliers are not competitive? Is trial-and-error accepted? Error in particular needs to be accepted because without it progress cannot be made, as Edison discovered in his 2000 “successes” during the development of the electric bulb. Does the firm encourage experimentation? If the firm does not promote risk-taking
and does not communicate to its employees that failure is just another learning process, then the innovative intrapreneurial activities will be non-existent.

A very interesting approach to structural smoothing in accommodating intrapreneurial activities is a process called “figure-eighting” or $\infty$, similar to the figure eight ice skaters form during their competition. It has been used very successfully in the product development division of the Williams Company in the early 2000s, with consultants serving as liaisons and coordinators between intrapreneurs and line managers. The forward motion of the figure eight (–) is undertaken during the forward moving intrapreneurial activity until a certain point where this forward motion is halted temporarily and a backward motion is purposefully implemented to close the figure eight so a structural “cushion” and a strategic fit accommodation of the intrapreneurial outcomes are provided, and certain value chain activities are outsourced. Once this structural accommodation is securely in place, intrapreneurial figure-eighting can resume its forward motion again until it is time to slow it down for further structural smoothing. Thus, a continuous forward progress of intrapreneurial activities is ensured while at the same time, the complaints of the intrapreneurs “you are slowing me down” and the complaints of the line managers “you are going too fast” are both given serious consideration and are contained. In order for the figure-eighting process to be successful, it must run continuously with successive figure eights moving forward after a brief respite. However, if the forward intrapreneurial motion takes over for a long period of time, especially if they generate a lot of revenue initially, there is a structural disintegration and lack of connectivity with the rest of the corporation, which may present serious integration problems later for any positive intrapreneurial outcomes. Similarly, if the backward figure-eighting motion of structural accommodation takes too long, the intrapreneurial activities may atrophy and may never catch fire again even after the return to the forward figure-eighting motion.

Finally, senior management must confront a particularly thorny design issue: the reward system. Unfortunately, the reward systems of most firms are not set up to deal with venturing efforts. For one thing, Pinchot (1985) contends that they encourage safe and conservative attitudes rather than risky behavior. With that in mind, why do traditional reward systems fail and how can senior management resolve their shortcomings?

First, they fail because even when successful, their rewards are not commensurate with the risks taken. Corporate entrepreneurs may (or may not) be risking their job security for small to moderate financial rewards. Financially, they may do relatively well, but compared to the successful independent entrepreneur, there are probably fairly wide compensation gaps. Second, employees who achieve success in a firm are typically rewarded with promotions. This is frequently of little interest to the corporate entrepreneur who prefers autonomy and the opportunity to be innovative to managing old ideas. Having the freedom to spend funds on additional new business ideas is oftentimes much more appealing to the corporate entrepreneur.

Resolving these problems is not easy. Even when firms think they have come up with an appropriate reward system, they may find they have created a weakness somewhere
else. For example, XEROX tested the commitment of one of its venture managers by asking him to raise half the seed capital needed to start his proposed project. While his success at raising the money showed XEROX that there was outside validation for his idea, it also created a problem for the employee. Venture capitalists refused to invest in the idea unless the employee left XEROX and its implied job security. He complied, and subsequently owns 50 percent of the venture while XEROX owns 20 percent. The firm’s intent seems reasonable; this process allows the corporate entrepreneur to share the project’s risk by owning a substantial portion of the venture. Yet, XEROX gave up a good chunk of the venture along with the services of a talented employee in order to get the project off the ground. Is the trade-off worthwhile?

AT&T attempted to resolve financial concerns by placing half of a venture’s after-tax profits into a bonus pool for their employees. At the maximum, employees can receive up to eight times the salary they had relinquished. But the sudden infusion of wealth may have its downside. The corporate entrepreneur now has financial resources, plus the experience of success. They have been known to opt for a different career, and they may leave the parent firm to start as independent entrepreneurs. One way senior management handles this is to simply spread out bonuses and other forms of compensation over time.

What about promotion? How do you award someone who may not be interested in promotion? Is recognition enough? Perhaps a second career path allowing the corporate entrepreneur to move on to other ventures will suffice. Unfortunately, not many firms are set up to offer this. The bottom line is that senior management has to handle these situations on an individual basis. For one thing, designing a reward system in advance to handle these contingencies is an admirable effort, but the unique needs of each member of the venture team dictate that promotion considerations be dealt with during the managing and integration stages, not during initiating and planning.

The third challenge for senior management is the commitment to provide support for the venture. Much has already been said about the importance of finding a sponsor, but without a clear sign of commitment from the firm in both dollars and resources, few employees will risk their careers on a venturing effort. The senior manager must ensure that the venture gets the resources it requires, not only at start-up, but also as it continues to develop and grow. On occasion, this may entail some type of political maneuvering to protect the venture and to keep it from antagonizing those threatened by innovation.

At the same time, senior management has to work hard to keep the interest of other internal venture supporters. As difficult as it is to keep the firm patient, senior management must make it aware of the commitment in time and resources typically required of successful innovation efforts. Pinchot (1985) calls this “nervous money,” when executives have a tendency to pull out of a venture at the first hint of trouble. Senior management must work to counter this attitude. Several firms have had success with the appointment of a venture ombudsman, or venture board. As a middleman, the ombudsman has to be focused on the corporation’s goals as well as sensitive to the
protection and enhancement of the venturing process. MacMillan and George (1985) contend that the ombudsman makes certain that key issues are considered, identifies and recruits venture managers, and in general, keeps everything moving in the right direction. AT&T, XEROX, IBM, 3M, and Eastman Kodak have formed venture boards, among others, to ensure that ventures have senior-level sponsors.

In summary, it is obvious that the first two stages of the corporate venturing process hold substantial challenges for senior management. The chances for success of any venturing effort may hinge on the roles assumed by senior managers during the initiation and planning stages of the corporate entrepreneurship process. As they define the roles they fulfill, they need to keep an old saying in mind, “in business, the most successful person is the one who holds on to the old as long as it is good, and grabs the new as soon as it is better.”

Managing The Venture From Survival To Growth

Even though the venture’s product is out the door and the first few sales are made, it is no time to relax. Now is the crucial period in which the venture finds out whether it is a flash-in-the-pan, or a true opportunity with a stream of future products and services. During this period the corporate entrepreneur’s role begins to change. The entrepreneurial characteristics of the venture manager’s job begin to diminish and they become more administrative in nature. The role of the corporate entrepreneur shifts from nurturing the venture to making certain that it adjusts to the problems of growth. Again, George and MacMillan (1986) identify the most important steps in this process: preparing for the inevitable attacks from competitors, insuring the existence of an adequate infrastructure, and managing the resource squeeze.

As soon as rapid growth commences, the business is assured of competition. Furthermore, if the venture has developed a new technology, you can be even more certain that competitors will be close behind. After all, the new venture has already undertaken the lion’s share of the development risk. Now the “follower” firms will jump in and try to imitate or improve upon the venture’s product, particularly if the potential market size is attractive. What this means is that the venture manager must prepare in advance for the first serious attacks by competitors. Given the burdens of coping with rapid growth, this comes at probably the worst time imaginable. But if the firm doesn’t plan for this scenario, they leave themselves extremely vulnerable to competitive threats.

Managing growth means a great deal more than simply taking in more sales dollars. The venture can’t assume that growth will take care of itself. Instead, growth requires more clerical staff, more production workers, more of everything. It means more paperwork, more orders, an expanding distribution system, better inventory control procedures, and changes to just about all other systems being used. In George and MacMillan’s (1986) words “the venture must ensure that its infrastructure is adequately
developed to accommodate such growth” (p. 89). This also means that the venture must understand what is happening with their suppliers and distributors. Will they be capable of servicing your firm if it expands in size by 30 percent a year? What if growth is at 50 percent or more?

In relation to the rest of the organization, the venture is usually a very small part of the overall firm. Still, as the venture grows and the infrastructure expands to accommodate it, and as other divisions of the firm evolve, the overall organization’s need for resources continues to increase. Not surprisingly, the “favored” status of the venture may be endangered. Given the increasing demand for resources in all areas of the firm, the venture may be asked to compete for them against other internal divisions. Thus, the venture manager might have to manage a resource squeeze, i.e., manage the venture during a period when resources are harder to obtain because the venture is in competition for a limited amount of resources with other parts of the organization. Among other things, this may result in staffing shortages or financial resources being more closely monitored and controlled. Unfortunately, competition for resources may occur during the growth stage, as these resources incur substantial financial and personnel costs in shifting from a customized product to a mass production culture, just as the venture needs those most in order to accommodate the venture’s increased growth.

Integrating The Venture Into The Organization

As the venture continues to evolve, the organization must make choices as to what it intends to do with it. Obviously, a variety of exit decisions are possible. The venture can be sold to the venture team or an outside group, or it can be spun off into a separate business or subsidiary. Typically, the preferred alternative is to integrate the venture into the parent firm. Doing so, however, requires some substantial adjustments on the part of both the venture team and the parent firm. What should corporate entrepreneurs and their team do next? Go on to another venture? Become corporate citizens like before? What if they have to give up control of the venture to someone else? If so, how do they avoid losing the commitment, energy, and enthusiasm that originally drove the project? Needless to say, a wide assortment of questions must be asked and answered at this stage, and must be jointly decided by both senior management and the venture team.

During the managing and integrating stages, just as during the initiating and planning stages of the corporate entrepreneurship process, senior management faces four challenges:

1. To impose necessary discipline
2. To fully assess and understand the risks involved
3. To manage the process rather than the projects
4. To assure either a smooth integration into the parent firm or a problem-free exit (MacMillan & George, 1985)

Imposing discipline is similar to setting limits for a child. Senior management must ensure that the venture focuses on specific goals and opportunities and that they know their boundaries. They must not be allowed to overanalyze; instead, they must center the venture’s efforts on achieving its objectives, such as revenues, profits, growth, etc. Insist on some amount of discipline rather than allowing the venture to forever chase wild hares. Set up progressive milestones in order to evaluate progress and if necessary, to give a clear signal when the venture should be terminated. It is very difficult for a venture manager who proposed and is committed to a new business idea, to objectivity define failure. At what point should a venture be ended? That is a question that is typically better left to senior management to answer.

How objective can venture managers really be about their projects? Can they really assess and understand the financial and non-financial risks involved? It may be relatively easy for them to identify what failure would cost them in terms of asset write-offs, but what about their credibility with suppliers, distributors, stockholders, etc.? What about the risks incurred by success beyond their wildest dreams? Can their infrastructure maintain its service capabilities? No doubt, these are concerns that can be addressed by the venture manager, but at the same time, we believe the broader corporate view of senior management needs to have a say. Contingency plans should be developed in tandem by senior management and the venture team.

If the venture’s goal is to avoid corporate interference at all costs, they miss out on the positive aspects of the relationship with their parent firm. On the other hand, complete neglect by the corporation leaves much to be desired. Therefore, it is senior management’s responsibility to provide an appropriate balance between the two extremes and manage the venturing process, rather than the venture projects. Monitoring for strengths, weaknesses, progress to date, and any problems they may be facing are ways of checking on the venture. All of these activities require time and attention, but senior management has no choice. They cannot forego their responsibilities, unless they want their ventures to fail.

Finally, the last challenge for senior management is to assure a smooth integration into the parent firm. The venture must become part of the corporation, subject to its policies and procedures. Consider the difficulties in this situation. Successful venture managers may have reaped financial rewards far beyond what their peers in the larger corporation may have achieved. What now? If brought back into the corporation, is their compensation cut in order to be in line with the other corporate executives? Where should they be placed? In their old job, in a brand new venture, or in charge of the newly-integrated venture? How do they adjust to the divisional and corporate controls from which venturing efforts typically try to escape? The bottom-line is that each situation must be handled on its own merits. But to do so, the venture team and senior management must communicate fully their expectations, their concerns, and
their suggestions. The venture team must realize that integration, or exit, is inevitable, and if it is integration, it comes with corporate policies and control systems. The parent firm must understand that the venture’s success is an important corporate goal. Even so, the integration process is seldom complete without its share of frustrations on both sides.

CONCLUSION

What does the record show? Has corporate venturing been successful? Actually, the jury is still out. Intuitively, it is a way for corporations to sustain their growth while their core businesses are beset with problems of foreign competition, changing technology, and volatile markets. It is a way for corporations to nurture an innovative climate and to develop badly-needed new businesses. And there have been some remarkable successes, such as, 3M’s “post-it-notes” and IBM’s 650 computer, among others. Hewlett-Packard, Bristol-Myers, Johnson & Johnson, and many other large firms, have had outstanding successes with new ventures. On the other hand, there has been a growing disenchantment among some firms over their attempts at corporate venturing. Trying to simulate the culture of an independent start-up is not without its problems. Choosing the right ideas and then having the patience to wait on them is not something to which large firms can easily adjust. Obtaining support, fending off corporate interference, managing growth along with the conflict between the start-up environment of a new venture and the control-oriented behavior of a larger firm, are all dangers which confront a corporate venturing effort. Not surprisingly, there are more than a few who agree with Hollister Sykes, the former head of Exxon’s new ventures program, who said, “It is impossible to preserve completely an independent entrepreneurial environment within a large, multi-product corporate setting” (Sykes, 1986, p. 74). Exxon, Levi Strauss & Co., and others have experienced difficulties with the venturing process, but the attractiveness of the idea keeps it high on many corporations’ list of priorities. The firm hoping to avoid difficulties needs to be mindful of the following issues:

- Pay attention to what constitutes a good opportunity versus a good idea.
- Identify the qualities needed in a successful venture manager.
- Make good matches between venture projects and venture managers.
- Understand how to integrate the complementary activities of the venture manager and senior management in order for the firm to achieve its venturing goals.
### ADDITIONAL WEBSITE INFORMATION

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<td>Provides examples of how Nokia was successful in its corporate venturing efforts</td>
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### REFERENCES


### KEY TERMS

**Intrapreneurship:** A “managerial philosophy.”

**“Vulture” capitalist:** An investor with abundant resources and the promise of making entrepreneurial dreams come true.

**Marketing clout:** The established company name that an intrapreneur is equipped with and which implies a staying market power.

**Technology base:** The substantial technological resources to which an intrapreneur has access.

**Financial resources:** Taking into account outside sources of funding, but also internal competition for the funds available for distribution.

**Personnel resources:** Skilled workers, familiar with their firm’s corporate strategy and resources available to help build and develop a venture.

**Corporate Entrepreneurship Stages:** Initiating the process, planning the venture, managing the venture from survival to growth, and integrating the venture into the parent organization.

**Opportunity:** A set of conditions that enhance a firm’s chances of success.
Planning the Venture: Begins with a corporate entrepreneur sharing their idea with colleagues as an attempt to convince them to join a team, and ends when the product is brought to market.

Enterprise Resources Planning (ERP): Makes sure that resources are directed towards the intrapreneurial effort and that productivity improvements and cost reductions, along with added value outcomes, are insured.

Challenges of Integrating: The need to impose discipline, to fully assess and understand the risks involved, to manage the process rather than the projects, to assure either a smooth integration into the parent firm or a problem free exit.

REVIEW QUESTIONS

1. Describe two of the four reasons why there has been a recent shift for organizations to begin highly publicizing their attempts to encourage entrepreneurship in their organizations.
2. List the four potential advantages provided by larger firms to venturing efforts. Briefly describe each.
3. Intrapreneurial ideas must meet the needs of three different parties. Briefly describe the three parties and how such ideas meet their needs.
4. Why do traditional rewards systems fail and how can senior management resolve their shortcomings?
5. What constitutes an effective integration of the intrapreneurial venture in the firm’s organizational structure?

REFLECTIONS FROM THE FRONT LINES OF LifeGuard America

I believe that there are still several companies that incubate entrepreneurs. Sure, there is the story of Steve Jobs who left Hewlett Packard because: “They just don’t get it.” But on the flip side, I received a great deal of my skills while working at Hewlett Packard in the early 1980s. Their now famous MBWA “Management By Walking Around” was very much a “here is the objective – you create the solution” environment that nurtures the early development of an effective entrepreneur’s skills. Harley-Davidson Motor Company is another excellent example of a company that has created a corporate environment that truly fosters the development of entrepreneurial skills within the workplace. We created a one-of-a-kind workplace in Kansas City’s Harley Plant. And I mean WE, because no one had all the answers when we started in 1994 in Milwaukee, but by the time we opened the plant in 1997, we had created a self-directed workplace unlike any other on earth.

