Chapter 6
Managing Small Business Start-Ups

Chapter Outline

I. What Is Entrepreneurship?
II. Entrepreneurship and the Environment
   A. Entrepreneurship Today
   B. Definition of Small Business
   C. Impact of Entrepreneurial Companies
III. Who Are Entrepreneurs?
   A. Diversity of Entrepreneurs
   B. Personality Traits
IV. Starting an Entrepreneurial Firm
   A. New-Business Idea
   B. The Business Plan
   C. Legal Form
   D. Financial Resources
   E. Tactics
V. Launching a High-Tech Start-Up
VI. Managing a Growing Business
   A. Stages of Growth
   B. Planning
   C. Organizing
   D. Leading
   E. Controlling

Annotated Learning Objectives
After studying this chapter, students should be able to:
1. **Describe the importance of entrepreneurship to the U.S. economy.**

   Entrepreneurship is the process of initiating a business venture, organizing the necessary resources, and assuming the associated risks and rewards. Today, entrepreneurship and small businesses are increasingly important parts of the business world.

   Small businesses in the U.S. create two out of every three new jobs and account for more than half the sales of all goods and services. There are approximately 20 million Americans who make their living as “solo professionals,” often working out of their homes. One-person offices constitute a $7.5 billion segment of the computer and office equipment markets.

   New data shows that most new businesses survive for the first three to five years. Small entrepreneurial companies are responsible for the creation of most new jobs in the United States. Small business (excluding farming) represents 58 percent of all U.S. business employment and directly or indirectly provides the livelihood of more than 100 million Americans.

2. **Define personality characteristics of a typical entrepreneur.**

   A survey of the CEOs of the nation’s fastest-growing small firms found that these entrepreneurs could be best characterized as hardworking and practical, with great familiarity with their market and industry. Characteristics common among most successful entrepreneurs are as follows:

   - **Internal locus of control.** The belief by individuals that they are in control of their future and that other external forces will have little influence.
   - **High energy level.** Business start-ups require great effort.
   - **Need to achieve.** They are motivated to excel and pick situations in which success is likely.
   - **Self-confidence.** People who start and run a business must act decisively.
   - **Tolerance for ambiguity.** A psychological characteristic that allows a person to be untroubled by disorder and uncertainty.
   - **Awareness of passing of time and tendency to be impatient.**

3. **Describe the planning necessary to undertake a new business venture.**

   A business plan is a document specifying the business details prepared by an entrepreneur in preparation for opening a new business. Planning forces the entrepreneur to review the issues and problems associated with starting and developing a new business. A typical business plan contains information about the mission or vision of the company, information about the industry and market, suppliers, personnel needed, financial information, plans for production of the product or service, credit policy, legal considerations, and critical risks that may threaten business success. Studies have shown that small businesses with a carefully thought-out, written business plan are much more likely to succeed than those without one.
4. *Explain the steps involved in launching a high-tech start-up.*

Entrepreneurs starting Internet companies often need big money up front to build a technology infrastructure before they can even begin doing business. In addition, because the Internet world moves so swiftly, dot-com entrepreneurs might not have the luxury of building slowly and learning from experience. There’s little time for trial and error. All of the kinks must be ironed out before the company puts its offering before the customer.

As with any small company, an entrepreneur has to have a viable idea for the business, and one that is appropriate to the fast-changing world of the Internet. A good idea for an Internet company has to be one that can grow in scale and adapt quickly. Start-ups have the advantage of being nimble, but the idea itself must be one that is flexible enough to allow rapid adaptation as the environment changes. In addition, there should be innovative Web-based marketing techniques to promote the idea.

With the lightning-fast pace of the Internet, a traditional business plan is usually obsolete by the time it is written. Internet entrepreneurs have to create a compelling story about why their idea is in the seed of the next big Internet success. The entrepreneur has to convince venture capitalists and potential employees to join in a risky adventure that has huge potential but few guarantees.

The plan should cover eight basic points:

1. A description of the business and why it is unique.
2. A profile of potential customers and market needs.
3. The key ingredient of the business that will attract millions of customers.
4. Why customers will come to this site rather than competitors.
5. What the company has accomplished so far, including partnerships or early customer relationships.
6. The entrepreneur’s background and role in the company.
7. Specific data about where the company is located, key management people, and contact information.
8. Essential information about funding received so far, funding and staffing needs, and expectations for growth of the business over the next year.

The key for the Internet start-up is to condense the essential information into a vivid, compelling story that can be told quickly as the Internet world changes.

Internet start-ups often need a large amount of funding just to get started. One typical source of first funds is through angel financing. Angels are wealthy individuals who believe in the idea for the start-up and are willing to invest their personal funds to help the business to get started. Angels also provide advice and assistance as the entrepreneur is developing the company.

Once an entrepreneur has up-front financing, it is time to build and test the product. This stage may include hiring employees and consultants, buying or building the technological infrastructure and perhaps securing office space or other needed facilities. Reliability is crucial in the world of e-business.
The launch phase is when the company’s products or services are officially made available to the public over the Internet. Marketing is the most important focus at this stage of development. Internet start-ups cannot afford to take years to build a brand; they have to make a name for themselves virtually overnight.

Almost every Internet start-up eventually has to secure further funding to support growth and expansion. The most obvious source of funding at this stage is venture capital. Venture capitalists firms are groups of companies or individuals that invest money in exchange for a stake in the company.

Partnerships for Internet start-ups are generally of two types. A start-up that primarily needs exposure and marketing assistance will partner with a larger, well-established company that can help the smaller firm gain rapid market awareness. The second type involves partnering with a company that assists in actual operations such as customer service, logistics, or warehousing and shipping, and involves electronic linkages between partners.

The final step in the start-up process is often the initial public offering (IPO), in which stock in the new company is sold to the public. During this stage, entrepreneur begins interviewing bankers who are interested in leading the IPO and puts together a team of bankers, lawyers, and other advisors who can steer the company through the process.

5. Describe the five stages of growth for an entrepreneurial company.

Entrepreneurial businesses go through distinct growth stages, each of which requires different management skills.

- **Existence.** In the first stage the main problems are producing the product or service and obtaining customers.
- **Survival.** The firm is producing a good or service, has sufficient customers, and is a workable entity.
- **Success.** This is the stage in which the company is solidly based and profitable.
- **Takeoff.** In this stage the problem is how to grow rapidly and finance that growth.
- **Resource maturity.** Here the company has made substantial financial gains and has the resources to begin acting like a mature company with detailed planning and control systems.

6. Explain how the management functions of planning, organizing, leading, and controlling apply to a growing entrepreneurial company.

- **Planning.** In the early stage of existence, formal planning tends to be nonexistent. As the organization grows, formal planning is instituted generally around the success stage.
- **Organizing.** In the existence and survival stages the organization’s structure is informal with all employees reporting to the owner. At about the success
stage, a functional organization’s structure will evolve with managers in charge of finance, manufacturing, and marketing.

- **Leading.** During the takeoff and resource maturity stages the manager must delegate and decentralize authority.
- **Control.** The latter growth stages are characterized by greater use of rules, procedures, and written job descriptions.

---

**Lecture Outline**

**Suggested Opening Remarks**

Cybronic is a good example of a high-tech start-up. In the opening, the company had reached step three: Reese Terry had developed a great idea, created a compelling business plan, and successfully raised $1 million in start-up funds to create Cyberonics in 1987. Terry managed to find a handful of doctors who were willing to test the device in their patients—and it worked. These tests were good enough to help Cyberonics get a second round of financing for $2 million, enabling Terry to bring in an outside CEO, hire a vice president to help win FDA approval, and grow to 50 employees. But it wasn’t enough to get the product on the market. The FDA rejected the first two applications and the CEO and vice-president left the company. Eventually, one of the venture capitalists on the board became the CEO to help the company get enough money to win FDA approval by having sufficient testing. St. Jude Medical, a large device maker, invested $12 million. Overall the process had taken 10 years and $50 million. Cyberonics went public and now employs 450 people and has annual sales of $110 million.

