

!?. .A iix><! brif; noiffl .A

i 4fc To the

«t me bao^

notooiiC(Ieiioltb3\HV
ruforllfO W ijRI

BfttnA

1 Ir Alan .X !-ii -i il; ;c

entrepreneurship

wife Rebecca, v

s of my

cKrijhnsS ani/iarldu^1 C1A3J
mess, and support were

process perspective

toisruhvnn^)

who was there for me 100

h/



, whose de... f... ^... ..

S (3

x: unb /J^

ma-

t thanks,

Robert A. Barori' IkreiBi and love.

Wellington Professor of Management,
Lally School of Management & Technology,
Rensselaer Polytechnic Institute,
Troy, NY 1 vA

K)8-I

ni
80 i! t- £ S f

:cf Maei noUibH

:OI ^AQS/ nortib:1

s book, as well as everytntng

o dfi^«n^d

Scott A. Shane r giving my life a

Professor of Economics and Entrepreneurship,
Weatherhead School of Management, ^
Case Western Reserve University,
Cleveland, OH

HOCHSCHULE
• LIECHTENSTEIN
Bibliothek

THOIVISON

SOUTH-WESTERN

/ Entrepreneurship: Who, What, Why? 01

Chapter 1 Entrepreneurship: A Field, an Activity, and a Way of Life 02

*o 9B b> Chapter 2 Entrepreneurial Opportunities: Their Origins, Forms, and Suitability for New Ventures 37

% Chapter 3 Cognitive Foundations of Entrepreneurship: Creativity and Opportunity Recognition 66

pti>it Z Assembling the Resources 101

Chapter 4 What Entrepreneurs Need to Know Before They Start: Acquiring and Interpreting Information about Markets, Competitors, and Government 102

Chapter 5 Assembling the Team: Acquiring and Utilizing Essential Human Capital 135

Chapter 6 Financial Resources for New Ventures: How to Get Them, How to Manage Them 167

Chapter 7 Writing an Effective Business Plan: Building a Roadmap to Success 204

3 Launching the New Venture 235

Chapter 8 Legal Issues Relating to New Ventures: Protecting Your Reputation, Your Assets, and Your Ideas 236

Chapter 9 Marketing in a New Venture 279

Chapter 10 Strategy: Planning for Competitive Advantage 313

4 Running the Business: Building Lasting Success 349

6 9til vm prnv Chapter 11 Preparing for and Attaining Growth: Strategies for Building Lasting Success 350

i,980QTUQ |iA"nfi Chapter 12 Managing New Ventures for Growth 374

5 Harvesting the Rewards 411

Chapter 13 Exit Strategies for Entrepreneurs: The Concluding Act 412

Appendix Accounting for Entrepreneurs: A Review of Key Principles and Essential Practices 446

Glossary 455

Name Index 464

Subject Index 467

That

Entrepreneurship: Who, What, Why?

Chapter 1 Entrepreneurship: A Field, an Activity, and a Way of Life 2

The Field of Entrepreneurship: Its Nature and Roots 4
Entrepreneurship: An Engine of Economic Growth 8
The Field of Entrepreneurship: Foundations in Other Disciplines 9
What Entrepreneurs Do Versus What, Perhaps, They Should Do: Where Research-Based Principles Meet Actual Practice 11

Entrepreneurship: A Process Perspective 13
Levels of Analysis: Micro Versus Macro Revisited 15
Entrepreneurship: The Intersection of Valuable Opportunities and Enterprising Individuals 18

The Cutting Edge: Emerging Issues and Questions 19
University-Based Technology Transfer: How Universities Encourage Entrepreneurship 20
Incubators and Science Parks: Helping New Ventures Grow 20
Entrepreneurial Cognition: A Look Inside the Mind of the Entrepreneur 21

Sources of Knowledge About Entrepreneurship: How We Know What We Know 22
Observation, Reflection, and Experimentation: Alternative Routes to Knowledge 23
Theory: Answering the Questions "Why?" and "How?" 26

A User's Guide to This Text 29
 Summary and Review of Key Points 30

Chapter 2 Entrepreneurial Opportunities: Their Origins, Forms, and Suitability for New Ventures 37

