

S t r a t e s i c

I 111 JIC1 ICUI Id

Second Edition

Donald F. Kuratko

Ball State University

Harold P. Welsch

DePaul University

THOMSON

SOUTH-WESTERN

Australia • Canada • Mexico • Singapore • Spain • United Kingdom • United States

C o n t e n t s

Preface

Part 1 Understanding the Entrepreneurial
Challenge, 1

**Chapter 1 The Challenge of Entrepreneurial Leadership in Growing
Organizations, 2**
Strategic Leadership for Emerging Ventures, 2
The Revolutionary Impact of Entrepreneurial Firms, 3
Entrepreneurial Growth in the Economy, 3
The Age of the Gazelles, 5
 Innovation, 6
 Growth, 6
Effective Strategic Leadership in the New Millennium, 6
Exploring the Entrepreneurial Concepts, 8
***The Entrepreneurial Library: Achieving and Maintaining
Strategic Competitiveness in the 21st Century: The Role
of Strategic Leadership, 8***
***Comprehensive Case Study: Splatterball Adventure
Games, Inc., 29***

Chapter 2 The Challenge of Entrepreneurial Growth, 39
Understanding the Entrepreneurial Organization, 39
The Entrepreneurial Mindset, 40
Building the Adaptive Firm, 41
 Increase the Perception of Opportunity, 42
 Institutionalize Change as the Venture's Goal, 42
 Instill the Desire to Be Innovative, 42
Transition from an Entrepreneurial Style to a Managerial
Approach, 42
Balancing Entrepreneurial and Managerial Styles, 43
Managing Paradox and Contradiction, 46
Growth and Decision Making, 47
Confronting the Growth Wall, 49
Exploring the Entrepreneurial Concepts, 50
***The Entrepreneurial Library: Building an Adaptive
Firm, 51***

Comprehensive Case Study: Wal-Mart Stores, Inc.: Strategies for Continued Market Dominance, 61

Chapter 3	The Ethical Challenge of Growing Enterprises, 77
	Introduction, 77
	Defining Ethics, 78
	Ethics and Laws, 79
	<i>Managerial Rationalizations, 78</i>
	<i>The Matter of Morality, 80</i>
	<i>Economic Tradeoffs, 80</i>
	Ethics and Business Decisions, 81
	<i>The Complexity of Decisions, 82</i>
	The Challenge of Ethical Responsibility, 83
	<i>Approaches to Managerial Ethics, 84</i>
	Ethical Leadership by Entrepreneurs, 85
	The Issue of Ethical Corporate Entrepreneurship, 87
	<i>The Entrepreneurial Library: Managing Ethics: Why "Hoping for the Best" Doesn't Work, 89</i>
	<i>Comprehensive Case Study: The Playskool Travel-Lite Crib, 99</i>

Part 2 Strategic Issues for Emerging Ventures, 117

Chapter 4	Opportunity Recognition: Developing Distinctive Competencies, 118
	Introduction, 118
	Sources of Business Ideas, 119
	The Role of Creativity, 119
	The Nature of the Creative Process, 120
	<i>Phase 1: Background or Knowledge Accumulation, 121</i>
	<i>Phase 2: The Incubation Process, 121</i>
	<i>Phase 3: The Idea Experience, 122</i>
	<i>Phase 4: Evaluation and Implementation, 122</i>
	<i>Acceptance of New Ideas, 123</i>
	<i>The Winning Business Idea, 123</i>
	Product/Market Matrix, 124
	<i>Unexpected Events, 126</i>
	<i>Incongruity between the Actual and the Possible, 126</i>
	<i>Innovation Based on a Process Need, 127</i>
	<i>Changes in Industry or Market Structure, 128</i>
	<i>Demographic Changes, 129</i>
	<i>Changes in Perception and Meaning, 130</i>
	<i>New Knowledge Created by Research, 131</i>

	New Product Development Process, 131
	Conclusion, 135
	Exploring the Entrepreneurial Concepts, 137
	<i>The Entrepreneurial Library: From Initial Idea to Unique Advantage: The Entrepreneurial Challenge of Constructing a Resource Base, 137</i>
	<i>Comprehensive Case Study: Fasten Your Seat Belts: Turbulence Ahead for Travel Agencies, 157</i>
Chapter 5	Assessment of Entrepreneurial Ventures, 166
	New-Venture Assessment: Critical Factors, 166
	<i>Uniqueness, 168</i>
	<i>Investment, 168</i>
	<i>Sales Growth, 169</i>
	<i>Product Availability, 169</i>
	<i>Customer Availability, 170</i>
	The Environment for New Ventures, 170
	<i>Common Industry Characteristics, 170</i>
	Key Steps for Industry Analysis, 171
	The Evaluation Process, 173
	<i>Ask the Right Questions, 173</i>
	<i>Feasibility Criteria Approach, 174</i>
	<i>Comprehensive Feasibility Approach, 175</i>
	Exploring the Entrepreneurial Concepts, 177
	<i>The Entrepreneurial Library: Perceived Risks and Choices in Entrepreneurs' New Venture Decisions, 178</i>
	<i>Comprehensive Case Study: Colorado Creative Music, 195</i>
Chapter 6	Understanding Strategic Positioning, 210
	The Nature of Planning in Emerging Firms, 210
	Strategic Planning—The Key to Strategic Positioning, 211
	Key Dimensions Influencing Strategic Planning Activities, 212
	<i>Demands on Strategic Managers' Time, 212</i>
	<i>Decision-Making Speed, 213</i>
	<i>Problems of Internal Politics, 213</i>
	<i>Environmental Uncertainty, 213</i>
	<i>The Entrepreneur's Vision, 213</i>
	The Lack of Strategic Planning, 214
	The Value of Strategic Planning, 214
	Fatal Visions in Strategic Planning, 216
	Strategic Positioning: The Entrepreneurial Edge, 217
	Exploring the Entrepreneurial Concepts, 217