---

### I. WHAT IS ENTREPRENEURSHIP?  

*Exhibit 6.1*

- **What is entrepreneurship?**

*Entrepreneurship* is the process of initiating a business venture, organizing the necessary resources, and assuming the associated risks and rewards.

An *entrepreneur* recognizes a need for a product or service and attempts to meet that need.

This involves gathering the following resources---money, people, machinery, and location---to undertake the business venture.

Entrepreneurs assume the risks and reap the rewards of the business; they assume the financial and legal risks of ownership and receive the business’s profits.

A recent study classified small business owners into categories:

- **Idealists** who liked the idea of working something new, creative, and personally meaningful
- **Optimizers** who are rewarded by the personal satisfaction of being business owners
- **Sustainers** who like the chance to balance work and personal life and don’t want
the business to grow too large

- *Hard Workers* who enjoy putting in the long hours and dedication to build a larger, more profitable business
- *Jugglers* who like the chance a small business gives them to handle everything themselves.

Sometimes people start new businesses when they lose their jobs due to corporate downsizing; the major layoffs in the early 2000s encouraged latent entrepreneurs. A downturn opens up lots of opportunities because people are looking for lower costs and better ways of doing things.

Many people regard entrepreneurship as a better use of their time, talent, and energy; women and minorities, who have found opportunities limited, pursue entrepreneurship.

---

**UNLOCKING CREATIVE SOLUTIONS THROUGH PEOPLE**

*Rejuvenating a Stale Business*

Ari Weinzweig and Paul Saginaw started Zingerman’s Delicatessen in 1982 because they wanted to sell the finest food products and the best sandwiches in the world. Within a decade, they’d achieved their goal. The deli no longer offered a challenge. The two had an idea. Why not trust people to start a whole community of small businesses, all bearing the Zingerman's name but each having its own specialty and identity? The goal was to put their own entrepreneurial dreams into action. Thus was born Zingerman’s Community of Businesses, with a vision of starting 12 to 15 separate businesses by 2009.

---

**II. ENTREPRENEURSHIP AND THE ENVIRONMENT**

*Exhibit 6.2*

> Why were policymakers worrying about the potential of small businesses to survive?

The turbulence in the technology sector and the demise of many dot-com start-ups heightened concerns about whether small companies can compete with big business. Yet, high-tech start-ups are vital, dynamic, and increasingly important parts of the U.S. economy; small businesses grew from 19 million in 1992 to 223 million in 2002.

There are 10 million Americans who make their living as *solo professionals*, working out of their homes providing services to other companies. Entrepreneurship in other countries is also booming; 29.3 percent of adults age 18 to 64 in Uganda are either starting up or managing new enterprises.
Structural reforms in Russia have spurred a jump in small business formation, and one study predicts a doubling of small business between 2004 and 2009.

A. Entrepreneurship Today

There are a number of reasons small business is such a dynamic part of today’s economy, including:

1. Economic changes

   Today’s economy is fertile soil for entrepreneurs. The economy changes constantly, providing opportunities for new businesses.

   The demand for services is booming, and 97 percent of service firms are small, with fewer than 100 employees.

2. Globalization and Increased Competition

   Globalization demands entrepreneurial behavior—companies have to find ways to do things faster, better, and less expensively.

   Globalization and increased competition also give an advantage to the flexibility and fast response small business can offer rather than to huge companies with economies of scale.

3. Technology

   Rapid advances and dropping prices in computer technology have spawned whole new industries, as well as entirely new methods of producing goods and delivering services.

   The explosive growth of the Internet has created tremendous opportunities for entrepreneurs; small companies use the Web to sell products and services.

   Technological advances provide opportunities for small business (e.g., biotechnology is a growing field for small businesses).

4. New Opportunities and Market Niches

   Today’s entrepreneurs are taking advantage of the opportunity to meet changing needs in the marketplace.

   DailyCandy is a short, entertaining look at what’s hot at this very moment; the founder had 700 subscribers to the daily e-mails before she officially launched DailyCandy.

B. Definition of Small Business

Most people think of a business as small if it has fewer than 500 employees.

The Small Business Administration (SBA) further refines the definition by industry such as manufacturing, retail and service.

Exhibit 6.2 gives a few examples of how the SBA defines small business for a sample of industries.

It also illustrates general types of businesses most entrepreneurs start---retail, manufacturing, and service.

Additional types of small businesses are construction, communications, finance, and real estate.
C. Impact of Entrepreneurial Companies

The impact of entrepreneurial companies is astonishing; only about 16,000 businesses in the U.S. employ more than 500 people, and most employ fewer than 100.

Small business formation is at an all-time high, with 600,000 new businesses started in the U.S. each year.

Entrepreneurs are starting Internet businesses; demographic and lifestyle trends have created opportunities in environmental services, computer maintenance, fitness, and home health care.

Entrepreneurship and small business in the United States is an engine for:

1. **Job Creation.**

   Virtually all of the net new jobs have come from new companies, which include not only small companies but new branches of huge companies.

   According to the U.S. Small Business Administration, small companies created two million jobs between 2000 and 2004.

   Jobs created by small businesses give the U.S. an economic vitality no other country can claim.

2. **Innovation.**

   According to Cognetics Inc., a research firm, new and smaller firms are responsible for 55% of the innovations in 362 different industries and 95% of all radical innovations.

   Fast-growing businesses produce twice as many product innovations per employee as do larger firms (e.g. WD-40, the jet engine, the shopping cart).

   Virtually every new business represents an innovation of some sort—a product or service, how the product is delivered, or how it is made.

   Entrepreneurial innovation spurs larger companies to try new things; P&G is watching a start-up that could threaten sales of Dawn dishwashing liquid.

   Method brought cutting-edge style to a mass-market product; the hot-selling dish soap comes in bright colors like lime green inside a sleek, stylish bottle.

   Small business innovation keeps U.S. companies competitive in the global marketplace.

**Discussion Question #2:** What do you think are the most important contributions of small business to our economy?

**Notes________________________________________________________________________________________**

**III. WHO ARE ENTREPRENEURS?**

*Exhibit 6.3*
CHAPTER 6  Managing Small Business Start-Ups

➢  Who are entrepreneurs?

The heroes of American business---Sam Walton, Bill Gates—are almost always entrepreneurs; entrepreneurs start with a vision.

Entrepreneurs are characterized as hardworking, practical, and have great familiarity with their market and industry.

Nancy Rodriquez was a veteran R& D manager at Swift Foods before she started Food Marketing Support Services, where large companies take a product idea for development.

A. Diversity of Entrepreneurs

Entrepreneurs have backgrounds and demographic characteristics that distinguish them from other people---first born, children of entrepreneurs, immigrant parents.

Entrepreneurship offers opportunities for women and minorities who feel blocked in established corporation.

Between 1997 and 2002, the number of companies owned 50 percent or more by women jumped 11 percent to 10.1 million, twice the rate of privately-owned firms.

Statistics for minorities are also impressive, with the number of new firms launched by minorities growing about 17 percent a year; African-American businesses grew the fastest.

The types of minority businesses launched is increasingly sophisticated, with mom and pop retailing replaced by financial services, insurance, and media.

Discussion Question #3: Why would small-business ownership have great appeal to immigrants, women, and minorities?

Notes

---

B. Personality Traits.  

Exhibit 6.4

Studies have shown that the personality characteristics of entrepreneurs differ from managers in successful organizations.

Some show that entrepreneurs in general want something different from life than do traditional managers.

Some 40 traits have been identified as associated with entrepreneurship, but six have special importance:

1. Internal Locus of Control.

The task of starting and running a new business requires the belief that you can make things come out the way you want.