Sources of Opportunities: The Origins of New Ventures 39
Technological Change 40
Political and Regulatory Change 41
Social and Demographic Change 41

Forms of Opportunity: Beyond New Products and Services 43
QUALIFYING COMMON SENSE: "Big companies are plodding dinosaurs, and new ventures can often run circles around them." 46

Industries That Favor New Firms: Fertile Grounds for New Ventures 46

Knowledge Conditions: How Is New Knowledge Generated and Shared? 47

1 *Demand Conditions: Certain Kinds of Markets Favor New Ventures* 48
Industry Life Cycles: New Ventures Often Do Better in Young Industries Than Mature Ones 49
Industry Structure: Competition and Size of Competitors 51

DANGER! PITFALL AHEAD! *Enter Mature Industries at Your Own Peril* 52

Opportunities That Favor New Firms 54
Most Opportunities Favor Established Firms 54
Opportunities That Favor New Firms 56
 Summary and Review of Key Points 59

(«@/tosi)

Chapter 3 Cognitive Foundations of Entrepreneurship: Creativity and Opportunity Recognition 66

The Raw Materials for Creativity and Opportunity Recognition: Cognitive Systems That Allow Us to Store—and Use—Information 69
Memory: Our Cognitive System for Storing Information 69

Limited Capacity to Process Information and Its Role in Cognitive Errors 72

DANGER! PITFALL AHEAD! "Too Much Invested to Quit": The Potentially Devastating Effects of Sunk Costs 74

Creativity: Escaping from Mental Ruts 76
Creativity: Generating the Extraordinary 76
Concepts: Building Blocks of Creativity 77
Creativity and Human Intelligence 80
Encouraging Creativity: The Confluence Approach 81

Opportunity Recognition: A Cognitive Perspective 83
Access to Information and Its Effective Use: The Core of Opportunity Recognition 84

Additional Aspects of Opportunity Recognition: Active Searches, Alertness, Prior Knowledge, and Social Networks 85

QUALIFYING COMMON SENSE: "Good Opportunities are Always Spotted Quickly..." 88

M *Opportunity Recognition As Pattern Recognition: Do fo Entrepreneurs "Connect the Dots" to Identify New Business Opportunities?* 90

i *Training Entrepreneurs to Be Better at Recognizing Opportunities* 91

Summary and Review of Key Points 93

*,o««po£Y o or "k

Assembling the Resources 101

Chapter 4 What Entrepreneurs Need to Know Before They Start: Acquiring and Interpreting Information about Markets, Competitors, and Government 102

Feasibility Analysis: Is the Idea Really Viable? 104

Product or Service Feasibility 105

Industry/Market Feasibility 105 ~\ |

Competitor Analysis: Who's Already Out There ... or Soon Will Be? 106

Organizational Feasibility: Are the Founding Team's Management Skills Sufficient? 107 " ~

Financial Feasibility 107

QUALIFYING COMMON SENSE: "Being the first to market is always a big advantage ... " 108

Market Information: Determining What Your Customers Really Want 109

Direct Techniques for Gathering Market Information: Surveys, Perceptual Mapping, and Focus Groups 110

Indirect Techniques for Gathering Market Information: The Entrepreneur As Private Investigator 114

Government Policies and Regulations: How They Affect New Ventures 115

Taxes: An Important Consideration for Entrepreneurs 115

Government Policy: Increasingly Favorable to New Ventures 117

Government Regulations: What Every Entrepreneur Should Know 119

DANGER! PITFALL AHEAD! *How Good Ideas Sometimes Fail: The Potential Costs of Ignoring Government Regulations* 123

Interpreting Information: Potential Pitfalls for Decision-Making Groups 124 ^3 lytivi'p^ ^MtrW

Group Polarization: Why Groups Often Go Off the Deep End 124

Groupthink: When Too Much Cohesion Among Group Members Is a Dangerous Thing 125

Biased Processing of Information in Groups 127

Improving Group Decisions: Techniques for Countering the Pitfalls 128

Summary and Review of Key Points 129

:~2M32 MOMMC

Chapter 5 Assembling the Team: Acquiring and Utilizing Essential Human Capital 135

The New Venture Team: Foundation for Success 137

Human Capital and Social Capital: Key Resources Provided by the Founding Team 139