I have also had the privilege of learning about and working with several companies like Nokia. Nokia has taken the logical next step in creating a group within the company
that has the sole objective to develop both internal and external entrepreneurs. Their charter reads like a true twenty-first century organization:

“Innovent, an Insight & Foresight Team, offers a collaborative environment for early stage entrepreneurs in the U.S. working on concepts that facilitate connections between people, their communities and the things that matter to them. By connecting with Nokia, leading edge entrepreneurs are offered an opportunity to position themselves at the forefront of developments in the exciting field of communications.”

Even their website, www.nokia.com/innovent, is an excellent example of how a company has transformed itself from rubber and wood products in the twentieth century to a state-of-the-art twenty-first century telecommunications company in less than a decade. Nokia is clearly one of the best examples of a company that has embraced every element of the corporate entrepreneurship process and is reaping the benefits every day with newborn partnerships and advancing technology relationships.

DISCUSSION QUESTIONS ON LifeGuard America

1. Do you believe it possible that a company like Hewlett Packard could provide an entrepreneurial environment, as Mr. Fitzpatrick suggests, even in light of the Steve Jobs story where he left to start Apple Computer? Explain why or why not.
2. After reviewing Nokia’s innovent web site, what in your opinion makes them different from any other company that offers an incubation environment for entrepreneurial growth?
CHAPTER 3

FEASIBILITY ANALYSIS AND VENTURE EVALUATION: Putting It All Together In A Business Plan

Learning Objectives

1. To recognize the importance of a feasibility analysis
2. To understand and integrate the results of the feasibility analysis of a venture idea into a workable action plan
3. To recognize the critical value and importance of a business plan
4. To provide a credible framework for the launching of the new venture

Topic Outline

Introduction
Preparing A Feasibility Analysis: The “FAKTS”
“F” For Financial Considerations
   What Bankers And Investors Want To See: Putting It All Together
“A” For Attitude Self Analysis Considerations
“K” For Knowledge Considerations
   Knowing The Venture’s Business
   Knowing The Venture’s Market
   Knowing The Venture’s Competition
   Knowing the Venture’s Location
   Knowing The Venture’s Legal And Governmental Factors
“T” For Timing Considerations
“S” For Management Skill Considerations
Preparing A Business Plan
   The Conceptual Essentials of a Business Plan
   A Sample Written Business Plan Outline
   A Sample Oral Presentation Business Plan Outline
Conclusion
References
Review Questions

“It wasn’t the president of the Bank of England who came over on the Mayflower. It was the members of the genetic pool who desired change, adventure. They were able to live on the edge of a frontier. America, therefore, has been selected genetically as the agent of change.”

(The late Dr. Timothy Leary, in an interview with The Chicago Tribune, (“Notables,” 1980).
The word feasibility merely implies the possibility of an idea becoming a success. Feasibility studies are conducted by entrepreneurs, as well as by the largest multinational corporations. While in-depth feasibility studies are time-consuming and occasionally even tedious, they represent a source of potential savings and assistance to the individuals preparing them. When the City University of Hong Kong began their virtual education initiative they undertook just such a study to help ensure the success of their program (Ma, Vogel, & Wagner, 2000). Based upon the conclusions drawn from a feasibility study, it will become obvious whether or not it is financially advisable to commit funds, time, and energy to a given venture idea. The feasibility study provides the entrepreneur or the corporate intrapreneur with an enormous amount of flexibility, not available if the business idea has been hastily conceived. The feasibility study provides a “go, no-go” response based on sophisticated data collection by answering the question: “Is it possible for this idea to succeed and to be profitable?” or in simpler terms: “Can we make it? Can we sell it? Can we make money out of it?” The successful evaluation of any business venture requires attention and care. Even though half of the Inc. Magazine 500 companies did not have a formal plan when they started (Olson & Bokor, 1995), planning, revenue, and expense control are the factors that should be given careful consideration in evaluating the financial potential of a venture idea. An example of this type of feasibility study is the Analytic Hierarchy Process (AHP) that is primarily used for small and medium sized firms considering a start-up business (Lee & Osteryoung, 2002). Most of the entrepreneurial literature exploring the relationship between pre-startup planning and the venture’s actual performance confirms that there is indeed a high correlation between planning and new business survival (Castrogiovanni, 1996). What is also needed is a critical self-analysis of the individual responsible for initiating the venture, as well as an analysis of the essential guidelines to “put it all together.” A master plan can detect potential problems long before a loan application or, even worse, the doors of the firm have opened and funds have been committed. The preparation of a master plan will also enhance the confidence of the entrepreneur or intrapreneur in the potential success of the business and its stability, and the venture will avoid the fate of so many others where substantial investments of talent, time, and money are wasted because of insufficient attention to the feasibility, evaluation, and the needs of the venture proposal.

**PREPARING A FEASIBILITY ANALYSIS: THE “FAKTS”**

The feasibility analysis is the operationalization of the entrepreneur’s idea. The following FAKTS in preparing a venture idea’s analysis will determine its feasibility. This process includes the following considerations:
F for Financial Considerations  
A for Attitude self-analysis considerations  
K for Knowledge considerations  
T for Timing considerations, and  
S for Skill considerations

Careful consideration and validation of these FAKTS considerations is critical. They represent written and unwritten prerequisites of the venture’s framework of success, as well as philosophical credos for the business venture that will provide both stability and direction. In outlining the feasibility analysis, one must adhere to the rule of the three Cs: be candid, concise, and clear in evaluating and organizing the outcomes of this very critical process. A good rule of thumb is that if the idea cannot be described simply and clearly, it has not been thought through, and the preparation of a solid business plan cannot be initiated because the feasibility analysis proved that the venture undertaking would be indeed a waste of time, money, and energy. The time and energy expended represents an investment that should be quickly recovered if the venture idea proves feasible and reaches its potential.

**“F” for FINANCIAL CONSIDERATIONS**

The most important component of the feasibility analysis and evaluation of a venture idea is the part that indicates the expected financial results of operations, as well as the venture’s growth potential and its capital needs. For anyone investing or lending money to the venture, including the individual entrepreneur, the analysis should make abundantly clear why they should provide funds, when they can expect a return, and how large that return is expected to be. It is a plan for the future, and consequently, the presentation of financial information about the business venture and its product or service must be future oriented.

The ability to obtain money is as necessary to the operation of the business venture as is a good location or the right equipment, reliable sources of supplies and materials, or an adequate work force. The amount of money needed depends on the purpose for which these funds are needed. Figuring the amount of money required for new venture start-up business construction, conversion, or expansion is relatively easy.

To plan working capital requirements, it is important to know the “cash flow” which the business will generate. This involves simply a consideration of all elements of cash receipts and disbursements at the time they occur. Similarly, if heavy capital investments are required, it is difficult for an entrepreneur to assemble the needed financial resources. Thus, we see very few new automobile manufacturers being planned. An employee of a steel mill, no matter how motivated, would find it difficult to start a similar business because of the capital requirements.
By contrast, in growing industries with low capital requirements, many new firms are being organized. Examples are companies producing computer software and solar power equipment. For the same reasons, an experienced real estate salesman in a growing metropolitan area might find it relatively easy to spin off from his employer and start a new firm.

Financial projections should be realistic, with reasonable margins that conform to experience and industry standards. Assumptions in the business plan concerning necessary or possible capital requirements such as increased personnel, expanded manufacturing facilities, or equipment needs should be clearly stated and identified as such. Otherwise, the business plan will create an overly “optimistic” picture for management, which will later create difficulties in the budgeting process and plan evaluation. It can also create skepticism for potential investors.

The budgetary process is the money portion of the business plan, and it is integral to the plan, not separate from it. The budget should be the last step in the planning process undertaken only after the feasibility analysis information has been gathered, and objectives have been set, so budget needs can be realistically formulated. The budget can also serve later as a tool to determine the sensitivity impact of any necessary changes in objectives, action steps, or timetable.

What Bankers And Investors Want To See: Putting it all together

It should be obvious by now, that the successful evaluation of a business venture is the most important aspect of the business plan, and it requires attention to all the items that have been extensively discussed so far. The feasibility analysis, planning, revenue and expense levels, as well as the future prospects of the proposed venture are the factors that should be given careful consideration in evaluating the potential of a venture idea, because they will strengthen the credibility of the business plan. The financial history of the entrepreneur and the requirements of the business plan are usually intertwined and should take precedence over the formulation of a business plan. The number one step in starting a business would be to get personal finances in order (Bailey, 2001). Sometimes, for entrepreneurs to put together their financial credentials and history, they have to start from scratch:

1. Find records, receipts, checkbook stubs, etc., and sort them in a “shoebox” manner, according to type (revenue or expense) and according to the timing involved (day, month, and year).
2. Prepare a current balance sheet to see where you stand now.
3. Prepare a current income statement (if pre-startup operations have already begun).
4. Once the price and profit margins are set, there is a need to identify and determine the following essential operating data:
Project sales increases
Sales revenue breakdown between cash sales and accounts receivable
Ratios and the account receivable turnover
Estimated current and projected allowance for bad debt
Estimated current and projected inventory needs and corresponding levels
Estimate of the proportion of accounts payable that has to be paid in cash
Method and amount of depreciation expense
Tax implications of your expenditures

1. Prepare a projected income statement taking into consideration optimistic, pessimistic, and realistic projections (preferably for 2 or 3 years).
2. Prepare a projected cash flow statement on a monthly basis, and for the next two years, to identify the venture’s cash needs.
3. Prepare a projected balance sheet for the next two years. If there are problems in terms of cash solvency during certain months in the cash flow statement, either revise pricing, cut costs, or make preparations for cash infusion in the future (loan, stock sale, etc.) and then readjust the projected balance sheet.

Prospective entrepreneurs should be absolutely honest with their bankers and investors, after they have been honest with themselves, and provide accurate and detailed information to three fundamental questions:

- Can the entrepreneur make the product or service?
- Can the entrepreneur sell the product or service?
- Can the entrepreneur make money from the product or service, so it can repay the loan and the investors get their money back?

A sound business plan can satisfy the first question, the entrepreneur’s experience the second, and the entrepreneur’s credit history and collateral assures the lender about the third. The banker should be briefed regularly about good and bad times. It is better for the bank to know trouble is coming than to be surprised when a payment cannot be met. A banker or an investor should not be treated like a doctor, and the entrepreneurs should not only pay a visit when the firm’s health is in a bad shape. In good times they should stop by and say “hello,” and offer reassurances that everything is going well. Bankers and investors have human traits too, and good relations between borrowers and lenders, or investors and entrepreneurs are important so that all are on the same side in times of trouble as well as times of great opportunity.

Since a good relationship is important, entrepreneurs need to look for bank officers and investors who meet these specifications:

- Likeable and respectable as a person
- Likes and respects you as a person
• Has a genuine interest in the venture
• Has respect and authority within the bank or the investment community so their superiors, as well as others will respect their opinion of you
• The two should trust each other and each find the other predictable

“A” for ATTITUDE SELF ANALYSIS CONSIDERATIONS

While the scope and history and the essence of entrepreneurship from a theoretical perspective has already been covered, it is most important for the development of any sound feasible business idea, to step back and assess one’s own abilities and interests. The ultimate success of any venture lies with the entrepreneur. Certainly, other factors that will be examined later are also of great importance, but none, not a single one, is as critical as the input, involvement, energy, attitude, and resolve of the individual that will spearhead the effort.

So what is an entrepreneur anyway? Many definitions have been listed and analyzed earlier. One way to understand the entrepreneur is to read the writings of theorists and researchers. As mentioned earlier, the word “entrepreneurship” is derived from the French, but if you ask the French what they mean by an entrepreneur, they usually mean a building contractor. Others have defined an entrepreneur as anyone who “talks fast and breathes fast.”

The attitude of an entrepreneur plays a large part in the decision to start a business. It is believed by some that a person who can truly be considered an entrepreneur is a person who has decided to start a business and then looks to find a niche (Krueger, Reilly, & Carsrud, 2000). Entrepreneurial start-ups do not necessarily result from a good idea that a person just happens to stumble on. An entrepreneur is looking for good ideas that can be put to use.

Thus, a good way to find a good definition of entrepreneur is to spend time with the entrepreneurs of this world. The definition of course, does not concentrate on heroic people with special genes, but rather on the leadership qualities of the entrepreneur and the events that occur as a result of the manifestation of the entrepreneurial leadership, the entrepreneurial events. President Truman once said that a leader is a person who gets other people to do what they do not want to do, and liking it!

If an entrepreneurial event happens then the following conditions are present:

• An individual or group takes initiative.
• They bring together resources and form an organization to accomplish something.
• They run it with relative autonomy.
• They succeed or fail with the event (Goldstein, 1984).
There are, of course, some more practical questions that a prospective entrepreneur must address. One important issue in academic literature has been dealing with the intentions vs. actions paradox. It is a widely known fact that many persons with bright ideas never cross the bridge between having an idea and putting forth the effort to implement it. This aspect has been the subject of research in both management and cognitive psychology. Investigations have centered on the relationship between such traits as the need for achievement, locus of control, risk taking propensity, tolerance for ambiguity, and entrepreneurial intentions. One of the most important notions that contribute to the understanding of entrepreneurial intentionality is that of self-efficacy, a person’s belief in his/her ability to perform a certain task that can be mastered and developed into stronger levels (Boyd & Vozikis, 1994).

The following worksheet provides a simple yet insightful checklist of many of the necessary components for defining one’s self-efficacy in order to determine whether entrepreneurial intentionality that will lead to successful entrepreneurship, is present in the individual’s psyche. While weaknesses need to be acknowledged, entrepreneurs should concentrate on their strengths, not their weaknesses, because strengths are what one likes to do best and enjoys doing it, and can work hard to improve it. Under each question, check the answer that comes closest to what you really feel. Be honest with yourself:

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer 1</th>
<th>Answer 2</th>
<th>Answer 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you a self-starter?</td>
<td>I do things on my own. Nobody has to tell me to get going.</td>
<td>If someone gets me started, I keep going.</td>
<td>Easy-does-it! I don’t put myself out until I really have to.</td>
</tr>
<tr>
<td>Why are you interested in entrepreneurship or intrapreneurship?</td>
<td>Self-employment.</td>
<td>Profit.</td>
<td>Service to my family or loyalty to the company.</td>
</tr>
<tr>
<td>How do you feel about other people?</td>
<td>I like people and I can get along with just about anybody.</td>
<td>I have plenty of friends and I don’t need anyone else.</td>
<td>Most people bug me.</td>
</tr>
<tr>
<td>Can you lead others?</td>
<td>I can get most people to go along when I start something.</td>
<td>I can give the orders if someone tells me what we should do.</td>
<td>I let someone else get things moving. Then I go along if I feel like it.</td>
</tr>
</tbody>
</table>
- **Can you take responsibility?**
  - I like to take charge of things and see them through.
  - I’ll take over if I have to, but I’d rather let someone else be responsible.
  - Always some “eager beaver” around wants to show how smart he is. Let him…

- **How good an organizer are you?**
  - I like to have a plan before I start. I’m usually the one to get things lined up.
  - I do all right unless things get too messed up. Then I cop out.
  - I just take things as they come.

- **How good a worker are you?**
  - I don’t mind working hard for something I want.
  - I’ll work hard for a while, but when I’ve had enough, that’s it!
  - I can’t see that hard work gets you anywhere.

- **Can you make decisions?**
  - I can make up my mind in a hurry if I have to. It usually turns out OK.
  - I can, if I have plenty of time.
  - I don’t like to be the one who has to decide things. I’d probably blow it.

- **Can people trust what you say?**
  - You bet they can! I don’t say things I don’t mean, and I always mean what I say.
  - I try to be on the level most of the time, but sometimes I just say what’s easiest.
  - What’s the sweat if the other fellow doesn’t know the difference?

- **Can you stick with it?**
  - If I make up my mind to do something I don’t let anything stop me.
  - I usually finish what I start, if it doesn’t get messed up.
  - If something doesn’t pan out right away, why beat your brains out?

- **How good is your health?**
  - I never run down!
  - I have enough energy for most things I want to do.
  - I run out of steam sooner than most my friends or colleagues.
• **Is it easy for you to get up in the morning and go to work?**
  ______ I’m up and out of the house before the alarm goes off!
  ______ Most of the time, I can get up all right.
  ______ I really like to sleep.