An internal locus of control is the belief by individuals that their future is within their control and that other external forces will have little influence.
An external locus of control is the belief by individuals that their future is not within their control but rather is influenced by external forces.


Most entrepreneurs report struggle and hardship, but they persist and work incredibly hard despite traumas and obstacles.

A business start-up requires great effort and many business owners’ work more than 60 hours per week.

New business owners work long hours, with only 23 percent working fewer than 50 hours.

3. Need to Achieve.

A human quality linked to entrepreneurship is the need to achieve, which means that people are motivated to excel and pick situations in which success is likely.

People with high achievement needs like to set their own goals, which are moderately difficult.

4. Self-Confidence.

People who start and run a business must act decisively and need confidence about their ability to master the day-to-day tasks of the business.

Entrepreneurs have a general feeling of confidence that they can deal with anything; complex, unanticipated problems can be handled as they arise.

5. Awareness of Passing Time.

Entrepreneurs tend to be impatient; they feel a sense of urgency.

They want things moving immediately and seldom do they procrastinate; entrepreneurs seize the moment.

6. Tolerance for Ambiguity.

Many people need work situations characterized by clear structure, specific instructions, and complete information.

The tolerance for ambiguity is the psychological characteristic that allows a person to be untroubled by disorder and uncertainty.

This is important because few situations present more uncertainty than starting a new business; decisions are made without clear understanding of options or certainty.

Successful entrepreneurs come in all ages, from all backgrounds, and may have a combination of personality traits.

One review of small business suggests that the three most important traits are realism, flexibility, and passion.

Discussion Question #4: Consider the six personality characteristics of entrepreneurs. Which two traits do you think are most like managers in large companies? Which two are least like managers in large companies?
IV. STARTING AN ENTREPRENEURIAL FIRM

What is the first step in pursuing an entrepreneurial dream?

The first step is to start with a viable idea and plan.

After the new idea is conceived, the first step is to develop a business plan plus basic decisions must be made about legal structure, financing, and basic tactics.

A. New Business Idea

Most business founders developed their new business idea from work experience in the industry or profession; most spotted a market niche that wasn’t being filled.

The trick is to blend the entrepreneur’s personal skills and experience with a need in the marketplace.

Discussion Question #6: If you were to start a new business, would you have to search for an idea or do you have an idea to try? Explain.

B. The Business Plan

A business plan is a document listing the business details prepared by an entrepreneur in preparation for opening a new business.

The business plan lists the issues and problems associated with starting and developing the business.

The business plan is critical in persuading lenders and investors to participate in the business.

The details of a business plan vary, but successful business plans generally share several characteristics:

- Clear vision
- Realistic financial projections
- Detailed information about the target market
- Detailed information about the industry and competitors
- Evidence of an effective entrepreneurial management team
- Good formatting and clear writing
- Short plan
• Highlight critical risks
• Sources and uses of startup and operating funds
• Capture the reader’s interest

Discussion Question #7: Many entrepreneurs say they did little planning, perhaps scratching notes on a legal pad. How is it possible for them to succeed?

Notes

C. Legal Form

Entrepreneurs must choose an appropriate legal structure for their company from the following:

1. Sole Proprietorship.

   A *sole proprietorship* is an unincorporated business owned by an individual for profit.

   Proprietorships make up 70 percent of all businesses in the United States; a proprietor has total ownership and control of the company.

   This structure is easy to start and has few legal requirements.

   The disadvantages are the owner has unlimited liability for the business and financing is more difficult to obtain because business success rests on one person.

2. Partnership.

   A *partnership* is an unincorporated business owned by two or more people.

   Partnerships, like proprietorships, are relatively easy to start.

   The disadvantages are partners have unlimited liability and disagreements may occur between the partners.

   Partnerships often dissolve within five years; those who liked partnerships pointed to the equality of partners as a key to a successful partnership.

**MANAGER’S SHTOP TALK**

*Helpful Hints for Writing the Business Plan*

**Summary:** no more than three pages

**Business Description:** background, business potential, unique features

**Marketing:** sales projections, target market, market sources, advertising plan

**R & D:** research and development costs, technical assistance provided
Manufacturing: production needs, location advantage, labor availability, est. costs

Critical Risks: competitor’s price cutting, poor industry trends, excessive design costs

Financial: provide statements, describe needed sources and uses of funds, budget

Milestone Schedule: timetable to demonstrate when each phase is to be completed

3. Corporation.

A *corporation* is an artificial entity created by the state and exists apart from its owners.

As a separate legal entity the corporation is liable for its actions and must pay taxes on its income; it has a legal life of its own and continues to exist if the owners live or die.

The corporation, not the owners, is sued in the case of liability (e.g., a physician can form a corporation so that liability for malpractice will not affect personal assets).

The disadvantage of the corporation is the paperwork required to incorporate and to keep the records required by law; it is expensive and complex.

When proprietorships and partnerships are successful, they often incorporate to limit liability and to raise funds through the sale of stocks to investors.

D. Financial Resources

A crucial concern for entrepreneurs is the financing of the business.

An investment is usually required to acquire labor, raw materials, buildings, and equipment.

The financing decision initially involves two options---whether to obtain loans that must be repaid (debt financing) or whether to share ownership (equity financing).

1. Debt financing

*Debt financing* is borrowing money that has to be repaid at a later date in order to start a business.

One common source of debt financing for a start-up is to borrow from family and friends; another common source is a bank loan, and another is an SBA loan.

The SBA made a loan to Staples in 1986, and today the company is the largest office superstore with over 1,500 stores and 58,000 employees.

The SBA is helpful to people without substantial assets, providing an opportunity for single parents, minorities, and others with a good idea.

2. Equity financing

Any money invested by owners or by those who purchase stock in a corporation is considered equity funds.

*Equity financing* consists of funds that are invested in exchange for ownership in the company.
A venture capital firm is a group of companies or individuals that invests money in new or expanding businesses for ownership and potential profits.

This is a potential form of capital for businesses with high earning and growth possibilities.

Venture capitalists are interested in high-tech businesses such as software, biotechnology, and telecommunications because they have a potential for high rates of return.

**Discussion Question #1:** Dan McKinnon started with one airplane. To do so required filing more than 10,000 pages of manuals, ordering 50,000 luggage tags, buying more than $500 million in insurance, and spending over $300,000 to train employees. A single inspection test cost $18,000. Evaluate whether you think this is a good entrepreneurial opportunity and discuss why you think Dan McKinnon undertook it.

**Notes**

---

E. Tactics

The following are ways an aspiring entrepreneur can become a business owner:

1. **Start a New Business.**

   The entrepreneur sees a need for a product or service and starts a business to meet that need.

   The advantage is the ability to design and develop the business, as the owner wants it.

   The disadvantage is the time, money, and effort to make the business profitable. Any business start-up is risky with no guarantee that the new idea will work.

2. **Buy an Existing Business.**

   This offers the advantage of a shorter time to get started and an existing track record.

   An established business already has operating procedures for production, distribution, and finance.

   The disadvantages are the need to pay for goodwill the owner believes exists, possible ill will toward the firm or outdated technology.

3. **Buy a Franchise.**

   Franchising is perhaps the most rapidly growing path to entrepreneurship.

   Franchising is an arrangement by which the owner of a product or service allows others to purchase the right to distribute the product or service with help from the owner.
Discussion Question #5: *Why is purchasing an existing business or franchise less risky than starting a new business?*

Notes

---

**Exhibit 6.8**

The advantage of a franchise is the management help provided by the owner. The franchiser also provides an established name and national advertising (e.g., Subway).

Disadvantages are the lack of control when franchisors want every business managed exactly the same way; franchises can be very expensive with high start-up costs.

4. Participate in a Business Incubator.

The *business incubator* provides shared office space, management support services, and management advice to entrepreneurs.