QUALIFYING COMMON SENSE: "It's usually best to choose partners similar to yourself..." 140

Beyond the Founding Team: Board of Directors, Key Employees, Advisers 142

Board of Directors 142

Recruiting Key Employees 142

Board of Advisers 145

Investors, Consultants, and Government Programs 145

DANGER! PITFALL AHEAD! *The Risks of Choosing Cofounders You Don't Know—And How to Reduce Them* 146

Utilizing the New Venture's Human Resources: Building Strong Working Relationships Among the Founding Team 148

Roles: The Clearer, the Better 149

Perceived Fairness: An Elusive But Essential Component 150

Effective Communication 153 ^na-rtn^

Protecting the New Venture's Most Precious Human Resource: Stress Management for Entrepreneurs 155

Stress: Its Nature and Causes 155

The Adverse Effects of Stress: Why It's Often Dangerous 157

Stress: Personal Techniques for Managing It Effectively 158

Summary and Review of Key Points 160

Chapter 6 Financial Resources for New Ventures: How to Get Them, How to Manage Them 167

Managing the New Venture's Financial Resources: Basic Principles of Financial Management 169

Measuring the New Venture's Current Financial State: Historical Financial Statements 170

DANGER! PITFALL AHEAD! *How Profitable New Ventures Can Sometimes Fail* 172

Forecasting: Predicting the New Venture's Future Financial Outcomes 173 -- --

Raising Capital For New Ventures: Why It's Often a Difficult Task 175

Information Asymmetry Problems: Entrepreneurs Know More About Their Companies Than Investors 175

Uncertainty Problems: The Difficulty of Predicting Which New Ventures Will Succeed 176

Solutions to Venture Finance Problems 177

QUALIFYING COMMON SENSE: "To raise money, all you need is a great idea—the rest is just icing on the cake." 177

Amounts and Sources of Capital: How Much and What Type Does a New Venture Need? 180

Amount and Timing of Start-Up Capital 181

Estimating Financial Needs: Start-Up Costs, Proforma Financial Statements, Cash Flow Statements, and Breakeven Analysis 182

Types of Capital: Debt Versus Equity 185

Sources of Capital 186 ^1 invoS todT asir

The Structure of Venture Finance 190 esial'isV v/ei'i io

The Equity Financing Process 191

Staging of Financing 192

The Cost of Capital 192

Social Capital and the Behavioral Side of Venture Finance 195
Social Ties and the Process of Raising Money 195
Behaviors and Actions That Encourage Investors 196
 Summary and Review of Key Points 197

Chapter 7

Writing an Effective Business Plan: Building a Roadmap to Success 204

Why Write a Business Plan? 206
Benefits to the Founding Team: The Value of Clear-Cut Goals 206
Business Plans As a Tool for Gaining Financial Support 208
 Components of a Business Plan: Basic Requirements 209
The Executive Summary 211
Background, Product, and Opportunity 213
Market Analysis 214
Development, Production, and Location 215
The Management Team 215
Financial Plans and Projections 216
Critical Risks: Describing What Might Go Wrong 217
Reaping the Rewards: Harvest and Exit 218
Scheduling and Milestones 218
Appendices 219
A Note on the Intangibles 219
DANGER! PITFALL AHEAD! *The Seven Deadly Sins for New Venture Business Plans* 220
 How VCs Actually Evaluate Business Plans: Identifying the Key Factors 222
 QUALIFYING COMMON SENSE: "Business plans don't really matter much—they aren't strongly related to a new venture's later success." 223
 Making an Effective Business Plan Presentation: The Ball Is Definitely in Your Court 225
 Summary and Review of Key Points 228

Launching the New Venture 235

Chapter 8

Legal Issues Relating to New Ventures: Protecting Your Reputation, Your Assets, and Your Ideas 236
 Legal and Ethical Issues Involved in Starting a New Venture:
 Protecting Your Reputation 238
Legal Issues Relating to Former Employers 238
DANGER! PITFALL AHEAD! *The Noncompete Agreements You Sign Today May Well Come Back to Haunt You Tomorrow* 239
Ownership of the New Venture: The Founders' Agreement 240
 Choosing the Legal Form of the New Venture: Protecting Your Assets 241