• **When you’re working on a project, does time seem to fly by unnoticed?**
  ______ When I am interested in something I could care less about the
time involved.
  ______ I try to work on a semi-regular schedule.
  ______ I go in at 9:00 and leave by 5:00 and that’s it!

• **Do business ideas frequently come to mind?**
  ______ I always come up with the greatest ideas everywhere, even when
I just watch TV.
  ______ Sometimes, I come up with flashes of brilliance.
  ______ Every so often I think of what I consider a good idea.

• **Do you really want to start an entrepreneurial venture for yourself
or at your job?**
  ______ It has been my lifelong dream and ambition.
  ______ It would be great but if it didn’t happen, it wouldn’t be the end of
the world.
  ______ Truthfully, I like the security of corporate life.

If most checks are beside the first answers, you probably have what it takes to be an
individual or corporate entrepreneur. If not, you are likely to have more trouble than
you can handle if you venture in uncharted waters. If you still want to get involved
in entrepreneurial activities, it would be better to find a partner who is strong on the
points you are weak on. However, if most checks are beside the third answer, not even
a good partner will be able to shore you up.

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**“K” for KNOWLEDGE CONSIDERATIONS**

Many people may wish to start a business venture, but they are unable to do so. They
lack the knowledge, the experience, the contacts, or the resources that are needed. An
entrepreneurial venture, whether independent or corporate, is built around the individual
entrepreneur who must be able to perform those key activities, which are required for
success. If it is a clothing store, the entrepreneur must be good at buying the right
merchandise, as well as displaying, advertising, and pricing it. The entrepreneur as a
manager must also be able to do the selling and handle the record keeping, identify
suppliers, and train employees. An alert employee of a clothing store can learn many of
these needed skills and become capable of starting a successful clothing store. People often start businesses in fields they already know in order to draw upon their previous knowledge and backgrounds. Thus, one might think of established organizations as “incubators,” providing their employees with experiences, which make them more or less prepared to become entrepreneurs. However, companies vary widely in the extent to which they provide an environment conducive to entrepreneurial activity.

It should also be noted that even within the same organization, employees develop different kinds of knowledge and experience. Some stay in the same job and never achieve much breadth in work experience or contacts. Others become specialists, good in their jobs, but lacking the basic skills needed to produce or sell a product and get a company started. Still others are in better positions to develop external contacts and to learn about market opportunities. Thus, an industrial salesperson may learn that customers would buy a particular product that is not currently available. The salesperson may conclude that a new company could get started by offering that product.

All of this is not to suggest that an entrepreneur cannot start a firm in a field in which he or she has no experience. It happens every day. If the founder gets started by buying an existing business or by entering into an agreement with a franchisor, then previous experience is less important. However, available evidence suggests that more than 50 percent of all entrepreneurs start businesses in industries they know intimately, and in which they already have a great deal of experience. The previous educational and job choices which a person makes help determine what kind of business, if any, he or she might someday be in a position to start (Cooper, 1980).

**KNOWING The Venture’s Business**

The overwhelming majority of the fast rising entrepreneurial ventures are single product/service single market firms, and more recently, e-commerce firms. The founding entrepreneurs have gone to great trouble to define their businesses as narrowly as possible. While the task of defining a business seems exceptionally elementary, businesses have, at times, great difficulty in defining what business they are in. A blurred image results in customer confusion. Interestingly, when W. T. Grant Co. closed back in 1975, many argued that the retailing industry had finally learned some valuable lessons in defining the business. However, subsequent failures of Woolco, Fed Mart and others, more recently, prove that lack of definition of the business is still a very serious problem.

Most entrepreneurial ventures find themselves in a similar bind oftentimes caused by lack of foresight. Quite frequently, entrepreneurs do not plan where they would like their businesses to be one year, one month, one week, or even one day in advance. Deciding what business you are in today, and what your business will look like in one, two, or even five years from now is no easy task. To succeed initially, many businesses
become involved in a variety of activities. Opening a new grocery store may require that the entrepreneur not only sell groceries, but also books, magazines, lawn furniture, cook-out grills, and health and beauty aids, but there has to be a central core activity that the business performs. The plans that will ultimately develop will be based on someone’s specific perception of just what business he or she is in. If the importance of this single activity is overestimated or underestimated, the chances for eventual business success are limited. The prospective entrepreneur needs to take time, work with friends and associates, listen, and then respond to the following questions:

1. What is the central activity of the proposed or existing venture?
2. What type of business will it be? Will it primarily be involved in merchandising, manufacturing, or providing a service?
3. Does anyone want the product/services it will provide?
4. Have you studied surveys and/or sought advice and counsel to find out what fields of business may be expected to expand?
5. Are general business conditions good?
6. Are business conditions good in the city and neighborhood where the venture will locate?
7. Are current conditions good in the proposed venture’s line of business?
8. Does the venture constitute a unique business?
9. Is the business a seasonal one? If so, is there a need for adjustments in business operations, and why? Can sales fluctuations be reduced in order to reduce uncertainty?
10. Why is this business going to be profitable?
11. What are the chances for the venture’s success?

Responding to these questions should help provide important and necessary clarity to the entrepreneur’s business mission.

**KNOWING The Venture’s Market**

The importance of defining the business cannot be overemphasized. However, in order to succeed, the individual or corporate entrepreneur must also be knowledgeable about the venture’s market. When the new *Life* magazine was introduced, the publisher, Time Inc., had thoroughly identified, and researched its target market. The publisher knew the number of potential subscribers in the target market, the age group it wanted to attract, the average income, the average education of its market, as well as a number of other factors. By first identifying these crucial characteristics Time Inc. was then able to develop a product and a marketing program designed to appeal to this particular target market. Even this thorough analysis however, did not prevent *Life’s* ultimate demise, because markets shift and what was valid yesterday may not be valid today.
It is important to note that market research is not a one-time project. It should be a continuous process since companies operate in a dynamic and changing world. One of the critical capabilities identified by George Day (1994) was *market sensing*. Systematic gathering, interpreting, and using market information, gives the company a significant advantage over its rivals that may be more internally focused. In today’s environment, an ever-increasing amount of knowledge is available about the potential customers for a start up business. Customer profiling has increased in quantity and accuracy over the past several years. Information is now so sophisticated that marketers can spot individuals in every household and target each separately (Berwick, 2002).

Another important consideration for knowing the market is customers. Since entrepreneurial companies usually choose an unfilled niche, drawing the exact customer profile is critical. After all, customers are the source of real cash inflow that keeps the company functioning. Since customers tend to be so specific to each business, we’ll just mention the two general types of customer. Currently with the advent of the e-commerce terminology, these two types are described by today’s popular terms: B2B (business to business) and B2C (business to consumer). The questions that need to be answered about the specific venture’s market and customers include the following:

- Who is the typical customer of the venture’s market?
- Where is the market?
- What is the size of the total U.S. market for the venture’s product or service in numbers and dollars?
- Are there plans to appeal to local, regional, or national segments of this market?
- Are there any new customer market segments that the venture would want to attract?
- What is the venture’s market growth potential?
- What trends could be projected for the venture’s market?
- What market share should the venture gain?
- Is brand name important to the venture’s market?

One of the greatest needs that prospective individual and corporate entrepreneurs have is to rely on adequate, accurate, and current information so they can make knowledgeable decisions concerning the market of their products and/or services. Market research is the means by which information about the various elements that make up buying and selling is obtained and evaluated. Good market research can be costly and time consuming, but poor research is even more costly when the answers obtained cause an entrepreneur to make a wrong decision. Because of usually limited financial resources, the entrepreneur’s margin of error is quite often very narrow. However, in some cases, inference analysis using related products, markets, and/or environmental variables could provide a certain degree of accuracy and confidence in the results of the market research (Jeannet & Hennessey, 1998, p. 254).
KNOWING The Venture’s Competition

Once the issues above have been settled, one must consider another important factor, namely, competition. To be successful in a start-up operation, it is important to identify and understand the competition. If an entrepreneur claims to have no competition they will lose credibility. If there are no identifiable competitors it could be a result of not having a market (Shah, 2002). Regardless, if no direct competitors can be found, an analysis should be done encompassing all of the businesses selling anything close to the same product and all of the businesses addressing the same market. The entrepreneur should use this information to outline how they plan to stay ahead of the competition and maintain a competitive advantage.

Two factors distinguish the company from its rivals: product/service uniqueness and low price. In a study of Inc. 500 companies, Olson and Bokor (1995) found that 56 percent of firms used the innovativeness of a new product or idea to distinguish themselves from the competition, while 44 percent decided to duplicate competition. While the definition of “duplicating the competition” is arguable, since the companies could have merely added some inconsequential distinguishing features to their products, we can also safely assume that many of these new ventures go into the business hoping to beat competition by lower price. Charging a price that is too low in the attempt to position themselves as low-cost providers is considered one of the common mistakes that entrepreneurs make (Stern, 1993). In determining the price, the entrepreneur should consider such variables as industry trends, the competition’s pricing, and the niche for the product. If the product is unique, the company may consider a skimming or penetration strategy, rather than direct competition based on price. In dealing with their competitors, entrepreneurs should address the following:

- Who are the nearest competitors, and how long have they been in business?
- Where are they located in relationship to the business site?
- What prices do the competitors charge for their products or services?
- Have their businesses been steadily improving? If yes, why? If not, why not?
- Why and how will the business be able to compete with existing competitors?
- What can we learn from the competition?
- Do we regularly review competitors’ ads to obtain information on their prices?

KNOWING The Venture’s Location

The questions concerning competition in the preceding section have a direct bearing on selecting a proper location for the business venture, and estimating the value of the investment into the chosen location. The maximum return on investment must be considered when deciding the best location to establish the business. The return on
investment can be determined by comparing the total cost for a specific location with the sunk cost of the existing location (Brimberg & ReVelle, 2000).

Proper site location can help the business make money. Even if the entrepreneur has ample financial resources and above-average managerial skills, these cannot offset the handicap of a poor location. Moving is costly, and legal complications of a lease can be difficult to untangle, not to mention other location-related problems that could arise. Clearly, a careful examination of alternative sites is a worthwhile endeavor. By studying the relevant Bureau of the Census reports, valuable insights about the characteristics of prospective customers, as well as knowledge about the economic strengths and weaknesses of your trading area can be developed. Every business has a trading area; in other words, the geographic region from which it draws its potential customers. Data for trading areas, regardless of size, generally can be assembled by combining a number of census tract tables, and these tables may be the best single source of information, supplemented with other material.

The main concern of a prospective owner of a retail store, for example, should be the factors that have direct relevance to the store’s trading area. Far too many small retailers select a store site by chance. In fact, the most common reason is “noticed vacancy.” Their high failure rate would be considerably lower had they analyzed in advance the trading area’s population characteristics, housing characteristics, nature and quality of competition, traffic count, and accessibility. It is also of fundamental importance to determine total consumer purchasing power and the store’s expected share of this total. Each location analysis must be customized, concentrating on a particular line of business. Some of the questions that should be addressed regarding the knowledge of the location factor include:

1. Have at least three possible locations for the business been selected?
2. Weighing the benefits of rent vs. actual location of the business, what is the most feasible site for the business firm?
3. Are water, electricity, gas, and sewer facilities included in the site?
4. How are police and fire protection in the area?
5. Are there any particular zoning laws in the area that one should consider?
6. Is the location near schools, libraries, recreational facilities, residential or commercial neighborhoods, and is this important?
7. Do you know what kind of people will want to buy what you plan to sell, and accordingly, what is the make-up of the population in the city or town where the firm plans to locate? Do people who want to buy what you plan to sell live in the area?
8. What are the specific makeup, number, type, and size of competitors in the area?
9. Does the area need another business like that?
10. Are employees available in the area?
11. If parking is an essential part of doing business, are there adequate parking facilities?
12. Is the cost of the prospective location reasonable in terms of taxes and average rents?
13. Is there sufficient opportunity, prospect, and room for growth and expansion?

When it comes to choosing a specific street site, certain specific factors that would render the most favorable location should be considered. A firm should locate:

- On the side of the street with the highest pedestrian traffic count
- On the side where major department stores and other “business attractors” are located
- On the side nearest the community’s primary area of population growth
- On the side that protects customers from extreme weather conditions
- On the side with shade in the afternoon
- On the side with the fewest alleys, loading zones, fire hydrants, and the like

Additionally, there are many advantages to opening shop in a mall, shopping center, or office complex because the small ventures benefit from the overflow of the traffic of the major stores or businesses. Furthermore, there is the prestige involved in being part of a modern, cosmopolitan shopping mall or office tower. However in a mall location, many leases require small shops to remain open when department stores are open. Because of this, on Sunday or major holidays, when the weather is good, people find other things to do besides shop and the small owner is stuck with high overhead and low sales volume that does not justify remaining open.

In a downtown area rent hikes threaten small businesses as the commercial space market tightens. For instance, in places like San Francisco or Boston’s Back Bay area, where land space is scarce and demand for office and store space is enormous, the supply of retail and office space is very small, resulting in the entrepreneur being at the mercy of the landlord. There are ten important potential trouble spots that have to be negotiated carefully before signing a lease:

- How long will the lease run?
- How much is the rent?
- How much will the rent go up?
- Can I sublease?
- Can I renew?
- What happens if my landlord goes broke?
- Who is responsible for insurance?
- What building services (electricity, heating-ventilation-air conditioning [HVAC], cleaning services) do I get?
- Who else can move next door or nearby?
- Who pays for improvements? (Cunningham, 1982).
Finally, all prospective entrepreneurs must determine the long-range quality of the site and the general trade area. Relocation can be very expensive. Sophisticated site work initially can save a great deal of trouble in later years.

**KNOWING the Venture’s Legal And Governmental Requirements**

The legal requirement for a business varies from location to location. For example, if an entrepreneur is starting a venture in Oklahoma, there could be dramatically different tax laws and other requirements that possibly would not be required if the start-up was set to be in another state or outside of the United States altogether. There are also various incentives that may be offered by local and federal governments to attract a company to their area (Cochineas & Argent, 2002). In gathering the comprehensive information needed to prepare a business plan, certain mundane but extremely important considerations must also be examined, such as:

- What licenses, (if any) are needed to operate the business?
- What police and health regulations apply to the business?
- Will the firm’s operations be subject to interstate commerce regulations? If so, which?
- Has advice from a lawyer been obtained regarding responsibilities under Federal and state laws and local ordinances?
- Is there a system in place for handling the withholding tax for employees?
- Is there a system in place for handling sales taxes? Excise taxes?
- Is there an adequate record system in place for efficient and accurate tax form preparation?
- Is there a worksheet system in place for meeting tax obligations?
- Has advice from an insurance agent been obtained about what kinds of insurance the business will need and how much it will cost?

**“T” FOR TIMING CONSIDERATIONS**

Today, unlike some years ago, widespread changes in technology and globalization present many opportunities for entrepreneurial ventures and especially for the e-commerce oriented entrepreneur or corporate intrapreneur who can put together a solution much faster than in the past. While technological or international trends may not bear any relation to a venture’s plans, other trends and events will certainly affect the “go-no-go” decision.

Many well-conceived, sound ideas fail because of improper *timing*. For example, even conservative predictors suggest that most Americans are eating at least one of
every three meals away from home at a restaurant. What will this trend do to a grocery store? The current average price for an American car keeps increasing. If this figure continues to climb, won’t many car owners be forced to repair and repaint, rather than replace their older vehicles? What do these consumer trends mean to you? Will they have any impact on the business idea? Can it still be successful? The idea may be great, but its timing may be lousy.

The timing of the business entry is one essential, critical variable that is too often overlooked, and corresponds to what the philosopher and psychologist Karl Jung called synchronicity, when all opportune psychological and environmental conditions, circumstances, and favorable state of affairs come into a juncture to form a good timing nexus. He specifically defined synchronicity as an “acausal connecting principle,” an essentially mysterious connection between the personal psyche and the material world, based on the fact that they both are only different forms of energy. Jung associated synchronistic experiences with the relativity of space and time and a degree of unconsciousness in two junctures:

First, an unconscion conceptual image content comes into consciousness either directly (i.e., literally) or indirectly (symbolized or suggested) in the form of a dream, idea, or premonition, and then in a synchronous fashion, an objective situation coincides with this conceptual content. As soon as a psychic content crosses the threshold of consciousness, the synchronistic marginal phenomena disappear, time and space resume their accustomed sway, and consciousness is once more isolated in its subjectivity. The one is as puzzling as the other (Sharp, 2001).