The innovation arose about two decades ago to nurture start-up companies; the number rose from 385 in 1990 to 1,000 in 2001.

Incubators give budding entrepreneurs a chance to network and learn from one another.

Discussion Question #8: *What is the difference between debt financing and equity financing? What are common sources of each type?*

Notes

---

V. LAUNCHING A HIGH-TECH START-UP

➢ *Do high-tech start-ups face the same challenges as other small businesses?*

High-tech start-ups represent a special case of entrepreneurship because costs and risks are typically extremely high.

After thousands of dot-com companies have crashed and technology stocks took a steep dive, people became leery of anything high-tech.

Yet, recent years have seen a revival of high-tech start-ups from biotech to wireless network.

Internet companies are coming back as entrepreneurs have learned from past mistakes and found innovative ways to succeed online.

The following examines what is involved in a launching a high-tech start-up.

A. Starting with the Idea

An entrepreneur has to have a viable idea for the business, and one that is appropriate to the fast-changing world of technology.

Research has shown that the chances are only six in one million that an idea for a
high-tech business eventually turns into a successful public company.

Start-ups must be flexible enough to allow rapid adaptation as the environment changes.

B. Writing the Business Plan

With the fast-pace of the high-tech environment, high-tech entrepreneurs have to create a compelling story about why their idea is the seed of the next success.

The entrepreneur has to convince venture capitalists and potential employees to join in a risky adventure that has huge potential but few guarantees.

The plan should cover eight points:

- Description of the business
- Potential customers and market needs
- Key ingredient to attract customers
- Reason to buy from this company
- Past accomplishments
- Entrepreneur’s background
- Data about company location
- Funding information and staffing needs

C. Getting Initial Financing

A vivid story, told with passion and enthusiasm, is crucial to obtaining needed upfront financing.

One typical source of first funds is angel financing, provided by a wealthy individual who believes in the idea for a start-up and provides funds to get the business started.

Angels also provide advice and assistance.

D. Building and testing the product and service

Next, the entrepreneur builds and tests the product; this may include hiring engineers and consultants and buying and building the technological infrastructure.

Reliability is crucial in the world of high technology; the entrepreneur has to find out whether the product idea will work, through feasibility, testing, and demonstrations.

E. Launching the company

The launch phase occurs when the company’s products and services are officially made available to the public.

Marketing is the most important focus at this stage of development; high-tech start-ups have to build a name for themselves quickly.

Hiring a public relations firm can help create a buzz about the new company in the business community.

F. Securing Additional Financing

Every high-tech has to secure further funding to support growth and expansion;
the most obvious source of funding is venture capital.

Many start-ups form a board of directors to lend a sense of stability and permanence to the new company.

G. Developing Partnerships

Another role the board plays is to help a start-up create alliances with other companies.

A start-up that needs exposure and marketing assistance will partner with a larger, well-established company that can help the smaller firm gain awareness.

Partnering can also be with a company that assists in actual operations such as customer service, logistics, or warehousing, and involves electronic linkage.

The company might outsource some functions to focus on core strategic issues.

H. Going Public

The final step is the start-up process is the initial public offering (IPO), in which stock in the new company is sold to the public.

During this stage, the entrepreneur begins interviewing bankers who are interested in leading the IPO and puts together a team of banks, lawyers, and advisors.

**Discussion Question #10:** *How does starting a high-tech business such as an Internet company differ from starting a small business such as a local auto repair shop or delicatessen? What is the role of alliances and partnerships in online versus traditional small businesses?*

**Notes**

---

VI. **MANAGING A GROWING BUSINESS**

After the start-up, continued growth requires a shift in management style.

The entrepreneur who fails to adjust to a growing business can be the cause of problems rather than the solution.

A. Stages of Growth

Businesses go through distinct stages of growth, and each stage requires different management skills.

- **Start-up.** In the initial stage, the main problems are producing the product or service and obtaining customers.

  Key issues are attracting enough customers and money to survive.

- **Survival.** In this stage, the business has demonstrated it is a workable business entity and is producing a product or service for sufficient customers.
Concerns are to generate sufficient cash flow and make sure revenues exceed expenses.

- **Success.** The company is solidly based and profitable.
  
The owner can stay involved or consider turning the business over to managers.

- **Takeoff.** In the fourth stage, if properly managed, the company can be a major success.
  
The problems involve rapid growth and the need to finance that growth.

- **Resource Maturity.** The company has made substantial financial gains and has the staff and resources to develop detailed planning and control systems.
  
The firm may lose the advantages of small size including flexibility and the entrepreneurial spirit.

---

UNLOCKING CREATIVE SOLUTIONS THROUGH TECHNOLOGY

*Getting Google Right*

Larry Page and Sergey Brin met in 1995 as doctoral candidates at Stanford University, where they were both interested in Internet search as an interesting problem in organizing very large datasets. After coming up with a search formula, they tried to sell the technology to established companies, but had no takers. In 1998, they launched Google with an angel investor who wrote a check for $100,000. By 1999, Google had raised $30 million from individual investors and venture capital firms. The Stanford University community was the perfect testing ground for Google. Putting the search engine before the public forced Google to grow with the Web. Early users had such a good experience that they told others. One key to Google’s success was its focus on innovation. Google can now be queried in 36 languages and processes 150 million searches a day. Google’s next step was to go public in 2004, with a possible market value of $20 billion.

---

B. Planning

In the early stage of existence, formal planning tends to be nonexistence. Planning is generally instituted around the success stage; one planning concern for today’s small businesses is to the need to be Web-savvy.

For many small companies, their Web operations are just as critical as traditional warehouse management or customer service operations.

C. Organizing

In the existence and survival stages, the organization’s structure is very informal with all employees reporting to the owner.

At about the success stage, functional managers evolve to manage finance, manufacturing, and marketing.

During the takeoff and resource maturity stages, the owner/manager must delegate and decentralize authority.

As an organization grows, it may be characterized by use of rules, procedures, and
written job descriptions.

D. Leading

The driving force in the early stages of a firm’s development is the leader’s vision. This vision and the leader’s personality shape the corporate culture on values of service, efficiency, quality, or ethics. Often, entrepreneurs have excellent task skills but not good people skills. By the success stage, the manager must be able to motivate employees or hire managers who can. Continued growth is not likely to happen without employee cooperation. Leadership is important because many small firms find it difficult to hire qualified employees because they cannot offer the compensation package available from resource mature firms.

Discussion Question #9: How does an entrepreneurial firm in the start-up differ from one in the success stage?

Notes

E. Controlling

Financial control is important in each stage of a firm’s growth. In the existence and survival stages, control is by simple accounting records and personal supervision. By the success stage, operational budgets are in place and the owner should start implementing structured control systems. During the takeoff stage, the company will make greater use of budgets, cost systems, and computers to provide statistical reports. These techniques will become more sophisticated during the resource maturity stage.

Discussion Question #11: How might the management functions of planning and controlling differ for an online business as compared to a traditional business?

Notes

Lecture Example File

A business plan is a carefully thought-out document. It shows exactly what business is, how and where it will run, how the business will be financed, how much it has or will...
earn or lose. It shows the risks and strengths of a business, describes the market, outlines long-term goals, and sets out the milestones that must be reached.

In short, it is an accurate and realistic description, usually designed for investors or as a checklist and set of benchmarks to measure and develop business performance.

A business plan can help deal with problems before they get out of hand. It can simplify decision-making, and it can help identify, set and achieve goals. Writing it will help organize and consolidate ideas so the business can be better promoted. A written plan will save time and work. The plan will help get better contributions from others, including the bank, business consultants and prospective suppliers or investors, because more complete information can be given about the business.

A business plan lets the business set a vision and outline a strategy to make it happen. The business plan is a road map, showing the route to take, and fine-tuning tactics to achieve goals. The business plan is a well-thought-out document to guide in day-to-day running of the business. Let it guide the business in how to finance the business and project how much it will earn.