Sole Proprietorship: One Company, One Owner 242
Partnership: Different Forms, Different Benefits 242
Corporations: Limited Liability, But at a Cost 244
The S Corporation 246
The Limited Liability Company (LLC) 246
The Professional Corporation 247

The Legal Environment of New Ventures: Some Basics 248
Business Contracts: Their Essential Components 248
Basic Elements of a Contract 248
Legal Issues Relating to the Internet 249

Franchising: An Alternative Way to Start a New Venture 251
Types of Franchising 252
The Benefits of Becoming a Franchisee 253
Drawbacks of Becoming a Franchisee 254
Is Becoming a Franchisee for You? 256
Legal Aspects of Franchising 257
QUALIFYING COMMON SENSE: "Opening a franchise is a safe way to become an entrepreneur..." 258

Intellectual Property: Protecting Your Ideas 260
New Product Development: One of the Few Advantages New Ventures Have Over Large Companies 260
 Trust—and Over-Trust—Among Entrepreneurs: Another Reason Why Intellectual Property Protection Is Important 261
Forms of Intellectual Property Protection Based on the Legal System; Patents, Trademarks, Copyrights, and Trade Secrets 262
Forms of Intellectual Property Protection Based on Business Practices and Strategies 267

Summary and Review of Key Points 271

**Chapter 9
 Marketing in a New Venture 279**

Assessing the Market: Finding Out What Customers Want and Providing It to Them 281
What Needs Will the Product or Service Meet? 282
How Will the New Product or Service Meet These Needs?
Assessing Customer Preferences 284
Conjoint Analysis: Determining Which Dimensions Are Most Important to Customers 287
QUALIFYING COMMON SENSE: "Even if a product or service is entirely new, we can find out how potential customers will react to it—we just have to ask them!" 289
 Market Dynamics: How Markets Change and What It Means for Entrepreneurs 290
Knowing Your Market: The Importance of Market Size and Market Growth 291
Timing the Market: The S-Curve Story 291
 Achieving Market Acceptance: How New Ventures Gain the Customers They Need 294
Adoption Patterns: Understanding Which Customers Adopt New Products—And When 294

Crossing the Chasm: Moving from Early Adopters to the Early Majority 296

Focus: Choosing the Right Customers to Target First 297

Pricing New Products: The Role of Cost Structure and Supply and Demand 298

Dominant Design: Product Convergence and Its Effect on New Ventures 300

DANGER! PITFALL AHEAD! *Crushed by the Dominant Design: The Story of Electric Vehicles* 301

Technical Standards: Getting Customers to Adopt Your Design As the Market Standard 302

Marketing by New Ventures: Techniques That Work and Are Cost Effective 304

Context As a Key Factor in Marketing 304

Choose a Different Route for Reaching Customers 305

Use the Media 306

Summary and Review of Key Points 307

Chapter 10

Strategy: Planning for Competitive Advantage 313

Competitive Advantage: Why Having It Is Essential 315

Competitive Advantage: How To Get It and Keep It 317

Secrecy: Keeping Others from Learning About or Understanding How to Exploit an Opportunity 317

DANGER! PITFALL AHEAD! *Arrow's Paradox: The Problem of Disclosure* 320

Establishing Barriers to Imitation 321

QUALIFYING COMMON SENSE: "Once you have a patent, there's nothing more to worry about..." 323

Developing Effective Strategies: Procedures That Help 325

Methods for Making Strategic Decisions: Who Is Involved and What Input Is Used? 325

The Role of Goal Setting: Why Writing an Excellent Business Plan Is Useful 326

The Effects of New Venture Structure and Trust Among the Founding Team 327

Market-Based Modes of Opportunity Development: When Franchising and Licensing Are Good Strategic Choices 328