Prospective individual or corporate entrepreneurs researching the feasibility of a proposed venture should be cognizant of the ever-changing trends in themselves and in the environment of many prospective industries that may trigger conditions for synchronicity and opportunistic timing and pay close attention to the following issues:

1. What has been the growth and stability of the industry in question?
2. Have there been any major technological changes or advances within the industry?
3. Are consumer preferences changing or are they fairly steady and predictable?
4. What is the nature and intensity of competition in the industry?
5. Has there been an excessive amount of regulatory activity directed at that specific industry?
6. Is franchising making significant inroads into the industry?
7. What does it take to be successful in the specific industry, and do I have it, or can I get it?
8. Is a great deal of experience needed for success in that industry?

Even though “luck” is an important element of the timing factor, it should be noted that it is quite interesting that usually luck has a peculiar habit of favoring those who do not really depend on it. Those “lucky” individuals are the ones that applied the extra
ounce of care and due diligence in their feasibility study and are quite oblivious of the concept of “bad luck” because they are not as vulnerable to misfortune and to a bad turn of events as are the individuals who did not exercise care and due diligence in the conceptualization of their business venture idea.

“S” for MANAGEMENT SKILL CONSIDERATIONS

According to various studies of factors involved in the failures of small businesses, roughly 98 percent of businesses fail because of managerial weakness. Less than two percent of the failures are due to factors beyond the control of the individuals involved. This points to one very important fact: the successful entrepreneurs built their businesses upon their own personal strengths, experiences, and hobbies. Besides having a good knowledge of their product or service, they also enjoyed the business as well. This is another factor that is too frequently overlooked and too critical to any new venture to ignore. It is much easier for entrepreneurs to commit tremendous amounts of managerial time and energy to an activity they enjoy rather than one they dislike or that bores them. The following questions must be addressed and emphasized in the management section of a business plan prior to the operationalization of ideas:

1. Are the right people in place and are they properly organized to implement the plan?
2. Who will make things happen? The entrepreneur himself or herself, or some other enthusiastic, experienced, and committed individuals? The experience, talent, and integrity of those responsible for enacting the business venture’s proposals are of primary concern.
3. What will be the total number of employees hired, and how will their work be scheduled?
4. What form will the organizational structure and the organizational chart take?
5. Who will report to whom?
6. Which other members of management are officers and directors?
7. Are there outside board members?
8. What are the business histories and experiences of the people involved in your business? What will be their duties and responsibilities?
9. Will job descriptions for key personnel be developed?
10. Will opportunities be provided for key, non-family personnel to grow?
11. How will salaries in the business compare with the competition?
12. Will the business require skills taught in a local vocational technical program? If so, could students be used as interns in the business?

Although details of the personnel manual are not a necessary portion of a feasibility study or a business plan, a brief discussion of employee policies and benefits may be
a helpful indication of the general management approach. Curriculum vitae or other
details of the personal backgrounds of management may be left to an appendix.

By answering these questions, key areas of potential weakness in the required skill
central concept of the feasibility study can be identified before problems arise.

## PREPARING A BUSINESS PLAN

By now the feasibility of a business venture idea or a potential acquisition of a going
concern has been thoroughly defined, outlined, and conceptualized. The final obstacle
that must be overcome includes “putting it all together” and obtaining start-up capital
to get the business going. When all the in-depth questions on the feasibility and
evaluation of an enterprise idea, such as those outlined above, have been considered
and thoroughly researched, and the information needed to answer them has been
gathered and analyzed, entrepreneurs should turn their attention to organizing the
specific sections of a formal business plan. Why should one go through the trouble of
creating a formal written business plan? There are two major reasons:

1. The process of putting a business plan together, including the conceptual
   thought and analysis that entrepreneurs put into it, before beginning to actually
   write the business plan, forces them to take an objective, critical, unemotional
   look at the venture project in its entirety.

2. The completed business plan is an operating tool, and, if properly used, will
   help manage the business and work toward its success.

The importance of planning cannot be overemphasized. By taking an objective look
at the proposed business venture, areas of strengths and weaknesses can be identified,
and needs pinpointed that might have been otherwise overlooked. As an operating tool,
the business plan helps establish reasonable objectives and helps the entrepreneur in
figuring out how to best accomplish them. It also helps in spotting “red flag” problems as
they arise and assists in identifying their source, thus, at the same time also suggesting
ways to resolve them. It may even help avoid some problems altogether.

The business plan, however, should not create an overly optimistic picture because
this will create difficulties in the budgeting process and the subsequent plan evaluation
by investors by creating skepticism for the potential investor. Internet sales forecasts,
especially, give too rosy outlooks, and are tossed about without explaining their
methodology. Therefore, even though they may be easy to find, they can be difficult to

It should be also noted that the budgetary process and the resulting budget should be
the last step in the business plan process. Only after gathering all pertinent information,
setting objectives, assessing the venture’s needs, and determining its feasibility, can
the budget be realistically formulated. It can then serve to steer any necessary changes
in objectives, action steps, or timetable.
Finally, a business plan is written primarily for the purpose of clarifying in the mind of the entrepreneur, in a crystal clear manner, where the venture is headed, and secondarily to merely convince outsiders that the business venture is promising and not doomed to failure. If the proposals in the business plan turn out to be marginal at best, it is far cheaper not to embark on an ill-fated venture at all, than to learn by experience later what a few hours of concentrated and hard work in putting together an honest, crystal-clear business plan should have determined in a convincing manner.

Potential entrepreneurs are sometimes too enthusiastic and often get sidetracked on the practicality and the potential for success of a new venture. Bankers and investors, however, want to know and see convincingly that the proposed venture’s financial, managerial, operational, and marketing plans are more than adequate. Loan requests from entrepreneurs are frequently rejected because of poor preparation, inadequate presentation, or because the entrepreneur is unsure of the precise capital requirements of the business. They can also be rejected because of some tangible or intangible element of Murphy’s Law that all of a sudden springs out of nowhere:

- Nothing is as simple as it seems.
- Everything takes longer than it should.
- The more innocuous a change appears, the further its influence will extend.
- All warranty and guarantee clauses become void upon payment of invoice.
- The necessity of making a major design change increases as the fabrication of the system approaches completion.
- Firmness of delivery dates is inversely proportional to the tightness of the schedule.
- Dimensions will always be expressed in the least usable term. Velocity, for example, will be expressed in furlongs per fortnight.
- An important Instruction or Operating Manual will have been discarded.
- Suggestions made by the Value Analysis group will increase costs and reduce capabilities.
- Original drawings will be mangled by the copying machine or the printer.
- In any given miscalculation, the fault will never be placed if it involves more than one person.
- In any given situation, the factor that is most obviously above suspicion will be the source of error.
- Any wire cut to length will be too short.
- Tolerances will accumulate unidirectionally toward maximum difficulty of assembly.
- Identical units tested under identical conditions will not be identical in the field.
- The availability of a component is inversely proportional to the need for that component.
If a project requires \( n \) components, there will be \( n-1 \) units in stock.

- Left to themselves, things always go from bad to worse.
- Nature always sides with the hidden flaw.
- If everything seems to be going well, you have obviously overlooked something.

The CONCEPTUAL Essentials Of A Business Plan

A proposed sequential method for “putting it all together” as far as a critical thinking approach to the business plan preparation is concerned is presented below in Exhibit 3-1. It constitutes the basic foundation for the meticulous analysis of the concepts of the entrepreneurial venture’s business plan. It is essential for convincingly crystallize in the entrepreneur’s mind the fact that the venture has indeed merits and is worth pursuing further, especially since the formulation of a business plan entails a great deal of effort, time, and money in order to construct it in a thorough and comprehensive way:

EXHIBIT 3-1

The Concepts Of A Business Plan

THE NICHE

The Value Concept for the Customer

(\textit{WHY buy?})

THE MARKET

The Demand-Driven Strategic Opportunity Target

(\textit{WHO buys, HOW MANY, WHEN, HOW, WHERE?})

THE RETURN

The Financial Projections and their Timetables

(\textit{How much can we profit and when?})

THE NEED

Success, Personal Investment, and Additional Financial Need Requirements

(\textit{How much we personally contributed, how much more we need, and what does it take to succeed overall?})

THE INFRASTRUCTURE

The Product and Marketing Considerations

The Organizational and Operational Considerations
The Legal Considerations
(What business functional plans need to be in place as the venture’s infrastructure?)

THE PEOPLE “FAKTS”: Financials, Attitude, Knowledge, Timing, and Skills, i.e.

THE ABILITY TO EXECUTE

The Management and Leadership of People
The Financial Management and Control of Money
(Ability to lead and manage people and money?)

THE DEAL

The External and Internal Performance Risks
(Evaluation and contingency plans to PROTECT the Value Concept’s performance against any threats?)

The Growing and Sustained Competitive Advantage Edge
(Growth and development plans to IMPROVE the Value Concept’s Sustained Competitive Advantage Edge?)

The Future Possibilities
(International, “harvesting,” and/or exit prospects to EXPAND the Value Concept?)

This critical thinking approach and conceptual analysis of the essentials of the business plan will enable the prospective entrepreneur or intrapreneur to identify the current and future needs of the venture in terms of type, amount, and timing, and at the same time greatly increase the probability of securing funds on favorable terms by presenting the persuasive argument to bankers or investors of “knowing what you’re talking about!” Therefore, the same concepts of the business plan as shown in Exhibit 3-2 need to be reconceptualized and reconfigured in terms of seven “hooks” that will convey to bankers and investors that you indeed “know what you’re talking about.” Additionally, another strong message will be conveyed to the interested parties that this is not a random exercise in futility, but rather a well thought-out business plan. Exhibit 3-2 presents the actual conceptualized business plan in terms of the “Magnificent Seven” conceptual hooks:

EXHIBIT 3-2

The CONCEPTUALIZED Business Plan

THE NICHE Hook #1: Can we MAKE it?
The Value Concept for the Customer
(WHY buy?)
**THE MARKET** Hook #2: Can we **SELL** it?

The Demand-Driven Strategic Opportunity Target  
*(WHO buys, HOW MANY, WHEN, HOW, WHERE?)*

**THE RETURN** Hook #3: Can we **PROFIT** from it?

The Financial Projections and their Timetables  
*(How much can we profit and when?)*

**THE NEED** Hook #4: Can we **COMMIT** to it?

Success, Personal Investment, and Additional Financial Need Requirements  
*(How much we personally contributed, how much more we need, and what does it take to succeed overall?)*

**THE INFRASTRUCTURE** Hook #5: Can we **PLAN** it?

The Product and Marketing Considerations  
The Organizational and Operational Considerations  
The Legal Considerations  
*(What business functional plans need to be in place as the venture's infrastructure?)*

**THE PEOPLE “FAKTS”**: Financials, Attitude, Knowledge, Timing, & Skills  
Hook #6: Can we **EXECUTE** it?

The Management and Leadership of People  
The Financial Management and Control of Money  
*(Ability to lead and manage people and money?)*

**THE DEAL** Hook #7: Can we **GROW** it?

The External and Internal Performance Risks  
*(Evaluation and contingency plans to **PROTECT** the Value Concept’s performance against any threats?)*

The Growing and Sustained Competitive Advantage Edge  
*(Growth and development plans to **IMPROVE** the Value Concept’s Sustained Competitive Advantage Edge?)*

The Future Possibilities  
*(International, “harvesting,” and/or exit prospects to **EXPAND** the Value Concept?)*

These **“Magnificent Seven”** will put everything into perspective and crystallize the reasons why the entrepreneur is engaging in this long but rewarding journey toward financial and personal independence.
A Sample WRITTEN Business Plan Outline

After in-depth conceptual and critical thinking questions have been considered and analyzed, as well as the necessary information to answer them collected, attention should be focused on organizing the mechanical structure of the specific sections of the business plan in order to enhance its readability and presentation straightforwardness.

The following suggested format of a written business plan outline presented in Exhibit 3-3, would be helpful in constructing a complete written version of the business plan that can be used as a blueprint for the venture’s launching:

EXHIBIT 3-3

A Sample Written Business Plan Outline

1. Cover Sheet
   - Business name, address, phone and fax numbers, email address
   - Principals
   - Date

2. Executive Summary
   - Brief summary of the plan
   - Major objectives
   - Product/service(s) description
   - Marketing strategy
   - Financial projections
   - Personal Investment and the description of additional financial needs

3. Table of Contents (each section listed with headings and subheadings)

4. History
   - Background of principals or company origins
   - Value concept, product/service(s) background
   - Organizational structure
   - Brief outline of the owner’s past and current successes and experiences
5. **Definition of the Business**

- The value concept to the customer
- The added value in the purchasing decision
- Reasons for buying the product or service
- Reasons for buying from this specific business
- Solutions to customer problems

6. **Description of Products or Services**

- Define what is to be developed or sold
- Status of research and development
- Patents, trademarks, copyrights
- Catalogue sheets, photographs, or technical information in the appendix

7. **Definition of the Industry**

- Description of the industry and business fit
- Entry and growth strategy
- Licenses, regulatory and compliance requirements
- Barriers to entry for competitors
- Barriers to exit in case of venture failure

8. **Definition of the Market**

- Strategic target market: WHAT needs? WHOSE needs? HOW needs are satisfied? HOW MUCH price-wise?
- Market size and trends
- Market penetration and market share and sales projections
- Gross and operating margins and pricing
- Analysis of competition

9. **The Management Team**

- The ability to execute: Financials, attitude, knowledge, timing, and skills
- Key personnel
- Organizational structure
- Compensation and incentives
- Partnerships, agreements, and other employee policies
- Supporting external team of professional advisors and services
- Additional details such as resumes in the appendix
10. Objectives and Goals

- Marketing plans
- Operating plans
- Quality assurance plans and service and warranty policies
- Profit, revenue, and cash goals and potential and profit durability
- Development status and timetable schedule
- Financial plans and future needs

11. Financial Data

- Fixed and variable costs
- Break-even analysis
- Projected income statements
- Projected cash flow analyses
- Projected balance sheets
- Pro-forma ratio analysis
- Projected statements of changes in financial position
- Cost-volume-revenue-profit analyses and tax implications (if applicable)

12. Concluding remarks: THE DEAL

- Evaluation of external and internal risks and contingency plans to PROTECT the value concept’s performance from any threats
- Growth and development to IMPROVE the value concept’s sustained competitive advantage/edge and productivity goals for its continuous renewal and improvement
- The venture’s future possibilities and overall prospects to EXPAND the value concept through internationalization, “harvesting,” and/or exit prospects

13. Appendices

- Narrative history of the company in detail
- Management structure (organizational charts, detailed resumes, etc.)
- Lists, specs, pictures and brochures of products, systems, software
- Detailed objectives and goals:
  a. Products and services and technical analysis
  b. Research and development
  c. Marketing
  d. Manufacturing and/or operations and facility layout
  e. Administration
  f. Finance
- Historical financial information (3 to 5 years if possible)
**Major assumptions**
- Regulatory, environmental, compliance, license, and approval documents
- Reports by independent technical experts and consultants
- Lists of customers and suppliers
- Letters of recommendation or endorsement
- Any other pertinent material that would enhance the business plan’s validity and credibility

(Adapted from Peat, Marwick, Mitchell & Co., 1984, pp. 22-23)

**A Conceptual and Operationalized ORAL PRESENTATION Business Plan Outline**

The presentation of a venture proposal and its business plan should not be elaborate and taxing to the intended audience, but rather target and give details on the essential “hooks” that will quickly generate enthusiasm and interest in the venture and result in its approval and funding.

The suggested format for a business plan’s oral presentation outlined in Exhibit 3-4 follows the conceptualized business plan with its “Magnificent Seven Hooks” and should be adaptable in its length depending on the time allotted for its presentation. An oral business plan presentation should never exceed its allocated time.

**EXHIBIT 3-4**

**A SAMPLE ORAL PRESENTATION BUSINESS PLAN OUTLINE**

1. **COVER SHEET**
   - Business name, address, phone and fax numbers, email address
   - Principals
   - Date

2. **EXECUTIVE SUMMARY** *(Hook them with the “Magnificent Seven” early, so they read the written long version of the business plan LATER!)*
   - **Hook #1 We can MAKE it: The Niche and the Value concept**
     *(The way the world IS now, which constitutes a problem.)*
   - **Hook #2 We can SELL it: The Strategic Target Market Opportunity**
     *(The Solution... the way the world OUGHT TO be, the definition of*
the Industry, Market, and Business, the Strategic demand or supply-driven Opportunity Target, added value to the customer’s purchasing decisions, etc.)