With main goals and other goals defined, it’s much easier to set targets, timetables, and budgets. Decisions about whether to buy or lease manufacturing equipment employ more staff or invest in new advertising become much easier. Each business decision taken must help reach defined goals. When there are competing strategies, the ones that help hit targets and goals are the ones to follow.

The business plan should be an interesting and thought-provoking document, reflecting enthusiasm, but it should set out realistic goals. A business plan need not be boring or complicated. For a simple business idea, it could be between three and five pages. A more complicated business plan might need 20 pages with charts, graphs, and detailed financial projections.


Answers to End-of-Chapter Discussion Questions

1. Dan McKinnon started an airline with one airplane. To do so required filing over 10,000 pages of manuals, ordering 50,000 luggage tags, buying more than $500 million in insurance, and spending over $300,000 to train employees. A single inspection test cost $18,000. Evaluate whether you think this is a good entrepreneurial opportunity and discuss why you think Dan McKinnon undertook it.

Whether or not this is a good opportunity depends on several factors. One major factor is the financial resources McKinnon has for this venture. These costs are certainly high and will take time to recover. Another major factor is his strategy and growth plans. If he plans on rather rapid growth, or has the financial resources to allow modest growth, he can recover the costs. He would then be able to spread his costs over several aircraft and operating routes. If he plans on staying with one airplane, this would not be a wise investment. One has to assume that this is only the start of an airline and that he plans on enough growth to make it work. However,
with the competition in this industry due to deregulation, growth will be difficult to achieve. McKinnon probably undertook it because of a desire he has always had to own an airline.

2. *What do you think are the most important contributions of small business to our economy?*

There are many important contributions of small business to our economy. Perhaps the most important is the creation of new jobs. Another contribution is the technological innovations it often provides, as well as service innovation. Providing opportunities for women and minorities is also an important role played by small business in our economy.

3. *Why would small-business ownership have great appeal to immigrants, women, and minorities?*

Many established corporations have informal barriers to top management for these groups. It is human nature to hire and promote persons who are like you, and that usually excludes immigrants, women, and other minorities. Small-business ownership provides these persons with the opportunity to be their own bosses and to go as far as they are able to go based on their own drive and abilities rather than on social barriers.

4. *Consider the six personality characteristics of entrepreneurs. Which two traits do you think are most like managers in large companies? Which two are least like managers in large companies?*

Since this is an opinion question, there is no one correct answer. It would seem that the traits of a high energy level and self-confidence would be the same for both groups. Perhaps the need to achieve would be high for both also. The impatience of entrepreneurs and their high tolerance for ambiguity would seem to be less likely to appear in managers in large companies. The external locus of control would also seem to be higher in entrepreneurs.

5. *Why is purchasing an existing business or franchise less risky than starting a new business?*

When one tries to start a new business, it takes a long time to get the business going and make it profitable. There is not an established clientele, and one will often learn by the mistakes that he makes. Buying an existing business or a franchise avoids many of these problems. The clientele may or may not be established with the franchise, but one can avoid many mistakes. The existing business, if it is already profitable, avoids almost all of these problems.

6. *If you were to start a new business, would you have to search for an idea or do you have an idea to try? Explain.*
There is no correct answer for this question, but the text states that 43 percent of business founders got the idea from work experience and only 11 percent saw an unfilled niche in the marketplace. Chances are that most students will already have an idea based on their past experiences or own observations.

7. Many entrepreneurs say they did little planning, perhaps scratching notes on a legal pad. How is it possible for them to succeed?

If an entrepreneur comes up with a product or service that is needed and not being supplied, this demand can often be strong enough to cover up for the lack of planning. It may also make up for other mistakes that are made. If planning had been done, chances are the success of these entrepreneurs would have been even more spectacular. Not planning is a chance that one should not take.

8. What is the difference between debt financing and equity financing? What are common sources of each type?

Debt financing is borrowing money that has to be repaid. Common sources of this type of financing are family and friends, banks, finance companies, wealthy individuals, potential customers, and SBA loans or guaranteed loans. Equity financing consists of funds that are invested in exchange for ownership in the company. Sources for this include private stock being sold only to friends and relatives, public sale of stock, and venture capital investments.

9. How does an entrepreneurial firm in the existence stage differ from one in the success stage?

During the existence stage the company is concerned mainly with producing the product or service and obtaining customers. It is worried about just getting going and surviving. During the success stage the company is solidly based and profitable. Systems and procedures have been established, and the owner may elect to hire professional managers to run the business.

10. How do the management functions of organizing and controlling differ from for the existence and success stages?

During the existence stage the organizational structure is very informal, with all employees reporting to the owner. In the success stage functional managers are often hired to take over duties previously performed by the owner. A functional organizational structure will begin to develop.

In the existence stage control is exercised by simple accounting records and by personal supervision. By the success stage operational budgets are in place and the owner may start implementing a goal-setting system.

11. Explain the difference between entrepreneurship and intrapreneurship. Why would entrepreneurs want intrapreneurship within their companies? Would an entrepreneur’s personality tend to inhibit intrapreneurship? Discuss.
Intrapreneurship is the process whereby an individual sees the need for innovation and promotes it within the organization. An entrepreneur starts his own firm, apart from any organization. As entrepreneurial firms grow, they have a tendency to lose the innovative spirit as formal management techniques are implemented. Having intrapreneurship within the firm can counteract this tendency. The personality of the entrepreneur may well get in the way of intrapreneurship. Entrepreneurs do not like to plan and organize and are often impatient to see new ideas pay off.

Teaching Note for Experiential Exercise

What Is Your Entrepreneurial Quotient?

If students scored between 0 and minus 10, the questionnaire suggests that their chances of successfully starting an entrepreneurial business are marginal. Ask students if there is anything one can do to become more “entrepreneurial.” According to one author (Hornady, J. A. Research about living entrepreneurs. In Kent, C. A., Sexton, D. L. and Vesper, K. H. Encyclopedia of Entrepreneurship. Englewood Cliffs, NJ: Prentice Hall, Inc., 1982), there are several characteristics of successful entrepreneurs. These include self-confidence, energy, diligence, ability to take calculated risks, creativity, flexibility, positive response to challenges, dynamism, leadership, ability to get along with people, responsiveness to suggestions, responsiveness to criticism, knowledge of market, perseverance, determination, resourcefulness, need to achieve, initiative, independence, foresight, profit orientation, perceptiveness, optimism, versatility, knowledge of product, and technology.

Teaching Note for Ethical Dilemma

To Grow or Not to Grow?

Option 1 meets neither Chuck’s commitment to employee satisfaction nor his belief that growth is important. If Chuck chooses to expand in the current location (Option 2), senior agents are still likely to gradually become more dissatisfied and customer service will in turn decline. The two senior agents are clearly ready for more responsibilities as well as more opportunities for professional growth, which they will not have as long as Chuck “stays in control.” Option 3 is the preferred choice, as it allows the company to grow as well as infuses senior agents with the entrepreneurial spirit they need at this point in the company’s development. Chuck has worked hard to develop a positive corporate culture, but he is having a problem relinquishing control. For his company to grow and continue to be innovative and successful, Chuck needs to trust his employees and give them the autonomy to run their own branches.

Surf the Net
1. **Entrepreneurship.** Students are encouraged to take the small business quiz to assess their entrepreneurial skills. The small business self examination can be very helpful for one that is not sure of being entrepreneurial.

2. **Venture capital firms.** The criteria used by venture capitalists in evaluating the financial requests of small business is as follows: Venture Capital is very competitive and starts at $250,000. APPLY if your business has National or International scope. APPLY if your business has multi-million dollar profit potential. APPLY if your business is a unique opportunity. Next Yahoo, etc. DO NOT APPLY if your business is small or local in nature. Business small, local, or start-up? Try Government Funds. Have real estate, want it, need a building? Try Real Estate Finance. Have assets, contracts, or receivables? Try Commercial Finance. Need equipment, software, furniture? Try Equipment Leasing. Ready for Wall Street, serious investors... Try Investment Funds.