Minimizing the Cost of Exploiting the Opportunity 330

Accelerating the Pace to Market 330

Making Use of the Best Capabilities 331

Managing Information Problems in Organizing 332

Managing Information Asymmetry and Uncertainty in the Pursuit of Opportunity 336

Growth from Small Scale 336

Forming Alliances and Partnerships with Established Firms 338

Generating Legitimacy for the Opportunity and the New Venture 339

Summary and Review of Key Points 341

4-

Running the Business: Building Lasting Success 349

Chapter 11

Preparing for and Attaining Growth: Strategies for Building Lasting Success 350

Why New Ventures Seek Growth 352

Economies of Scale: When Growth Lowers Costs 353

Market Leadership: The Benefits of Being Number One 353

A Scalable Business Model: Another Reason Why Bigger Can Be Better 353

Size and Survival 354

The Challenges of Growth 355

Growth: Is It for Everyone? 355

Limits on Growth: Managerial Capacity 355

Handling the Day-to-Day Challenges 356

DANGER! PITFALL AHEAD! *The Dangers of Undirected Growth* 356

Characteristics of High-Growth New Ventures 358

Founder Characteristics: What Are the Founders of High-Growth Companies Like? 358

Company Characteristics: What Do High-Growth Companies Do to Encourage Rapid Growth? 359

Business Practices: Creating Unique Value for Customers 359

Human Resource Practices: Maximizing Motivation and Commitment 360

QUALIFYING COMMON SENSE: "To achieve high growth, you have to be in the right industry or a red-hot market." 361

Strategies for Growth 362

Internal Strategies for Encouraging Growth 362

External Strategies for Encouraging Growth 365

Summary and Review of Key Points 369

Chapter 12

Managing New Ventures for Growth 374

Building the New Venture's Human Capital 376

Selecting High-Performing Employees 376

4 *Increasing Employees' Motivation and Commitment* 380

12 *Retaining High-Performing Employees: Once you Have Them, How Do You Keep Them?* 385

Working Effectively with Others to Achieve Growth: Key Management Skills for Entrepreneurs 388

Building Trust and Cooperation 388

12 *Managing Conflict* 392

DANGER! PITFALL AHEAD! *Conflicts Can Be Costly-Even for CEOs* 395

Leading Successfully: Entrepreneurs As Guides to Growth 396

Effective Leadership: Some Key Ingredients 397
Transformational Leaders: Leaders Who Generate and Guide Rapid Change 398

QUALIFYING COMMON SENSE: "Starting a venture is the hard part; once it is operating, the rest is mainly routine—and boring." 401

Summary and Review of Key Points 402 ;KS. Anion'

Taking a Company Public: More Complex Than It Seems 423

Going Public: Potential Benefits, Potential Costs 424

Going Public: The Major Steps 425

Going Public: Other Important Considerations 426

QUALIFYING COMMON SENSE: "Going public should be every entrepreneur's dream ..." 428

Bankruptcy: When Exit Is Involuntary 430

Bankruptcy: Its Major Forms 430

Negotiation over the Sale of a Business ... or Anything Else 432

Negotiation: Its Basic Nature 432 y

Tactics of Negotiation: Procedures for Reducing an Opponent's Aspirations 432

DANGER! PITFALL AHEAD! The Costs of Negotiating to "Win": Watch Out for the "Ankle-Biters"! 437

Exit Strategies and the Lifespan: Different Needs and Goals at Different Times of Life 438

Summary and Review of Key Points 440

Harvesting the Rewards 411

Chapter 13 Strategies for Entrepreneurs: Concluding Act 412

Strategies: Some Major Forms 414

Sale or Transfer to Insiders: Succession, Leveraged Buyouts, and Employee Stock Ownership Plans 415

Sale to Outsiders: When Valuation Becomes Crucial 418

Timing the Value of a Business: A Little Art, a Little Science 420

Balance Sheet Methods 420

Earnings Methods 420

Market Method 422 balanced overview o

Appendix Accounting for Entrepreneurs: A Review of Key Principles and Essential Practices 446

Glossary 455

Name Index 464

Subject Index 467

wait o} esueal :8

•iii bfi> ?/nr

brin zi

qotq I

,%c ni Pj

IIR gnmvoD IR/IJ svsiisd

blotl nt

xo^ igaiEijg :rlJwoiO sainisfjl/^ ^ne lolan

fl^irl riifiido oi bo^n

ffl 19VOD «

A :«TIJ9ft9iq3tinB MM ^JU<. \>.<.-:*/
fe5i

H bnr;

rr_m

bnc

to e

iq ^

f?jnob.u1?: gnivfg yd (rn-jdT
iuq oJ bo^n yoriJ