- **Hook #3 We can PROFIT from it: The Financial Return**
  (How much return on investment will the venture generate for an investor, and when? Credible, substantiated, and realistic, optimistic, and pessimistic scenarios and timetables in a graphic format.)

- **Hook #4 We can COMMIT to it: The Success, Personal Investment, and Additional Financial Need Requirements**
  (The framework of the specific needs that are required for the venture’s success, their nature, degree and level, cost, and justification, the amount of personal investment committed and its proportion to overall personal wealth, and finally and as a result of this analysis, the specific needs of additional financial investment. Investors want to know up front how much you need, whether you really know what and how much you need, and how much you put out of pocket, so they “categorize” and measure you as an individual and as a true entrepreneur, as well as your venture as a degree of risk.)

- **Hook #5 We can PLAN it: The Infrastructure Plans**
  (Product and Marketing plans, Organizational and Operational plans, and Legal structure plans.)

- **Hook #6 We can EXECUTE it: The People and Money Management**
  (YOU, the FAKTS, the ability to execute once the venture is launched, plugging the holes by organizing and staffing the venture with skilled individuals and providing them with competent managerial leadership with FAKTS, and if you cannot, with other credible individuals, and the responsible and solid financial management and control of the money).

- **Hook #7 We can GROW it: The Deal!**
  (Why is this venture proposal such a Deal for an investor? Because its survival is ensured and by reviewing the venture’s threat and performance risks and by making sure that contingency and management plans are in place that will fend off external and internal threats to PROTECT the venture’s value concept performance; by renewing through growth and development its sustainable competitive advantage edge to IMPROVE the value concept; and finally, by examining the future possibilities of the venture’s value concept by assessing its prospects for internationalization, “harvesting,” and/or exit potential in order to EXPAND the value concept).
The remainder of the oral presentation business plan outline should describe in more detail certain of the aforementioned items, if time is not of essence and there is enough interest on the part of the audience to hear more. Never risk taxing the patience of an audience by elaborating on details and covering issues beyond the “Magnificent Seven HOOKS” that can be easily covered in the written long version of the business plan!

3. THE PRODUCT/SERVICE

- The product and its value added (*The solution again…*)
- Define what is to be developed or sold
- Status of research and development
- Patents, trademarks, copyrights

4. THE MARKETING PLAN AND MIX

- Definition of the Industry (*given the problem of what IS, what COULD be done, and finally, what SHOULD done*)
- Definition of the Market and TARGET Market (*what needs, whose needs, how to satisfy those needs, and at what price and quality*)
- Market potential (*market size and strategic fit*)
- Competitive strengths/advantages (*in the specific industry and the specific market*)
- Business and marketing strategy
- Entry and growth strategy
- The four *Ps* of Marketing
  - Advertising and promotional strategy (P1)
  - Distribution channels (positioning) (P2)
  - Product development strategy (P3)
  - Price and profit margins (P4)

5. THE COMPANY

- History (*background of successes and failures of the individual and the company, since they will find out anyway.*)
- Organizational structure
- Legal organizational structure

6. OPERATIONS OVERVIEW

- Production Technology and Operations
- Technical Qualification and Certification Program
7. THE MANAGEMENT TEAM
- Key personnel (FAKTS)
- Consultants and Advisors
- Hierarchical organizational structure

8. THE FINANCIAL SUMMARY
- Financial plans and needs
- Profit, revenue, cash goals, potential, and durability
- Summarized financial statements (income statement, balance sheet, and cash flow)
- Key ratio analysis (margins, profitability, debt/equity)
- Other important financial considerations (taxes, additional sources of funding, revenue, etc.)
- Financial timetables

9. EXIT STRATEGY/CONCLUDING AND RE-EMPHASIS REMARKS
- Why this is such a great DEAL for an investor!
- What kind of contingency plans have been evaluated and are in place to protect the venture’s value concept from external and internal risks that could possibly threaten its performance.
- Emphatically state again about why YOU have a sustainable EDGE over the competition, and how you will grow, develop, and improve the value concept’s sustained competitive edge through productivity and renewal.
- Where do you want to take this “thing,” what are the possibilities for future international growth by expanding the value concept, and ultimately how do you intend to “harvest” or exit the venture?
- Finish by re-emphasizing the “Magnificent Seven hooks”!

CONCLUSION

No business plan, no matter how carefully constructed or how thoroughly is understood, will be of any use at all unless it is put into action. Going into business is rough, and, as mentioned earlier, over half of all new businesses fail within the first two years of operation, while over ninety percent fail within the first 10 years.
A major reason for failure is lack of planning, and the best way to avoid this and enhance the chances of success is to plan and follow through on the business plan. Again the business plan should be implemented and executed, not placed forgotten in the bottom drawer of a desk.

## ADDITIONAL WEBSITE INFORMATION

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<th>Topic</th>
<th>Web Address</th>
<th>Description</th>
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<td>Banking</td>
<td><a href="http://www.venturebanking.com/index.html">www.venturebanking.com/index.html</a></td>
<td>Venture Banking Group is an operating division of Greater Bay Bancorp, a diversified bank holding company (GBBK-Nasdaq). VBG was started in 1994, and provides innovative banking solutions to emerging growth technology companies in the Silicon Valley and beyond. VBG serves a broad range of industry segments in both the technology and life science arenas. Also gives a form for entrepreneurs to fill out in order to request services from the Venture Banking Group</td>
</tr>
<tr>
<td>Woolco</td>
<td><a href="http://www.geocities.com/zayre88/R_woolco.html">www.geocities.com/zayre88/R_woolco.html</a></td>
<td>Gives the history, and subsequent failure of the Woolco chain</td>
</tr>
<tr>
<td>Knowing the Venture's Market</td>
<td><a href="http://www.life.com/Life/">www.life.com/Life/</a></td>
<td>Tells about the magazine's current projects as well as a history of the magazine</td>
</tr>
<tr>
<td>Knowing the Venture's Location</td>
<td><a href="http://www.census.gov/main/www/subjects.html">www.census.gov/main/www/subjects.html</a></td>
<td>Gives an A-Z list of all current census information</td>
</tr>
<tr>
<td>Business Plans</td>
<td><a href="http://www.business-plans.co.uk/">www.business-plans.co.uk/</a></td>
<td>Defines the purpose, necessity, and process of creating a business plan. Links to other informational websites about forming a business plan</td>
</tr>
<tr>
<td>Sample Business Plans</td>
<td><a href="http://www.businessplans.org/">www.businessplans.org/</a></td>
<td>Excellent variety of sample business plans</td>
</tr>
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REFERENCES


KEY TERMS

Feasibility: The possibility of an idea becoming a success.

Financial considerations: An analysis of why they should provide funds, when they can expect a return, and how large that return is expected to be.

Entrepreneurial event: The event in which the individual or group takes an initiative, resources are brought together to form an organization to accomplish something, and run with relative autonomy.
**Market sensing:** Systematic gathering, interpreting, and using market information.

**Synchronicity:** When all opportune psychological and environmental conditions, circumstances, and favorable state of affairs come into a juncture to form a good timing nexus.


**The “Magnificent Seven” conceptual hooks:** The business plan that deals with making it, selling it, profiting from it, committing to it, planning it, executing, and growing.

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**REVIEW QUESTIONS**

1. What are the three fundamental questions that all prospective entrepreneurs should be able to answer when dealing with investors and bankers, and how can these three questions be satisfied?
2. What are the “Magnificent Seven” conceptual hooks, and what questions do these hooks pertain to?
3. What sorts of considerations are included in the “K” of the “FEAKTS” of the feasibility analysis? Give some examples of what these considerations pertain to.
4. Briefly discuss the issues of timing in launching a venture.
5. Why is the “right” attitude important in launching a venture?

**REFLECTIONS FROM THE FRONT LINES OF LifeGuard America**

I have written many business plans in my career, and I continue to learn through the use of others to review, critique, and refine the end product. I tend to write operational business plans, which sometimes makes for a lengthier document that must be broken into a more concise core with several addendums. Whatever you do, before you begin the distribution and resulting presentation of your new endeavor, get professional and comprehensive reviews of your documents. I worked for eighteen months on the business plan for LifeGuard America and thought I had it ready to take to the market. Luckily for me, I was introduced to the Oklahoma Technology Commercialization Center and its director, Tom Walker. Tom took one look at the 97-page business plan and began laughing out loud. Part of the service the OTCC provides its clients is a critical review of their business plan with professional outside reviewers who take the gloves off and “call it like it is.” Tom’s initial review of my plan was like being hit with a cold bucket of water: basically a grade of “D” on a subject and document I considered myself an expert. He and the team at the OTCC were right on target. I had forgotten the fundamental aspect of any business plan: the target audience is the...
investor. Here I was telling someone how to build a watch when all they really wanted was to know what time it was. Once again the words of my good friend began ringing in my ears: “Never say boo who, when boo will do.” We immediately tore the business plan apart and created an Executive Summary of six pages – an extremely tough but necessary project. The Executive Summary was followed by a newly organized main section in the following format:

1. Company Overview & Background
2. Services & Technology
3. Market Definition
4. Competitive Landscape
5. Market Plan & Positioning
6. Sales Plan
7. Management Team
8. Implementation Plan
9. Financials

We also created separate documents including a marketing plan, sales plan, a Private Placement Memorandum, and an operating agreement for our LLC. These documents were, in some manner, all originally bundled into my 97-page phone book business plan, but now that they were properly organized after three long days worth of work, they received an updated grade of A-, still not perfect but ready for serious consideration.

It is also important to note how crucial it is for any entrepreneur to be flexible in the development over time of his original idea. One must always remember that it is indeed a shared vision that is being created. My original concept focused on the high-speed jet transportation of time-critical human organs like the heart and lungs. Over time, however, it has metamorphosed into a logistical support system for transplant teams to assess organ suitability using our Internet Protocol based Virtual Private Network IP/VPN, (a term not even invented when I first started working on LifeGuard America). In short, the business plan had evolved into the information age where the demands of the transplant community had progressed to the need for real time medical information to support rapid decision-making in a time-critical business. The old plan of high-speed transportation is now only a footnote to the key element of the business plan. If I had been inflexible to the changing requirements of the environment, I would have missed the opportunity completely. Remember, it is not about you and your ideas, but rather the creation of a shared vision based on a flimsy idea or concept that evolves into a strong, viable business opportunity.

**DISCUSSION QUESTIONS ON LifeGuard America**

1. What do you believe is the most important function of your business plan?
2. Why do you think Mr. Fitzpatrick is so insistent on being flexible with your business plan?
CHAPTER 4

VENTURE SUCCESS FRAMEWORK: Overall Success Requirements

Learning Objectives

1. To discuss success and failure
2. To describe a comprehensive framework of success factors
3. To identify the factors that lenders and investors seek before deciding to fund a new venture

Topic Outline

- Introduction
- Income Oriented Businesses Vs. Entrepreneurial Ventures
- Success And Failure
- Determinants Of Success: A Review Of The Literature
- A Framework For Success
- Competitive Strategy
- Environmental Factors
- Demographic, Psychological, And Behavioral Factors
- Management Practices
- Conclusion
- References
- Review Questions

“People who try to do something and fail are infinitely better than those who try to do nothing and succeed”

(Lloyd James)
Everyone who is at all familiar with the problems of creating new ventures and developing small businesses believes that the majority of these companies could continue to live and prosper if the people at their heads would only spend on preventive planning a fraction of the imagination, care, and work they spent on building up their businesses in the first place.

Someone said: “I know how the surgeons in the accident ward down at the hospital must feel when the highway casualties are brought in Saturday nights: frustration at being unable to do much more than make the patient’s last hour a bit more comfortable; rage at the needless waste and destruction of so much that could live constructively and productively; and sadness when I ponder what might have been had these friends of mine only started to think about the future of their business a few years sooner.”

There is no doubt that the challenges and issues facing entrepreneurs in their quest to develop and sustain their businesses are complex and multiple. The price of failing is high not only to entrepreneurs and investors, but also to society. Entrepreneurs and investors stand to lose their investments; society loses jobs and incurs high social costs such as unemployment insurance, reduced competition, less innovation, and wasted investment capital.

In the start-up stage, the key question is quite simple: why does one business idea succeed in getting implemented, when others do not? That is, what factors improve the chances of successfully starting a business and overcoming the major obstacles standing in the way of survival? Once past the survival stage, however, the manager must make a conscious decision about the future of his/her venture. Will it be entrepreneurial and attempt to grow, or will it be income-oriented opting for stability or slow growth, and focusing on maintaining the founder’s personal and business lifestyles? With this decision the question becomes: why does one existing business succeed and another cease operations, or at best perform marginally? What are the requirements and the needs for improving the firm’s chances of succeeding at maintaining their income-orientation, developing into a high-growth company, and sustaining growth and profitability? Hopefully, this chapter will provide some insights for avoiding the more common pitfalls that new firms tend to encounter as they are created and evolve. The intent is to “stack the deck” in favor of success.

INCOME ORIENTED BUSINESSES

VS. ENTREPRENEURIAL VENTURES

Income-oriented businesses (e.g., flower shops, bowling alleys, hardware stores, etc.) are different than entrepreneurial ventures, and therefore have different funding needs and success requirements. Income, or lifestyle businesses are often created to serve
as a substitute to working for someone else, and the owner has, in a sense, purchased himself/herself a job. Such businesses tend to grow slower than entrepreneurial ventures and plateau at some steady employment level.

Birch (2001) differentiates between the two by labeling income-oriented businesses “small business” while calling entrepreneurial ventures “gazelles.” Gazelles usually are in high tech, get venture capital, are young, small, and operate in national or international markets rather than regional markets. The ability for small business, which Birch estimates at 5.8 million, to grow or decline in terms of employment, what Birch (1988c) calls volatility, tends to be extremely low. In contrast gazelles, which he estimates at about 352,000, have a different fate:

Entrepreneurial businesses never just grow and rarely just decline. They do both sequentially. They stumble onto something, get a big boost out of it, and grow significantly. Then, as soon as they think they’re rounding third base, someone always seems to move home plate. Maybe there’s a change in their economic world. Other competitors close in on them. A new technology eliminates the value of their market niches. Or perhaps they simply get cocky, or lazy, and lose track of the direction in which they were headed. Whatever the cause, the inescapable fact is that the most likely result of any company’s growth, is a slowdown or even outright decline. (p. 25)

Almost invariably, entrepreneurial ventures experience high volatility. Their growth patterns are not just simple upward curves, but over enough time, a series of peaks and valleys. In order to come up from the valleys, the firm has to learn from its mistakes and reversals. Once it does, it can get back on the path to success. Big declines tend to be preceded by rapid growth, rapid growth is a frequent precursor of a big decline, and either a big decline or no change is the forerunner for closing.

This kind of activity highlights the fact that for most entrepreneurial ventures rapid growth is inherently volatile. A word of caution is needed here. This does not mean that there are not many firms who have simply gone straight up, increasing their sales year to year by dramatic percentages. But the rule for entrepreneurial ventures tends to be more like a cyclical peak and valley pattern (Richman, 1988).

Companies that go up fast often come down fast (Hyatt, 1988). Because they frequently rely on a single product for their sales, technology, or market, for example, what might be a pothole to a bigger company with other revenue sources and a larger capital base looks like a large ditch to the small growth company. Further, explosive sales growth often requires a company to add costs—payroll, plant, and equipment at an equally rapid rate. If the growth rate slows abruptly, a company can be caught with excess capacity, personnel, and fixed costs. Growing quickly on the tiny capital base that most young, first-spurt companies have leaves little room for even small errors and none for egregious greed (Richman, 1986).
Perhaps by understanding volatility better, firms can benefit by learning how to cope with it, and how to anticipate, plan, and capitalize on it. After all, volatility is healthy, because it eliminates inefficiency and poor ideas from our economic system that constituted bad opportunities in the first place. Firms that do not learn how to profit from their mistakes may end up forever riding a roller coaster between their peaks and valleys.