3. **Franchise opportunities.** Student responses as to the selection of three franchise units will vary. It is important to write to the parent company and ask for a disclosure statement to evaluate a franchise. Tables and charts are at the discretion of the student and should be analyzed for each franchise.

### Case for Critical Analysis Solution

**I Do Its**

1. *Of the six personality traits of typical entrepreneurs, which seem most present in Robi Fugate? Which trait do you think is most important for solving the problem of getting stores to sell the clothing in matching sets?*

   Of the six personalities traits the high energy level of Robi Fugate is most apparent. She subscribes to hard work, she puts forth a tremendous effort, and has struggled financially from time to time. Some of the traumas and obstacles included cash, or liquidity problems, and she could not afford a major advertising campaign. Larry Johnson, who was the owner of North River Apparel (a major supplier of her inventory), came to her rescue. He offered Fugate a line of credit that would be paid off with a 50 percent share of I Do Its profits.

   The traits to have retailers order in matching sets would be an external locus of control. As an example of such external forces, Robi believes her customers separate the pieces and mix them in with other labels, making it extremely difficult for parents to put together ensembles, and leaving the stores with mismatched items that have to be marked down at the end of the season. Robi is convinced that she can make the difference between success and failure: hence, she is motivated to take the steps needed to achieve the goal of setting up and running a new business.

2. *Discuss how Fugate should carry out her organizing, leading, and controlling to manage the business for success.*
The organizing function performed by Fugate was the ability to commission the North River Apparel factory in Berry, Alabama. She then contracted with representatives at Cyrilla & Co., an agency whose Atlanta showroom sells to stores from Virginia to Florida, to market the first year’s line. She is organized by having her product line shipped in matching sets. Finally, she is organized to structure a sales staff to promote her product line.

In leadership Fugate believes in her idea, she is a visionary, and knows she has a future with her company. She has the ability to inspire and influence others into buying her product line (as shown by sales quadrupling in her second year of operation). She is excited about launching a catalog next year for disabled kids, as she believes they are natural customers for the I Do Its line.

Fugate controls her operation through advertising and a line of credit to manage her business successfully.

3. Do you believe Fugate will eventually succeed with I Do Its? Why?

I Do Its will succeed because of Robi Fugate’s leadership ability. She believes in herself and is able to inspire others to adopt her product line. Her biggest challenge is her ability to control her operation and manage the cash flow of the business. She needs a cash infusion to keep the company liquid.

Additional Material: Part II

Video Case

Chapter 3

Fallon Worldwide: Can Its Corporate Culture Be a Soul Survivor?

When a corporate giant takes over a smaller firm, the question everyone asks is, what will happen to the culture of the small company? Will the quirks, the flexibility, and the creativity of the small fish be swallowed by the larger fish? When Paris-based Publicis Group SA announced its acquisition of Minneapolis-based advertising agency Fallon Worldwide, the worry was on every manager’s, staffer’s, and client’s mind. “One of my greatest fears was that our people would think we sold out,” recalls Pat Fallon, founder and chairman of the company. “People were worried that we would become more corporate and less like the home they knew. And if people feel as if a bond has been broken, then everything is up for grabs.” Fallon had always been known for its high-energy, creative culture. People who worked there loved the atmosphere. Clients enjoyed Fallon’s cozy, quirky, sometimes outrageous spirit. “It was a time of uncertainty,” says Anne Bologna, planning director of Fallon’s Minneapolis office. “There was this sense that we no longer had the freedom to be entrepreneurs.” So Bologna made a call to action throughout the agency for new ideas. What began as hallway chat fests turned into a full-scale company initiative bent on preserving Fallon’s culture.
“People wanted proof that the soul of the company wasn’t going to change,” recalls Rob White, co-president of Fallon. “We had to show them that the acquisition [by Publicis] was a strategic move to help us achieve very ambitious goals that we probably couldn’t achieve on our own.” There’s the catch: Fallon founders had to find a way to mesh the driving force of their company—its high level of energy, its creative spirit—with an external environment that included a sluggish economy, fierce competitors, and a new boss. “Staying energized is the only way to survive,” insists Anne Bologna. “In a down economy, creativity as currency is needed more than ever.” So, if Fallon could enhance its already-existing culture, the company might not just survive but actually thrive under the umbrella of Publicis. During the year after Bologna’s initial call for new ideas, the agency launched Fallonet, an intranet that allows the free-flow of ideas, humor, and challenges. Fallon also established an interactive consulting group as a full-fledged company division.

One employee who took Anne Bologna’s directive serious was John King, a young media planner. He proposed a new program called Dream Catchers, in which Fallon would assist employees in funding their own “impossible” dreams, thus fueling their creativity. Employees who want to participate simply decide how much they want to deduct from their paychecks on a regular basis to set aside for their “dream” sabbatical. Fallon then matches their deductions up to $2,500. Once an employee has been there three years, he or she can take a two-week, paid sabbatical—in addition to vacation time—to pursue a dream. One staffer used the sabbatical to visit the Van Gogh Museum in Amsterdam while another ran with the bulls in Pamplona. “Dream Catchers gives you license to be selfish if you want to be,” says program designer King. “So many people get caught up in day-to-day living and put their dreams on hold indefinitely. The program is supposed to be a kick in the [butt].” A company whose internal culture promotes creativity in a variety of ways is likely to see the impact in its products and services. Since Fallon instituted its new initiatives, the agency has won new clients as well as several prestigious advertising awards for its work.

Today, despite a tight labor market and a slow economy, Fallon has billings of more than $800 million per year and a client list that reads like a Who’s Who of corporate giants: BMW of North America, Citibank, EDS, Holiday Inn, Nikon, Nordstrom, Nuveen Investments, PBS, Ralston Purina, Starbucks Coffee Company, Timex, and United Airlines to name a few. In selecting Fallon, United’s director of Worldwide Marketing Communications, Jerry Dow, indicated the importance of Fallon’s innovative culture to the decision. “In the end, Fallon showed United that the agency best understood the airline’s brand vision, and had the tools to develop and deliver a hard-hitting, integrated global message and global brand platform.”

There’s no doubt that Fallon faces some tough challenges as it continues to try to integrate with Publicis without losing its own identity, trudges through an economic downturn, and looks for ways to keep employees energized, happy, and productive. But company founder Pat Fallon remains optimistic. “It comes down to one thing,” he says. “Do you or don’t you live by your values? Even in this tough economic climate, we can never invest enough in our people if we want them to do the best work of their lives.” Pat Fallon intends his agency to be a soul survivor.

Questions
1. Imagine that you are a member of Fallon’s staff. Write a brief paragraph proposing your own idea for sparking creativity at Fallon.

Answers will vary, but students are encouraged to be inspired by John King’s Dream Catchers program and use what they know about the company’s culture.

2. Why is maintaining Fallon’s corporate culture so important?

Fallon’s corporate culture is part of the strong identity that customers and potential customers associate with the company—it’s creativity, innovation, and energy—it’s what customers pay for. Losing that identity could mean losing its business altogether.

3. How is Fallon’s corporate culture linked to its external environment?

Suggestions include the fact that the economy influenced Fallon’s decision to merge with Publicis; customers expect to find a certain culture at Fallon and in its products; competitors might try to emulate Fallon’s successful advertisements.