The Entrepreneurial Library: Creating Wealth in Organizations: The Role of Strategic Leadership, 218
Comprehensive Case Study: American Family Housing, Inc., 236

- Chapter 7 Business Plans for Growing Ventures, 247**
Defining a Business Plan, 247
Benefits of a Business Plan, 248
Developing a Well-Conceived Business Plan, 250
Guidelines to Remember, 252
Keep the Plan Reasonably Short, 254
Appropriately Organize and Package the Plan, 254
Orient the Plan Toward the Future, 254
Avoid Exaggeration, 254
Highlight Critical Risks, 254
Present Evidence of an Effective Entrepreneurial Team, 254
Do Not Over diversify, 255
Identify the Target Market, 255
Write the Plan in the Third Person, 255
Capture the Reader's Interest, 255
Exploring the Entrepreneurial Concepts, 255
The Entrepreneurial Library: How to Write a Great Business Plan, 255
Comprehensive Case Study: Grounded: Business Solutions for Today's Traveler, 265
- Chapter 8 Succession Planning and the Family Business, 306**
Family-Owned Businesses, 307
Advantages and Disadvantages of a Family Business, 311
Intrafamily Conflict in the Family Firm, 312
Common Cultural Patterns in Family Firms, 312
Competitive Advantages of Family Firms, 314
Problems in Family Businesses, 316
The Succession Issue, 318
Failure to Plan for Succession, 318
The Next Generation, 320
Types of Plans and Their Determinants, 320
Succession Plan Elements, 322
External Succession Plans, 323
When to Look for Outside Managers, 323
Advantages of Outside Managers, 323
Pitfalls of Outside Managers, 324
Employee Stock Ownership Plans (ESOPs)
Prescriptions, 324

Conclusion, 327

The Entrepreneurial Library: Strategic Goals and Practices of Innovative Family Businesses, 327

Comprehensive Case Study: The Crowne Inn: A Classic Case of a Family Business in Turmoil, 337

Part 3 Growth Options for Strategic Impact, 351

Chapter 9 Corporate Entrepreneurship: Developing Internal Innovation, 352

Entrepreneurial Thinking, 352

Defining the Concept, 354

Elements of a Corporate Intrapreneuring Strategy, 355

Developing the Vision, 355

Encouraging Innovation, 355

Forming Venture Teams, 358

Structuring for an Intrapreneurial Climate, 360

A Continuum of Intrapreneurial Activity, 361

Models of Corporate Entrepreneurship

(Intrapreneurship), 362

A Domain Model for Corporate Entrepreneurship, 362

A Conceptual Model of Firm Behavior, 363

An Organizational Model for Internally Developed Ventures, 363

An Interactive Model of the Intrapreneurial Process, 365

Exploring the Entrepreneurial Concepts, 365

The Entrepreneurial Library: Improving Firm Performance Through Entrepreneurial Actions: Acordia's Corporate Entrepreneurship Strategy, 367

Comprehensive Case Study: Independence Day: EDS Split-Off from General Motors, 384

Chapter 10 Embracing Rapid Expansion: The Franchise Option, 396

The Franchising Choice, 396

Product or Service Franchise, 397

Business Franchise, 397

Conversion Franchising, 397

How Franchising Works, 398

The Growth of Franchising, 398

Advantages of Franchising, 401

Training and Guidance, 401

Brand-Name Appeal, 402

A Proven Track Record, 402

Contents

Financial Assistance, 402

The Decision: It's Up to the Investor, 403

Trends in Franchising, 403

Franchising Your Business, 404

The Uniform Franchise Offering Circular, 405

Exploring the Entrepreneurial Concepts, 406

The Entrepreneurial Library: Franchising and the Choice of Self-Employment, 406

Comprehensive Case Study, Rocky Mountain Chocolate Factory, Inc. (RMCF), 424

Chapter 11 The Challenge of Venture Capital for Growing Ventures, 436

Introduction, 436

Determining Capital Requirements, 437

Pro Forma Statements, 438

Conservative Projections, 438

The Defined Cushion, 439

Scenario Building, 439

Equity Financing, 439

Informal Investors, 440

Private Placement, 440

Public Stock: The IPO, 440

The Venture Capital Market, 441

Recent Developments in Venture Capital, 441

Venture Capitalist Objectives, 444

Evaluating the Venture Capitalist, 446

Dispelling Venture Capital Myths, 446

Informal Risk Capital—"Angel" Financing, 447

Types of Angel Investors, 448

The Entrepreneurial Library: The Influence of a Venture Capitalist's Source of Funds, 450

Comprehensive Case Study: Should I Buy the "Jerry's Famous Frozen Desserts" Chain?, 463

Index, 476