**SUCCESS AND FAILURE**

Statistics claim that the majority of new ventures are discontinued before the age of five or six. To say the odds are not attractive is obviously an understatement, but they can be beaten. It should be recognized also that the so-called “failure rates” are plagued by definitional problems and inconsistent measures. Definitions of failure vary from study to study affecting what is and what is not considered a failure. Economists and politicians often quote a widely believed statement about small firm failure: *“Four out of five small firms fail in their first five years.”* Administrators of the Small Business Administration use this statement to express their concern about the health of small firms, and mainstream economists have used it to express what they think is the irrelevance of small companies for economic development. However, this claim not only has no foundation, but in fact, no statistical source or any other type of analysis reports such high failure rates. Instead, there is good evidence that more than half, rather than the reported one-fifth, of all new small firms survived for eight or more years. A research study of the eight-year destinies of all small firms formed in 1977-1978 confirmed that out of 814,000 firms, 54 percent of the companies survived, while 26 percent merely changed ownership. The rest of the firms either died or failed. To distinguish between death and failure, Dun & Bradstreet defines failure as “business termination with losses to creditors.” This is a suitable definition because it differentiates between the firms that fail because of financial distress, and the firms that terminate operations by the owners voluntarily. This also tells us that the chances for an entrepreneur starting out in the U.S. are surprisingly good. Therefore, from a lender’s perspective the probability of losses from lending to new businesses is far less than 80 percent that the statement *“Four out of five firms fail in the first five years”* implies, and the survival rate of the small firm, including ownership changes, is one out of two with 28 percent surviving with their original owners at the helm (Bygrave, 1997, pp. 458-459).

Just what are the odds of starting a business and surviving? Unfortunately, business mortality records are notoriously poor and only deal with firms which have ceased operations. What about the individual who comes up with an idea and wants to know what his/her chances are of getting the business off the ground? Of course, there is no way to keep track of “failed ideas” or business plans that could not be implemented (Birch, 1988b).

Perhaps even more important for prospective entrepreneurs to understand, is that
many firms ceasing operations are quite often started by people lacking the fundamental training and business skills needed to succeed, who have never balanced a checkbook before, much less understood a set of accounting books, and people who let their excitement and enthusiasm outweigh any rational considerations as to whether or not their ventures have even the slimmest chance for success.

Obviously, failure is a most disturbing term, loaded with emotion and negative implications. Yet it has been the operative word for the majority of studies examining firms going out of business. Failure does not always have a disappointing outcome. There are many ways a firm can cease operations without experiencing real failure. For example, many firms can close down without incurring losses, or the owner(s) may sell their operations at a profit and reopen under a different name, or perhaps they move into other occupations with better opportunities. Businesses are also discontinued because of retirement, illness, or because they are simply sold for a profit, rather than only because of poor operating performance. Because of the variety of ways businesses can be discontinued, there is a multitude of competing definitions and measures of small business “failure rates.” There is simply no uniformity in conceptualizing failure. That’s the good news.

The bad news is that, typically, somewhere around 98 percent of the business plans submitted to venture capitalists end up rejected for one reason or another. The odds are probably pretty good that you can start a business, but the more you need outside funding, the more the odds tend to get progressively worse. The entrepreneur’s capacity to raise money is a result of having the other venture factors stacked in favor of success. Whether the funding materializes or not, this does not cause these other success factors to just happen. Rather, in most instances, venture funding follows good entrepreneurs with FAKTS who have spotted good opportunities and who demonstrate that they clearly grasp the driving forces that will govern success. For this type of people who have demonstrated that they understand the driving forces needed to succeed in their proposed business (Timmons, Smollen, & Dingee 1985, p.16).

Obviously, there is a huge gap between what determines success and failure at the start-up stage. The role of entrepreneurs, therefore, is to identify as many ways as possible to increase the chances of their ideas and find ways to improve the odds that their ventures get funded if outside capital is needed. In this sense, it is good opportunities that are more likely to get funded and started than good ideas. But what constitutes a good opportunity? Is it the venture’s chance of success? Timmons et al. (1985) contend that success in a new venture takes much longer to appear than most people realize, i.e., pearls (winners) take 7-8 years to mature, while lemons (losers) ripen much quicker, in two and a half years.

Regardless of the statistics used, no one disagrees that the odds are poor. Failure is definitely more often the rule rather than the exception, but there are ways to improve the odds. For one thing, the 65 percent failure rate cannot be generalized across the
board. Substantial variation exists between industries, localities, and time periods. The success rate is also considerably improved among firms that receive venture capital. For instance, one study found only an 18 percent failure rate among 272 ventures over a seven year time period (Dorsey, 1979). Why have ventures funded by venture capitalists been so successful? This is because venture capitalists can differentiate between a good idea and a good opportunity. This may be so, but at the same time, they do not automatically pick winners. One study of performance found that 40 percent of venture capital deals resulted in a loss of 50-100 percent of the total investment. In only a little over 10 percent of their deals did they realize their targeted return of five or more times their investment (Timmons et al., 1985).

Are there any other benchmarks, guidelines, or rules that can be used to increase chances of success, besides the venture’s idea being a good opportunity? Unfortunately, there are no specific formulae to improve the odds, but there are some general insights that have been obtained from previous research. For example, Timmons et al. (1985) have drawn from some of the early studies on job generation and company formation and conclude that a rough threshold-level exists which closely corresponds to both the odds of survival and the potential for growth. At a minimum, exceeding $500,000 to $1,000,000 in sales or 10-20 employees, results in improved chances for survival. Anything above these figures increases the odds of surviving even more, because higher survival rates are found among firms creating more jobs. It is therefore logical to assume that the more jobs you create, the more successful you must be and thus, the higher the survival rate (p. 5).

Perhaps the most comprehensive and insightful examination of company survival and failure has been undertaken by Birch (1987). Using a database of 5.6 million firms ranging in size from mom-and-pop grocery stores to Fortune 500 conglomerates, Birch found that smaller firms (0-19 employees) are slightly less likely to cease operations than larger firms (500+ employees). On the other hand, the odds of survival for intermediate-sized firms (20-499 employees) are better than smaller companies. Hence, Birch provides support for the intuitive belief in a threshold-concept up to a certain level of employment, meaning that the odds of survival are, as Timmons et al. (1985) suggest, progressively better as the firm gets larger, or at least until it hits a threshold of 500 or more employees, at which point survival rates get slightly worse.

Can we pinpoint the specific venture opportunities that have the highest survival rates? How about the ones easiest to start? And what about survival and growth? Wouldn’t it be great if we could find a business that is easy to open, and likely to survive, and has a high probability of growing? Unfortunately, we cannot. High survival rates and rapid growth just are not compatible with frequently started businesses. The businesses that seem easiest to start tend to grow little or even worse, they tend to close. Those that easily survive do so because they are difficult businesses to get into. And the ones that can make entrepreneurs and investors rich, are hard to start and hard to keep going. Entrepreneurs must think carefully about what kind of venture opportunity they want to undertake and seek funding for, because none is likely to
provide them with easy entry, and security, and rewards. Thus, they will be forced to choose those characteristics that matter most to them and their financiers, and then brave the absence of the others (Birch, 1988a).

**DETERMINANTS OF SUCCESS: A REVIEW OF THE LITERATURE**

It was mentioned earlier that in most instances, venture funding follows good entrepreneurs with FAKTS, who have spotted good opportunities, who have demonstrated a clear grasp of the driving forces that will govern success in their proposed venture. Perhaps no topic has been researched more often in the entrepreneurship/small business literature than the determinants of success. Unfortunately, the early literature on the topic of success seldom provided any connection between the various approaches. Some advocate personality variables, and others demographic characteristics as the key determinants of success. And still another group champions the use of simple rules-of-thumb developed through experience, such as “never get involved in a partnership.” A more recent set of authors suggests that entrepreneurial strategy is the major concern. Peter Drucker’s (1985) book, *Innovation and Entrepreneurship* provides several chapters and examples of successful entrepreneurial strategies along with an interesting discussion of the key elements necessary for entrepreneurial management to flourish in a new venture.

Entrepreneurial strategies have become a key research topic in new venture performance (e.g., Sandberg, 1986; McDougall & Robinson, 1987; MacMillan & Day, 1987; Stuart & Abetti, 1987). A word of caution here: in several studies purporting to examine entrepreneurial strategies, the researchers have included intrapreneurial ventures. Given the significant resource advantages possessed by large firms, it may not be appropriate to apply their findings to independent entrepreneurs. A second concern is that many of the strategy studies limit their focus only into entrepreneurial ventures and exclude income-oriented small businesses, which are often content with stable or slow growth strategies.

Another favored approach to studying success has been to examine the personality, behavioral, and demographic characteristics possessed by entrepreneurs and small businesspeople. The belief here is that successful entrepreneurs possess traits, behaviors, and personality characteristics different from non-entrepreneurial types. One criticism of this segment of the entrepreneurial literature is the lack of a widely accepted definition for an entrepreneur. Because no uniform definition exists, much of this research makes little distinction between an entrepreneur and a small businessperson, and the results are somewhat confusing. Still, an enormous amount of literature exists on personality traits, such as risk-taking, autonomy, locus of control, etc., behavioral activities related to organization creation, and demographic characteristics like age, experience, education and family role models (Gartner, Carland, Hoy, & Carland, 1988; Carland, Hoy, Boulton, & Carland, 1984; and Brockhaus, 1982).
Examining psychological traits is perhaps the most controversial of all the approaches to studying success. It reflects the search for a “magic bullet” of the single best psychological profile describing the “successful” entrepreneur or small businessperson (Gartner et al., 1988; Carland, Hoy, & Carland, 1988). The search has not been altogether very successful. In fact, the consensus seems to be moving towards accepting that demographic variables may help indeed predict the probability of someone starting a new venture, but offer little in predicting or improving the odds of succeeding at starting and growing an entrepreneurial venture or a small business (Hofer & Sandberg, 1987, p.22). Gartner et al. (1988) further criticizes the utility of examining personality variables to identify a so-called “entrepreneur.” Nevertheless, this is still a fairly controversial, and as yet unsettled, issue.

A final approach to discussing success is more comprehensive in nature, because it attempts to identify all the personality, demographic, behavioral, environmental, strategic, and other factors that affect a venture’s odds of succeeding. The reality is that any one factor may affect the chances of success, but there are many more that can quickly lead to financial ruin if not avoided or addressed. With this approach, authors are trying to cover all the bases in order to make new venture owners sensitive to the multiple factors that can either make or break their venture’s prospects. Oftentimes this takes the form of a checklist of factors most responsible for small business failures. The entrepreneurship and small business journals such as The Journal of Business Venturing, The Journal of Small Business Management, Entrepreneurship Theory and Practice, among others, consistently carry articles that highlight these issues and offer suggestions on how to avoid or resolve such failure factors.

Recently, academic research has entered a new and hopefully fruitful phase wherein different success factors are examined and researched simultaneously in an attempt to weigh them in terms of their impact on success, similar to the FAKTS profile advocated earlier. While the results are still preliminary, progress is being made. For instance, one study found success to be related to four factors: 40 percent entrepreneurial values or personal traits, 40 percent managerial skills, 10 percent interpersonal skills, and 10 percent environmental dimensions (Goodwin & Ibrahim, 1987).

In a review of the literature on this combination of determinants of new venture performance, Hofer and Sandberg (1987) suggest it is most affected by three generic factors in order of importance:

1. Structure of the industry entered
2. The business strategy used by the new venture
3. The behavioral characteristics of the founding entrepreneur

Another particularly interesting discussion on success and failure factors has been undertaken by Vesper (1980). He cites factors such as choice of business, education and experience, collaboration with other parties, prior choices of employer and geographic location, ability to attract starting capital, and management practices as affecting the
founder and the firm’s chances of success.

Timmons et al. (1985) take a different view of the subject. Rather than explicitly talking about success factors, the authors identify the variables driving a potentially high-growth new venture creation process, such as the founders, the opportunity per se, and the resources required. By paying close attention to all the elements encompassed by these three categories, it is implied that the venture process will be successful.

A FRAMEWORK FOR SUCCESS

In order to provide a comprehensive review of the factors linked to small business and entrepreneurial success, there is a need to synthesize the work of previous authors and develop a framework useful for studying the determinants of success. Because of this comprehensive approach, several other factors have been included that are, for the most part, uncontrollable by the entrepreneur or small businessperson, e.g., interest rates, taxes, inflation, and the regulatory climate because they are so often noted as key contributors to the failure or success of small ventures.

The classification scheme offered here is fundamentally similar to several of the frameworks mentioned previously, but it also differs in certain respects. The venture’s competitive strategy is considered to be the most important determinant in the success of both small businesses and entrepreneurial ventures, while personality traits are still considered also to be a significant factor in determining the odds of success. Instead of attempting to identify a single best psychological profile, it is advocated that certain behaviors, attitudes, and traits do indeed lend themselves well to various entrepreneurial and small business situations, and should not be discounted because different personality factors may be more appropriate under different conditions since each business situation is unique. Thus, a framework of success factors encompasses the following aspects:

- Competitive strategy
- Environmental factors
- Demographic, and psychological and behavioral characteristics
- Management practices

This is by no means a complete list of factors. Every situation is unique and entrepreneurs and small businesspersons need to recognize which of the factors are most appropriate to their own situation, and therefore there can be no definitive categorization scheme.
As mentioned previously, much of the literature related to success and management practices appears to be more relevant to small businesses after they have gone through the start-up stage. As far as entrepreneurial startups are concerned, the idea of a “thinking big” strategy makes it essential for entrepreneurial startups to consist of a venture that fits this criterion. Furthermore, the fact that venture capital funded firms command a better success rate, is the reason that 98 percent of all submitted business plans are rejected by venture capital firms is because the odds of their having a successful competitive strategy are not great to begin with.

A fair amount of research has been conducted on venture capitalists’ criteria (e.g., Sandberg, Schweiger, & Hofer, 1987; MacMillan, Siegel, & SubbaNarasimha, 1987; Robinson, 1987; MacMillan, Zemann, & SubbaNarasimha, 1987; MacMillan & SubbaNarasimha, 1986; Tyebjee & Bruno, 1984). These studies provide some good insights into: (1) the criteria used by venture capitalists in evaluating proposals; (2) the differences between funded and non-funded plans; and (3) the differences between successful and unsuccessful ventures that had already received funding from venture capitalists.

One way of improving the success rate with venture capitalists is to know the criteria that they use in judging a proposal. Unfortunately, venture capitalists tend to weigh their various criteria differently, depending on: (1) the characteristics of the industry to be entered; (2) the quality of the management team, and; (3) the strategy they identify for their venture.

Even with the “unique” characteristics of each venture and venture capital firm, there are some generalizations that can be made regarding the criteria used to evaluate proposals. Three studies (Tyebjee & Bruno, 1984; MacMillan, Siegel, et al., 1987; and Robinson, 1987) have yielded somewhat similar results, except for one area, namely the importance of the entrepreneur’s or the team’s characteristics, because it is believed that a quality team is the best foundation for a successful competitive strategy. Interestingly, the Tyebjee and Bruno study did not support the conventional wisdom in the venture capital industry, but rather found market attractiveness to be the most important criterion. Outside of this one issue, the results seem to be relatively similar. A fourth study, MacMillan, Zemann, et al. (1987), looked at the kinds of criteria used to screen ventures but not the specific criteria per se. For comparative purposes, the criteria found in each of the four studies according to which venture capitalists evaluate venture business proposals are shown in Exhibit 4-1, and illustrate the components of the venture’s competitive strategy that have been found to contribute to future success and survival.

Identifying the criteria used by venture capitalists is one way to enhance the chances for funding. Another way is to understand some of the differences between funded and non-funded plans. MacMillan and SubbaNarasimha (1986) examined this topic
and found that plans that were not funded typically projected extremely optimistic performance results for their venture’s competitive strategy. Apparently, venture capitalists identify an upper and lower boundary of acceptable results. Anything outside these limits tends not to impress venture capitalists, and the plan is generally not funded. The problem is that these limits cannot really be identified, because they are unique to each venture capital firm. It is like trying to hit a moving target, different for each situation. Additionally, funded plans tend to have a balance in terms of the material devoted to each functional area of the business, e.g., marketing, finance, production, etc., the necessary ingredients for a successful competitive strategy, while plans that are not funded neglect to provide this balance.

Another study highlights just how difficult it is to evaluate new venture proposals. Examining businesses that had already received venture capital funding, they found that they could be classified into three unsuccessful and four successful venture types. Unfortunately, what makes them hard to evaluate is that the unsuccessful ventures were virtual mirror images of the successful ventures, with typically only one characteristic separating the successful from the unsuccessful ventures. The bottom line is that a proposal might conform to everything noted above, but there is still a large component of venture evaluation that is more an “art” than a “science” (MacMillan, Zemann, et al., 1987).