Video Case

Chapter 4

Fallon Worldwide—Its Name Spells Global

Even before the Minneapolis-based advertising agency Fallon Worldwide was acquired by France’s Publicis, Pat Fallon was on the hunt for alliances he could make with other companies around the world. Managing the global environment is more important than ever for companies as technology expands boundaries or eliminates them altogether. In early 1999, Pat Fallon met Robert Senior in London for a cup of tea. Fallon was searching for his first foreign partners in Britain. Fallon Worldwide (then called Fallon McElligott) had already established its reputation for passion and independence. Senior and his colleagues were quick to jump on board. Within less than a year, the Fallon London office had a dozen top clients and billings of $40 million. What made the international alliance work? Shared values, reported Britain’s Senior. “Passion for great advertising is part of Pat Fallon’s DNA,” he enthused. “Part of exporting the Fallon brand is to find folks who share that ambition. You need those people who are going to get out there and push harder. You can try to dress up people in a set of beliefs and values, but it’s much more potent if it is fueled from within.”
Julie Thompson, Fallon’s director of communications said at the time, “It all comes down to relationships. We searched for two years to find our partners in London. We are very, very careful to find people of like mind. It has been a longtime goal of the partners to expand globally, but it will be a measured, well-planned expansion.”

One aspect of global expansion is overcoming cultural and language barriers. As Fallon began to make plans for alliances farther afield, Julie Thompson explained how the agency would address this issue. “We suspect the models will vary in every city. Our values do seem to translate across the continents, but we’ll ward off [language and other barriers to understanding] by partnering with local talent who can help us crack that code.” Industry expert David Tree, who helped Young and Rubicam Inc. open branches in Paris, Oslo, Tokyo, and Hong Kong, agreed with Fallon’s approach. “There are certain cultural givens, certain global truths,” he noted. “Every kid around the world wants a Coke. But there are cultural nuances that you would never understand like a national. The creative expertise you must leave up to the locals.”

About a year after the London deal took place, Publicis acquired Fallon and the global focus intensified. Clients had been pressing the advertising industry in general to service them on a global basis; the only way Fallon could do that, reasoned its founders, was to partner with a larger organization. From the start, Publicis and Fallon intended to expand to up to a dozen other locations outside the United States. The company also faced the issue of e-commerce, which was mushrooming around the world. “It will take a new kind of branding communications company to succeed in the emerging worldwide digital economy, and with Publicis’ support, we intend to be that company,” said Pat Fallon of the merger and expansion plans. A year after the Publicis deal was finalized, Fallon Worldwide’s expansion was well under way. The company announced the formation of three new “creativity centers” located on two continents, with six internationally known partners. Fallon would open agencies in Sao Paulo, Singapore, and Hong Kong. This strategy was formulated not only to overcome cultural, economic, and legal-political barriers in each region but also to maintain the flexible, innovative reputation that Fallon had built its business on. “The traditional agency network model is about distribution, which is fine for certain marketers,” explained Pat Fallon. “But we believe there are clients who will get excited by the idea of a lean, agile network built around the power of creativity, not mass.”

Fallon Worldwide chose the locations for the creativity centers carefully so that they would cover certain economic regions, giving multinational clients access to these markets without simply blanketing the globe with tiny agency outposts. Selecting partners to manage the centers would be crucial to the success of the entire endeavor. “Our philosophy is to find the best people in the world and give them a once-in-a-lifetime opportunity under a great brand name with collaborative support and resources from the other partners,” remarked John Gerzema, Fallon’s managing partner for international expansion. “Our network will be highly intimate—with people who know each other, respect each other, and share a passion for work that drives business results.” These international partners share both risks and rewards based on an agreement that includes shared ownership and accountability.

Each of Fallon’s top managers around the world has a global perspective on culture and on business. For instance, Calvin Soh, a creative partner for Fallon Singapore and Fallon Hong Kong, has worked in both New York and Singapore in the past. “As Asians, we found that Fallon’s midwestern values of humility, hard work, respect, and integrity weren’t very different from ours. Particularly enlightening was Fallon’s belief that to
excel in Asia, you need to develop local talent and expose them to the world. For us, Fallon felt right.” Fallon hopes to find such partners—and clients—the world over.

Questions

1. Do you think Fallon’s approach to global expansion by establishing regional creativity centers will be an effective one? Why or why not?

Answers will vary, but most students will probably focus on Fallon’s idea of maintaining its creativity and energy by capitalizing on local talent, which can also handle economic and legal-political challenges. Fallon’s approach mirrors the “think globally, act locally” approach.

2. How might ASEAN affect Fallon’s business in Asia?

Since experts predict that this region will be one of the fastest-growing economic regions in the world, Fallon, which now has offices in Singapore, will probably want to devote many of its resources to this area. Since it is using local talent, it may have a leg up in capitalizing on existing relationships among the ASEAN countries. Students are encouraged to elaborate on their answers.

3. What are some of the personal challenges that Fallon’s global managers might face?

Suggestions include being flexible to adapt to new situations and ways of doing things; overcoming any ethnocentrism they might have; blending cultural differences with Fallon’s own corporate culture; ensuring that any interpersonal/workforce issues account for cultural differences; handling any differences in infrastructure, currencies, the economy, and trade regulations; making sure that any campaigns are tailored to the regions or countries for which they are intended and modifying them, if needed; possibly learning to use new technologies for improved communications and global teamwork; and so forth. Students should consider both the “business” side of the company and the “creative” side of the company when suggesting issues.

Chapter 5

Timberland Walks the Walk of Social Responsibility

The Timberland Company designs, manufactures, and sells premium boots, casual shoes, hiking boots, and boat shoes, as well as high-performance outdoor clothing and accessories. The New Hampshire–based company builds its products to last—“to withstand the elements of nature,” as the company’s Web site states. But Timberland is striving to build something more permanent than just high-quality footwear and clothing. It is trying to make the world a better, safer place to live and work—one person and one community at a time.

Aside from the customers who buy its high-quality products, Timberland considers its other stakeholders in its business dealings. First, it recognizes its responsibility to be profitable for investors and employees. With yearly revenues of nearly $1.1 billion, the company recently reported 20 consecutive quarters of record revenue and improved earnings. Even in the face of an economic downturn, which hit retail establishments hard, CEO Jeffrey Schwartz said, “Timberland delivered record revenues for 2001 in a difficult environment” that included higher leather costs, increased competition, and softer U.S. sales. But he is not deterred from his goal of making Timberland a leading global lifestyle brand.

Timberland also considers its employee stakeholders as critical to its success. The company was again listed on Fortune magazine’s list of best companies to work for, ranked at number 65. The company is committed to diversity in its workforce, with 29 percent of its employees being non-Caucasian minorities and nearly half women. The company provides 22 hours of professional training per year to employees to improve their skills. Timberland is also concerned about its global manufacturing workforce. With repeated news reports about exploitation of foreign workers at other companies, Timberland instituted a yearlong audit of all its manufacturing facilities and some of its licensee’s facilities, including tanneries and other major suppliers. It hired Verit, a nonprofit nongovernmental organization, to check working conditions such as health and safety, air quality, noise, and lighting. The company also monitors its Asian factories every 8 to 12 weeks to ensure that workers are paid decent wages, provided periodic work breaks, and not required to work excessive overtime. It considers its commitment an ongoing process, requiring continual checks and improvements.

Companies often profess their belief in good corporate citizenship to their communities, but Timberland is an organization that literally considers what it is like to walk in someone else’s shoes. From the CEO to office workers to sales associates on the floor, Timberland encourages all its employees to become involved in their communities. Through its long-standing Path of Service program, the company gives full-time employees 40 hours of paid time off for community volunteer service during regular working hours. The company also recently instituted a paid sabbatical program, allowing four employees each year to contribute their professional skills to nonprofit organizations for up to six months. And it has long been involved in City Year, a national youth service organization for young people aged 17 to 24 years who serve different communities for a full year. The company serves as a City Year National Leadership Sponsor, and CEO Schwartz chairs the City Year board. In addition to these efforts, the company partners with many other service organizations, working on activities as wide ranging as prevention of child hunger, skills training, eliminating exploitative working
conditions, and closing the technology gap between organizations. The company’s Web site also provides a link to SERVnet, an online news and events site listing needed community service projects.