EXHIBIT 4-1

**Competitive Strategy Criteria Used By Venture Capitalists In Evaluating Business Proposals**

__Tyebjee & Bruno (1984)__
- Market attractiveness: Is there a market and how attractive is it?
- Product differentiation: Does the entrepreneur have technical skills and is the product unique and patentable?
- Profitability potential: Can we realistically expect high profits?
- Managerial capabilities: Demonstrable skills in management, marketing, and finance
- Environmental threat resistance: Venture’s protection against competitive and non-competitive threats
- Cash-out potential and ease of exit

__MacMillan, Siegel, et al. (1987)__
- Competitive risk: Product market threats
- Bailout risk: Financial potential
- Investment risk: Prospect of attractive returns
- Management risk: Entrepreneur’s risk management abilities, capacity for sustained effort, and market familiarity
- Implementation risk: Developing a prototype, market acceptance, and ability to articulate the venture
- Leadership risk: Leadership talent of the entrepreneur

Robinson, (1987)
- Management team
- Fit between management’s technical skills and industry’s requirements
- Resource needs vs. personal skills and motivation of management
- Venture’s financial history
- Professional references

- Criteria that screen out ventures where there is a risk of failure due to unqualified management
- Criteria that screen out management that may be well qualified but lack experience
- Criteria that screen out ventures where the basic viability of the project is in doubt
- Criteria that screen out ventures where there is high exposure to competitive attack and profit erosion before the investment can be recouped
- Criteria that avoid ventures locking up the investment so that it cannot be cashed out for long periods of time.

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ENVIRONMENTAL FACTORS

Goodwin and Ibrahim’s (1987) study specifically identifies three environmental factors contributing to small business success, namely, interest rates, taxes, and government assistance. The following factors should also be added: inflation, the founder’s choice of geographical location, the regulatory climate, technology transfer programs, incubator and entrepreneurship centers, luck, the structure of the industry in which the business will be or is already competing, timing, and in case of a high tech firm, the presence of a cluster of other technology companies (Goss & Vozikis, 1994).

Exhibit 4-2 illustrates these factors, plus several others related to the general categories.
EXHIBIT 4-2

*Environmental Factors Contributing to Venture Success*

Interest Rates, Inflation, and Taxes
Choice of Location
   Trained Business Professionals and Consultants
   Community Networking Opportunities
   Proximity To a Good University
   Labor Supply
   Transportation
   Utilities
Industry Structure
Regulatory Climate
Federal, State, and Local Government Assistance
Technology Transfer Programs
Incubator and Entrepreneurship Centers
Presence of a Cluster of Other Technology Firms
Timing
Luck

Can all these economic variables be controlled or even affected by an individual entrepreneur or small businessperson? Typically not, but they always come up in any list of factors most often contributing to small business failures. Therefore, entrepreneurs or small businesspersons who wish to achieve success when seeking funding must, at the very least, be educated and aware of these issues, and be able to show that they will be able to capitalize on them when opportunities present themselves and avoid the pitfalls.

As far as the interest rates are concerned, for example, there is no question that many entrepreneurs believe they are being unjustly singled out as high credit risks. A congressional report based on a survey of the ten largest U.S. banks found that large banks often issue loans to big companies at interest rates lower than the published prime rate. The small firm may be misled if it believes that their rate is anywhere near the best rate charged bigger corporations. This situation exists because banks frequently believe they must charge more for smaller loans to compensate for a higher cost of money. They privately concede that it is usually more advantageous for a bank to extend credit to a larger corporation rather than a smaller company, since larger corporations can afford higher interest costs. In addition, large corporations actually reduce a bank’s costs because it is usually cheaper for a bank to pay “service” charges on accounts with larger businesses by consolidating a wide variety of company banking functions. The small business mentality is different from that of the larger firm, and the entrepreneurial mentality is different from that of the small businessperson.
Unfortunately, the majority of bankers seldom relates to either because their job is to make loans that do not go bad, not to take excessive risks on someone starting a new venture. Another reason small businesses suffer disproportionately from higher interest rates is that they typically have less equity than larger companies. Their needs have to be met more by short-term debt, which again makes them less attractive to both long-term lenders and investors.

Inflation, while no longer at the high levels of the late ’70s, is an often misunderstood phenomenon when considered in relation to small business. As damaging as it may seem to be, the truth is that inflation, resulting in increasing prices, can help to keep a lot of poorly run companies above water. Alan Greenspan, Chairman of the Federal Reserve Bank, labeled inflation as “clearly the number one reason that a higher percentage of businesses managed to survive in the late ’70s.” This unusual effect occurs because borderline businesses may run up large debts, in which case accelerating inflation makes such debts cheaper and cheaper to repay because in the long run, lenders may charge fixed interest rates that eventually prove to be under the inflation rate. For borrowers this is a splendid arrangement because they are able to repay loans with dollars depreciating at a higher rate than their interest charges (Malabre, 1980, p. 40). High inflation also helps smaller businesses in still another way because it fosters a climate where badly managed companies can more easily survive by continuing to sell goods and services of inferior quality through widely expected price increases. Along the same lines, inflation bolsters profits, though in an unsound manner, by exaggerating the value of assets, by producing inventory profits and by earnings write-offs for the depreciation of equipment unrealistically low that does not reflect true replacement costs (Malabre).

The federal tax structure possesses a big business bias, is unduly complex, and fails to take into account the special needs and problems of the small firm. Such problems include: understanding and complying with the tax system at all levels of government; retaining needed capital for operations and growth; acquiring long-term financing and equity capital; maintaining the independence of the small business as a viable objective; and providing financial security for the entrepreneur. Small firms which are capital-intensive enough to benefit from depreciation schemes and investment tax credits must assemble a battery of high-paid accountants, lawyers, and tax consultants in order to understand the complex array of today’s tax laws. Complicated exemptions, record keeping requirements, and other complex features, combine to produce a heavy compliance burden for the small business.

The location choice is another critical consideration for new ventures seeking funding, because it contributes to success in a variety of ways. For example, today’s emphasis on economic development by state and local officials is a bonanza to entrepreneurial ventures able to take advantage of the incentives and subsidies being offered. Some locations can provide a community infrastructure that enhances the chances of developing new ventures, such as the existence of local venture capital, Chamber of Commerce support, workshops on financing, marketing, etc. for the
small business, trained professionals in law, accounting, insurance, banking and other areas needed by entrepreneurs and small businesspeople, and much more. The choice of location can also reinforce the validity of an entrepreneurial effort by providing psychological support and solid networking from nearby successful entrepreneurs and small business owners. Some locations are much more supportive of start-ups and young growth companies and every year, many financial publications and magazines produce rankings of cities with business-friendly climates. Typically, locations with both a high frequency of start-ups and excellent support for growth companies have a mix of characteristics, including close proximity to a university with a strong graduate program that can facilitate technology transfer, a good labor supply, excellent transportation facilities, a superior educational system, good and inexpensive utility services, access to suppliers, and professional assistance available for the start-up and growth company.

The industry structure sometimes takes a life of its own in a particular location. For instance, Atlanta’s excellent transportation facilities and centralized regional location makes it a home base for numerous distribution companies. Omaha, Nebraska, has twenty-five telemarketing centers employing 10,000 people. Why has Omaha become the national center for this industry? Because it is a central location in the U.S. and because the Midwest has no noticeable accent, thus, less chance of insulting someone when contacting them over the phone. Socorro, New Mexico, has become the center of expertise in explosives technology because it offers huge chunks of vacant land right outside the New Mexico Institute of Mining and Technology. Anyone working with explosives knows that transporting experimental explosive devices long distances is not particularly appealing or safe.

The regulatory climate is another element that can influence the success of start-ups and existing small businesses. For instance, Arizona, which has been consistently ranked at or near the top in new jobs, business births, and growth climate, offers a very favorable regulatory environment, a pro-business attitude, reasonable tax rates, moderate labor laws, and the presence of a large number of high-tech companies, which spin off many new ventures. New jobs originate from three sources: (1) 5 percent from out-of-state recruiting; (2) 49 percent from expanding existing firms already in the state; and (3) 55 percent from new businesses from local industry (Charland, 1988). Recognizing the favorable regulatory environment on a state level can benefit the entrepreneur looking for subsidies, inexpensive financing, and a core group of skilled personnel.

Government assistance on all levels, federal, state, and local, also takes many different forms. For instance, government-financed and government-backed loans are available through a number of sources. In Colorado, the Colorado Department of Local Affairs, the Colorado Housing and Finance Authority, and the Farmers Home Administration all offer such loans. Similar programs exist in other states.

Technology transfer programs like Pennsylvania’s Ben Franklin Partnership, Ohio’s Thomas Edison Incubator Program, Virginia’s Center for Innovative Technology, and
Oklahoma’s Technology Commercialization Center try to bridge the gap between academic researchers and industry by finding ways to facilitate the commercialization of technical research. Potential entrepreneurs with an idea for a technology-related business based on technology transfer, or individuals looking for a technically oriented partner, can enhance their chances of success by locating near technology transfer centers and becoming familiar with technical personnel working in related areas. These centers tend to attract a core mass of expertise, where state-of-the-art technology and knowledge exists and can potentially serve as a good source for finding and attracting qualified partners to a venture team.

Incubators like a holding company help ventures and especially e-commerce sites up off the ground, nurturing them with sound advice and then “unloading” them when they become profitable. Incubators grow by finding companies with promising business ideas and prospects, but lacking a key ingredient or two, such as office space or technical and legal help, and they supply these missing elements and often invest in these companies. They also introduce them to customers of other “incubates,” or help them recruit talent, or ultimately help them find prospects for other companies to acquire, or even point them to the right direction of possibly being “harvested” themselves. However, strong companies already have what an incubator provides because they have strong managerial skills, a good business plan, and are already attracting investment and venture capital. Consequently, an incubator is not the right location for them (“Incubators Lay,” 2000). Universities, through research parks, and Centers of Entrepreneurship, also provide useful services and technical assistance to businesses and establish cooperative research projects among academia and industry; they usually house and make available consulting services and information, oftentimes free, through the Service Corps of Retired Executives (SCORE), the Small Business Administration (SBA), the Small Business Development and Assistance Centers (SBDC and SBAC), Minority Business Development Centers (MBDC), and a host of other federal, state, and local government or quasi-government organizations.

Technology firms also tend to prefer to gather around high technology clusters such as California’s Silicon Valley, North Carolina’s Research Triangle, Texas’s Austin, and Alabama’s Huntsville in order to take advantage of the technology climate, the possibility of “cannibalizing” other firms’ technical personnel, and most importantly to benefit from what the economic literature calls “agglomeration economies,” i.e. the benefits of just being in an environment that is conducive to high tech opportunities and being associated with other similarly minded entrepreneurs and high tech firms (Goss & Vozikis, 1994).

Finally, timing and luck are issues that are always present and could have a tremendous impact. However, as mentioned earlier, they need to be treated in such a way as to make sure that the venture’s success relies upon them the least.

Much of what has been discussed on the environmental factors contributing to a venture’s success appears to benefit the venture entrepreneur because the prospective entrepreneurial venture has more to gain from favorable environmental factors than
a small business. This is because small businesspersons begin their business within a short distance of their home city. It is rare that they move to start a business. For one thing, their business is often started as a way to enact their profession or to pursue a personal interest and is oftentimes a craft or a trade whose success depends on their knowledge of the local area. They trade in a much more restricted region, and they are more interested in maintaining their business and their personal lifestyle than being bothered with growth. They strive for personal income and security. Because of their more limited objectives and focus, the small businessperson often finds that the support mechanisms offered by the government and other organizations are of little use, or worse, completely irrelevant for their purposes, because such programs tend to be heavily oriented to assisting growth firms.

**DEMOGRAPHIC, PSYCHOLOGICAL, AND BEHAVIORAL FACTORS**

Much research in the entrepreneurship field has focused on the person of the entrepreneur, asking the question: Why do certain individuals start ventures successfully when others, under similar conditions, do not? Asking why can lead to answering with the question of who. Certain inner quality or qualities, and traits differentiate entrepreneurs from non-entrepreneurs.

However, a startling number of traits and characteristics have been attributed to the entrepreneur, and an entrepreneurial “psychological profile” assembled from these research studies could portray someone larger than life, full of contradictions, and conversely, someone so full of “traits” that the term would have to be one of a generic “Everyman” (Gartner et al., 1988). Therefore, it is not suggested by any means that being a successful entrepreneur is equivalent to being a modern-day Renaissance person.

The focus in this section however, is not to define who is an entrepreneur, but rather to identify the variety of characteristics that have at one time or another been considered important for success by investors, lenders, and venture capitalists during the funding evaluation process in entrepreneurial ventures and/or small businesses. Psychological and behavioral factors are inextricably bound, because in order to understand behavior one has to understand why the person behaves in a particular manner since personality cannot be separated from other aspects of life (Carland et al., 1988, p. 35).

Successful venture performance is determined by events before, during, and after the creation of the venture. Many of the key behavioral determinants of successful entrepreneurship can be learned from experience, from education, from workshops and seminars, from role models, and from a variety of other sources of knowledge and information.

In this sense, an entrepreneur is not only born, but can be made better. In other words, it is not about just traits, but rather about the fact that entrepreneurs somehow...
have learned to take the steps required to set up a successful business. This could settle
the argument whether entrepreneurship can be taught, because as Gartner advocates:
“It’s like tennis, I cannot guarantee how good you will be if you take a course, but we
can pretty much get you up to speed. We can provide the skill sets” (“Where Are We

Exhibit 4-3 displays a number of demographic as well as behavioral and psychological variables that fit these criteria, which investors and potential team members look for in entrepreneurs. Five groups combining both psychological and behavioral characteristics have been identified, but this is by no means a definitive categorization, but rather one of many frameworks that could possibly be constructed.

The demographic characteristics pertain to gender, age, household income/net worth, education, role models, and experience, while the psychological and behavioral characteristics groups, not necessarily in any ranking order or importance, are as follows:

1. Inquisitiveness and risk acceptance
2. Motivation and leadership
3. Professionalism and self-confidence
4. Adaptability to their environment
5. Achievement and action-orientation

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<table>
<thead>
<tr>
<th>EXHIBIT 4-3</th>
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</thead>
<tbody>
<tr>
<td>Demographic, Psychological, And Behavioral Characteristics</td>
</tr>
<tr>
<td>Contributing To New Venture Performance</td>
</tr>
</tbody>
</table>

**DEMOGRAPHIC VARIABLES**
- Gender
- Age
- Household Income/Net worth
- Education
- Role Models
- Experience

**PSYCHOLOGICAL AND BEHAVIORAL VARIABLES**

<table>
<thead>
<tr>
<th>Inquisitiveness and Risk Acceptance</th>
<th>Motivation and Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willingness to learn about and invest in new techniques</td>
<td>Ability to activate vision and instill it in others</td>
</tr>
<tr>
<td>Propensity to take calculated risks</td>
<td>Sense of humility</td>
</tr>
<tr>
<td></td>
<td>Sensitivity and respect for employees</td>
</tr>
<tr>
<td></td>
<td>Overcoming the fear of failure</td>
</tr>
</tbody>
</table>
Leading by example
Team building
Build and sustain an entrepreneurial culture
Positive role model
Encourages people to do their best
Share rewards

Professionalism and Self-Confidence
Projects a successful image
Interested in and enjoying business
Has discipline to sit down and plan
Good physical health, energy, stamina
Emotional stability
Positive mental attitude
A sense of optimism and self-confidence
Pays attention to details
Not afraid to stand out from the crowd
Internal focus of control
Integrity and reliability

Adaptability to Environment
Flexibility and adaptation to change
Learns from mistakes
Emphasizes tolerance
Able to conceive the environment accurately
Keeps things in perspective between business and personal life
Seeks and uses feedback to develop innovative ways to exploit opportunities
Focuses mostly on opportunities, not problems
Tolerance for ambiguity and uncertainty
Creative and innovative

Achievement and Action-Orientation
Taking personal initiative
Ambitious
Patient with people, but impatient with obstacles
Goal-oriented and goal-directed
Total commitment and determination to succeed
Achievement-oriented
Tenacity, perseverance, and desire to overcome hurdles
Low need for status and power
Decisiveness

Virtually every study of entrepreneurs and/or small businesspeople has found consistent conclusions regarding demographic variables. Entrepreneurs are more likely to be males, and better educated as a whole (“Today’s Self-employed,” 2001). Age is irrelevant to starting a business, but certain characteristics related to age are considerations. For example: in most cases, the younger entrepreneur, the less business experience is possessed; but, at the same time, there is more energy and enthusiasm. Every so often, the latter makes up for the former.

Family role models have an influence on the likelihood of starting a business and provide psychological support for venturing efforts. Education, life, and job experiences
help identify particular opportunities, which shape personalities and attitudes towards risk-taking, achievement, control, etc. In fact, the National Panel Study of U.S. Business Start-ups, a large scale study of nascent entrepreneurs compared to a control group of Americans who are not starting a business, has found that more than 90 percent of business founders have already had prior experience in the same line of business in which they created their new venture, or ran another business of their own when they started a new company (“The Founder,” 2001).

Prior management and marketing experience plus a proven prior success record tend to enhance the entrepreneur’s chances of obtaining outside funding. How does experience work? Not surprisingly, experience provides a set of rules-of-thumb that help guide the entrepreneur’s way. It allows entrepreneurs and small businesspeople to operate in familiar territory and with familiar people, suppliers, distributors, customers, etc. But to truly enhance the chances for success, experience needs to be combined with education. One without the other is no guarantee of failure, but neither are the odds of success improved. Education plays a key role in determining success because entrepreneurs can be made better. Numerous programs on the fundamentals of starting, developing, and growing a business exist at colleges and universities, Chambers of Commerce, SBA workshops, and many other sources.

Psychological and behavioral variables in contrast, describe who the entrepreneur is (psychological or personality traits) and what the entrepreneur actually does (behavioral activities). As Exhibit 4-3 indicated, this covers a lot of ground, and in order to group these variables into a more manageable set and discuss them in some logical fashion, they were classified into five categories, with each category having its own differentiating logic that separates it from the others. While each category of these attributes may contribute to success in their own way, it should be emphasized that their absence also provides the entrepreneur with an opportunity to seek these characteristics among potential partners, business associates, and team members. Having a team whose whole exceeds the sum of its parts is attractive to investors, lenders, potential customers, team members, and many other stakeholders.

**Inquisitiveness and Risk Acceptance.** The propensity of entrepreneurs to take calculated risks and be sensitive to risks within certain limits has been well researched by academics. Unfortunately, the myth that entrepreneurs are gamblers or big risk-takers still exists. The research, however, proves otherwise, and indicates that successful entrepreneurs minimize their risks by consciously following strategies where risk is clearly defined and managed, and by buffering themselves personally and financially from the dire consequences of excessive risk. Additionally, learning how to share the risks with partners, investors, customers, suppliers, distributors, and others, is a critical requirement for a successful venture. Mitton (1984) found successful entrepreneurs doing the following:
They initiate and orchestrate actions, which, while not risky to themselves, have risk consequences. And while they shun risk, they sustain their courage by the clarity and optimism with which they see the future.

- They limit the risks they initiate by carefully defining and strategizing their ends, controlling and monitoring their means, and tailoring them both to what they see the future to be.
- They manage risk by transferring it to others. This way they leverage their position by using resources other than their own, and, in so doing, the rewards of success far outdistance the penalties of falling short (p. 427).

Motivation and Leadership. It is seldom that a single individual starts any successful business undertaking alone. Instead, a team of individuals is critical not only for their complementary skills, but also to demonstrate that the idea is sellable, and that the venture’s founder has been able to communicate and instill his or her vision in other people. Simply put, for the venture to achieve success, the team’s individuals need to be as committed and enthusiastic about the opportunity’s value concept as the founder. Certainly this is a critical issue, but once the venture is past start-up, founders have just as difficult a task confronting them. They must not only continue to build the firm, but at the same time they must sustain an entrepreneurial culture that enables new products and services to continually be developed and improved. In order to do this, the successful entrepreneurs must motivate, lead, understand, and respect the people they come in contact with, such as customers, employees, investors, suppliers, etc., and encourage the team to continue to do their best. They must be positive role models, leading by example rather than by telling. And they must do all this while simultaneously exerting relatively tight financial, managerial, and communication controls during the early stages of the venture. This last characteristic represents somewhat of an oddity because the popular literature emphasizes independence, informal management styles, limited controls, etc. instead. Stuart and Abetti’s (1987) research, however, contradicts this popular view, because they found success positively linked to the entrepreneur’s strong control and guidance during the formative stages.

Professionalism and Self-Confidence. Much of the entrepreneur and small businessperson’s success is tied to their ability to market their ideas, themselves, and their products or services. Since many of them lack a proven “track record” when they first start out, they must find some other way to communicate their enthusiasm and professional competency (Dible, 1986). They must be able persuade people to join their team, persuade investors to fund their ideas, and persuade customers to buy. One of the keys to doing this is to project a professional image and exude self-confidence in order to convince others that they are worthy of their confidence. Successful entrepreneurs believe in themselves and their abilities. They tend to be inner-directed, and have internal locus of control, i.e., success or failure is not a random event determined by timing, luck, or happenstance. Instead, it can be controlled and influenced by the
entrepreneur’s actions or inactions. These desirable characteristics are further solidified by the individual’s ability to make time to carefully plan what to do in the future, while at the same time, paying attention to the myriad of current details and small fires that need to be extinguished everyday, and which, if left unattended, can easily turn a winner into a loser.

Establishing a successful image should also be tied to high ethical standards and good physical and emotional health in order to show the ability to combat the pressures of starting and growing a business, and having an interest in and fully participating in the business world’s network. In addition to these characteristics, the individual must also demonstrate a positive mental attitude, optimism, and a sense of confidence in both the business venture and the people involved.

Adaptability to the Environment. The ability to adapt to their environment is clearly a skill which entrepreneurs must possess if they desire to be both successful in their start-up efforts and to maintain their venture’s viability as they grow. This behavior appears to revolve around four characteristics. First, they seem to have an ability to perceive the realities of their environment relatively accurately, and, at the same time, not only adapt to the changes in the environment, but also focus on the opportunities that these changes represent. Second, they learn from their mistakes, and they are not afraid of criticism. Instead, they seek out feedback and use it to develop innovative methods to take advantage of their opportunities. Third, they are able to keep a balance between their personal and their business lives. They stress tolerance of the ambiguity, complexity, and uncertainty surrounding them and try to keep everything in perspective, emphasizing what really matters. Those who do not, oftentimes find themselves plagued with unhappy personal and family lives. Finally, entrepreneurs bring creative and innovative approaches to bear on new opportunities, instead of using the same old tactics and *modus operandi*.

EXHIBIT 4-4

**Critical Problems of Small Firms**

GENERAL MANAGEMENT

1. Dependence for survival on a principal manager or a “one-man-show”
2. Neglect of selection and supervision of personnel
3. Lack of planning and information
4. Lack of management development
5. Lack of management and coordination
6. Lack or misuse of time
OPERATIONS
1. Poor record keeping and control
2. Inventory mismanagement or not the right kind or amount
3. Wrong location
4. Competitive weakness and diseconomies of scale in purchasing, operating, etc
5. Heavy operating expenses and overhead
6. Wrong overall attitudes of avoiding hard work and responsibility for the firm’s operations

FINANCE
1. Lack of total capital
2. Lack of financial planning and use of financial information and ratios
3. Lack of working capital
4. Poor credit practices and overextension of credit and bad debts
5. Slow collection of accounts receivable
6. High debt level
7. Improper application of capital

MARKETING
1. Non-aggressive selling, promotion, and advertising
2. Inadequate sales
3. Lack of concentration on result areas of products, markets, and technology
4. Lack of research and development and product upgrading
5. Poor knowledge of markets
6. Poor knowledge of competition (Vozikis, 1979)

Achievement and action oriented. Much has been written about the entrepreneur’s need for achievement. It is perhaps the primary motivational force at work within the entrepreneur. Indeed, the very act of starting a new business personifies what the need for achievement is all about (McClelland, 1961). It all boils down to the fact that successful entrepreneurs tend to be self-motivated individuals with a strong desire to overcome challenges. Obviously, an attractive challenge to the entrepreneurs is the ability to start up and succeed in their own business. They set high, but realistic goals and compete against self-imposed standards. They look for moderate risks and use feedback when possible to gauge their progress. They use money to keep score, rather than as an end in itself.

Along with the traditional need for achievement behaviors, there are some other action-oriented characteristics that are important in determining performance. These include the need to take personal initiative, to be ambitious and to take action, to be patient with people but impatient with obstacles, to be totally committed and determined to succeed, and to be tenacious and persevering in pursuing the opportunity’s value.
concept. Finally, entrepreneurs have a low need for status and power, because it is the need for achievement that drives them, not the desire for power and control over others (Timmons et al., 1985).

 MANAGEMENT PRACTICES

A lack of superior management practices is consistently cited as one of the primary reasons given for the failure of small venture firms. Unfortunately, the degree to which management practices are a cause versus a symptom of failure is much more difficult to assess (Vesper, 1980).

Nevertheless, an extensive body of literature exists identifying the types of problems, critical issues, and causes of failure encountered by small firms, as they relate to inadequate and ineffectual managerial practices. Exhibit 4-4 illustrates such a list, compiled from a review of the literature. These studies lead to one fundamental conclusion: it is important to recognize that most small firm managerial problems are essentially problems of poor managerial practices even for problems of other functional business areas, such as finance or marketing. They are generally internal to the firm, hence, within the scope of responsibility of the manager, and they appear to play a much more important role after the start-up phase is completed.

 CONCLUSION

There are enormous numbers of success factors that, if addressed properly, can significantly improve the odds for survival, growth and overall success. These factors are many and complicated. Indeed, many of them are firm or industry-specific, but many others are considerably easier to generalize. Some result from rigorous research studies, others originate from the anecdotes and experiences of successful entrepreneurs.

Unfortunately, they do not all contribute to success equally, nor do they contribute in every situation. Indeed, several of the factors have produced contradictory results. For example, in one study they are identified as prime determinants of success, and in another they may be minor considerations or even completely immaterial. Rather than try to settle the debate by critiquing the research, we preferred to cast our net as broadly as possible and identify the factors which have been considered at one time or another to be important elements in defining the odds of success for either entrepreneurial ventures or small businesses.

The key to success lies in the venture’s value concept idea, its strategic target market, the original feasibility study, the venture’s formal business plan, the financial statements, and the quality of the management of the firm proving the ability to “execute.” Information pertaining to all these factors should be thoroughly examined and reexamined to allay any fears of failure, because entrepreneurs will be doing
both themselves and their investors or lenders a tremendous disservice if they enter into any new venture ill prepared. However, once the venture’s success framework is ready, the enormous possibilities of the venture should justify a very optimistic outlook for its success.

**ADDITIONAL WEBSITE INFORMATION**

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<th>Topic</th>
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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Entrepreneurship Theory and Practice</td>
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<td>Subscription information, links to other entrepreneurial sites, back issues, history of the journal</td>
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<tr>
<td>Incubator and Entrepreneurship Centers</td>
<td><a href="http://www.cit.org/entrepreneurship_centers.asp">www.cit.org/entrepreneurship_centers.asp</a></td>
<td>Lists advisory service offered by the centers, tells you where you can find a center that is near you</td>
</tr>
<tr>
<td>Financial Environmental Factors</td>
<td><a href="http://www.bls.gov/cpi">www.bls.gov/cpi</a></td>
<td>Helpful site for researching statistics about current and past economic trends, tables, graphs and other websites available</td>
</tr>
<tr>
<td>Technology Transfer Programs</td>
<td><a href="http://www.benfranklin.org/">www.benfranklin.org/</a></td>
<td>Informative website about what the Ben Franklin Partnership does, where it is located, and the companies that it supports</td>
</tr>
<tr>
<td>Minority Business Development Centers</td>
<td><a href="http://www.mbd.gov">www.mbd.gov</a></td>
<td>Stories about new businesses, home businesses, small, medium, and large businesses, as well as tools and services to help get people up and running</td>
</tr>
</tbody>
</table>
REFERENCES


### KEY TERMS

**Income-oriented businesses**: Created to serve as a substitute to working for someone else, and the owner has, in a sense, purchased himself/herself a job (“small businesses”).

**Gazelles**: Usually in the high tech and get venture capital, are young, small, and operate in national or international markets rather than regional ones (“entrepreneurial ventures”).

**Business failure**: Business termination with losses to creditors.

**Entrepreneurial strategies**: Different set of rules and tactics to help secure the survival and success of a venture.

**Comprehensive strategy of success**: Identifies all the personality, demographic, behavioral, environmental, strategic, and other factors affecting a venture’s odds of succeeding.

**Framework of success**: Competitive strategy, environmental factors, demographic and psychological behavioral characteristics, and management practices.

**Environmental factors**: Outside factors contributing to a businesses success, such as interest rates, taxes, and government assistance.
**Incubator**: A company, which helps ventures, especially e-commerce sites, up off the ground, nurturing them with sound advice and then “unloads” them when they become profitable.

**Agglomeration economies**: The benefits of being in an environment conducive to similar businesses and opportunities.

**Demographic factors**: Where a business is located and what kinds of people (both customers and associates) are in close proximity.

**Inquisitiveness and Risk Acceptance**: The propensity of entrepreneurs to take calculated risks and be sensitive to risks within certain limits.

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**REVIEW QUESTIONS**

1. Describe a few of the ways that a firm can cease operations without experiencing real failure.
2. Entrepreneurial strategies have become a key research topic in new venture performance. There are a few things that entrepreneurs should be aware of when looking at this literature; what are they?
3. Identify the reasons why smaller firms are charged higher interest rates than larger firms.
4. Describe the ways in which successful entrepreneurs deal with risk.
5. Critical problems of small firms typically arise out of four main sources. What are they? List some of the problems associated with each source.

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**REFLECTIONS FROM THE FRONT LINES OF LifeGuard America**

The difference between being good and being great is ultimately determined by who you surround yourself with and how well and how far you are able to project your shared vision. True success, in my book, is measured not in dollars but in the amount of greater good done by a group of individuals acting as one. One of my first endeavors fell prey to the most fundamental of all mistakes an entrepreneur can make, under-funding. Teamware™ was a software company that developed a solution for the amateur sports enthusiast who managed a league or just wanted to keep track of individual statistics. We had a grand exit strategy of selling to Microsoft, as well as being added to their Microsoft at Home product line. We badly underestimated the amount of marketing and advertising that would be required to break into the already established league management software environment. It was the first real lesson in entrepreneurship 101; take what you think you will need in funding and multiply it by at least 1.5.
I have been blessed, lately, to have the opportunity to pull a group of highly talented people together around a shared vision that saves hundreds of lives every year and is profitable enough to support having fun getting the job done. LifeGuard America, as you will learn later in the book, is a rare opportunity to create a business environment of self-directed work teams with a collaborative approach to R&D. It utilizes the strengths of local higher education to deliver services that saves lives and improves the human condition starting here in America and moving into the international community.

I also read long ago what Mark Twain once wrote, “Great people are those who can make others feel that they, too, can become great.” I have always believed that you should find a way to help others reach their goals and in the process you will find that your reward is a by-product of your actions. I found this to be true in business and the military whether I was selling to a customer, technically supporting a sales team, or leading a group of fighters to a distant target; find out what will make the other guy successful and help him/her get there. I also have come to find that this manner of work ethic builds trust and loyalty, which are absolutely required when building a successful venture around a shared vision.

The fear of failure is not a driver for me, but rather the desire to succeed. It is also important for me to be a part a something bigger than myself. I have always felt most successful in my business life when I was around a group of talented people who were highly driven by the objective at hand. Base your endeavor’s success factors on meaningful objectives that make your customers more successful, and I will guarantee that revenue will follow. Do not become consumed by the fear of failing but rather driven by the absolute need to successfully implement your business plan for the sake of your customers. This focus will see you through the tough times when everything appears to be going against you and your plans. The words of Michael Jordan are timeless and always pertinent: “I have missed more than 9,000 shots in my career. I have lost almost 300 games. On 26 occasions I have been entrusted to take the game-winning shot... and I missed. I have failed over and over and over again in my life. And that’s precisely why I succeed.”

DISCUSSION QUESTIONS ON LifeGuard America

1. How do you believe entrepreneurs can best protect themselves from the most basic of mistakes when first starting out?
2. Mr. Fitzpatrick sounds like an idealist. Do you believe that success is really a function of the people who are a part of your venture?
3. What are your fears? Is failure one of them? How important do you think not having a fear of failure really is when it comes to starting a new business venture?