Finally, Timberland considers the impact on the environment that its activities may have. It created an Environmental Affairs department to reduce the harmful effects on the environment. The company is committed to recycling leather scraps and minimizing its use of toxic compounds and nonrenewable resources, as well as reducing carbon dioxide emissions to help curb global warming. Using innovative methods to reduce its energy consumption and conserve other resources, Timberland includes skylights at its sites to reduce power consumption, constructs some of its retail stores with furnishings and fixtures made from recycled materials such as salvaged wood and bricks. Its shoeboxes are made entirely from recycled products and printed with environmentally friendly vegetable dyes.

Through its daily efforts to improve its operations while offering products with proven workmanship, Timberland certainly walks the walk when it comes to ethical and socially responsible behavior. Perhaps one incident can best capture Timberland’s commitment to its communities: On September 11, 2001, CEO Schwartz and more than 100 other employees were volunteering at a school in the Bronx, New York City. After the World Trade Center crashes and collapse of the towers were reported, the Timberland employees were advised to evacuate the city. Instead, they chose to stay and finish their job of repairing windows, painting hallways, and doing various cleaning and repair jobs. No wonder Fortune magazine says of Timberland, “No one takes social responsibility more seriously.”

Questions

1. Consider the three stages of ethical development. If Timberland were an individual, what level of moral development do you think the company has attained? Explain.

From the facts presented in the case, students will probably say that the company is at least at the high end of conventional moral development, and many will place the company in the post conventional stage of moral development. The company goes beyond merely complying with legal regulations. It certainly fulfills most of its duties and obligations to its stakeholders, and it seems to be self-guided, working creatively to better the communities in which it operates.

2. How much does Timberland’s organizational culture influence its employees’ socially responsible behavior?

The company’s culture has a profound effect on its employees. From the CEO on down, the company has established ethical and socially responsible conduct as one of its core goals. It strives to lead the way in community service by encouraging its employees to volunteer through paid time off and sabbatical programs. Timberland’s activities are certainly not just lip service to responsible corporate behavior. The
company even lists a link to a community service Web site to encourage the general public to volunteer.

3. **Name some ways that Timberland demonstrates a high level of discretionary responsibility in its social performance. Would you like to work at Timberland?**

Students may cite the facts that Timberland meets many of its stakeholder needs: profitability, meeting legal requirements, and avoiding harm. But the company’s involvement in promoting community projects such as City Year and Path of Service falls into the category of discretionary responsibility. It also aims to better the lives of its global workers through its routine factory audits, and its dedication to environmental efforts is evident in its creation of the Environmental Affairs department. Answers will vary on whether students would like to work at Timberland based on their individual priorities, but the question should generate some good discussion and debate, as well as self-assessment.


---

**Video Case**

**Chapter 6**

**The Geek Squad: Providing Service That Makes You Smile**

Computers and technology seem to be everywhere these days. From the office desktop to home Internet surfing to e-mail on cell phones, the computer chip has invaded our lives. But the simple fact is that most of us don’t have a clue how any of that technology actually works—or even worse, why it doesn’t work. Enter the Geek Squad, a computer-repair, technical assistance, and maintenance service based in Minneapolis, Los Angeles, Chicago, and San Francisco. The Geek Squad offers computer service—with a twist.

Founded by twenty-something Robert Stephens in the mid-1990s, the company has “special agents” who wear white shirts, clip-on ties, too-short pants, and pocket protectors. They drive to their on-site repairs, or “crime scenes,” in Geekmobiles—black and white VW Beetles, renovated ice cream trucks, and even an old police squad car emblazoned with the Geek Squad logo. Stephens, who calls himself the Chief Inspector, got the idea for his company when he overheard two people in a grocery store checkout line discussing whether they were going to upgrade the RAM on their computer hard drives at home. At that time, the Internet was just beginning to take off. Stephens says of his vision, “That’s a fundamental social shift that occurred, that you have normal people talking computers. I thought, ‘This is going to blow big.’” So Stephens saw his
window of opportunity, quit his computer-programming job at the University of Minnesota, and started his company with $200 and a good dose of humor.

From its humble beginnings, the Geek Squad grew under Stephens’s guidance (the company motto is “Creativity in the Absence of Capital”) and through his personal connections. A lucky break came when a movie was being filmed in Minneapolis, and the crew’s computers crashed. The Geek Squad repaired the damage. Soon, the company was known as “computer people for the movie industry in the Twin Cities,” recalls Stephens. The company repaired computers for Grumpy Old Men and a Mighty Ducks hockey movie. The company also began to help rock bands with their computers. Over the years, they’ve helped U2, the Rolling Stones, Ice Cube, and Jonny Lang, among others. “You wouldn’t think rock stars use computers,” says Stephens. “But rock stars use laptops on the road, so actually they’re the most finicky, demanding people. They’re great practice for us.” An added bonus for employees is getting great seats at concerts.

With customers’ increasing dissatisfaction with the computer support provided by large hardware and software companies, the Geek Squad has found its niche by offering personalized carry-in, on-site, and emergency service 24 hours a day, seven days a week. The company prices its services by the job, not the hour, so customers know up front what the cost of the service will be. And the company will quote the cost of the service over the phone. Geek Squad employees maintain and repair everything from IBM-compatible and Macintosh hardware and software, networks, printers, even cell phones and personal digital assistants. They also give their customers set time frames for when a problem will be fixed.

Once a sole proprietorship owned by Stephens, the Geek Squad has now become a corporation with several million dollars in annual sales. The Geek Squad qualifies as a small business, currently employing fewer than 100 employees. Throughout the company’s growth, Stephens has managed to maintain the fun work atmosphere for his employees, and he relies on their imaginations to play the role of computer nerd for sometimes-tense customers. The company dubs its carry-in service “counter intelligence.” Flashing their badges before they begin work, employees quickly calm the fears and gain the trust of anxious customers, and the invoices they present carry the words, “Pay up, sucka!” All of this humor helps create not only fun for employees but goodwill for the company and referrals for future business.

Stephens has received offers to buy the company, but he says he isn’t interested in selling. He takes those offers as evidence that he has created something unique and useful. In fact, Stephens has even extended his business by writing a book with coauthor Dale Burg called The Geek Squad Guide to Solving Any Computer Glitch, published by Simon & Schuster. The book is a compilation of useful tips, written in normal language that any “nontechie” can understand. Of his business, Stephens says, “I’m just having a lot of fun. I’m energized by that. For me, the Geek Squad is an artistic experiment.”

Questions

1. Review the six types of business owners in Exhibit 6.1. Which type do you think Robert Stephens is?

From the information presented in this case, students will probably focus on the idealist type since Stephens seems energized and rewarded by the chance of
part 2 the environment of management

providing something new and creative. Some may also think he’s a juggler because of his high energy and enjoyment in his business. Students should support their choice with facts from the case.

2. How did Stephens come up with his business idea for the Geek Squad? What qualities have helped make the company a success?

Stephens overheard a conversation about personal computers in a grocery checkout that gave him the idea of providing computer support services in the blossoming computer field. But a key to the company’s success is the creativity through which the service is provided—the stereotype of a computer geek. Playing those roles makes work at the company fun for employees. The geek image also builds customer trust by relieving fears and creating a unique, memorable image for the company—all while serving a real need for personalized computer assistance.

3. At what stage of growth do you think the Geek Squad is currently? Explain.

Students will probably select the end of the success stage or beginning of the takeoff stage. The company has grown from a sole proprietorship to a corporation, so it has been successful enough for growth. The company has also expanded from the Twin Cities into three other major metropolitan areas: Los Angeles, Chicago, and San Francisco.

Part II

Continuing Case

Ford Operates in A complex Environment

Suggested Answers

1. Add to your knowledge of the Firestone tire debacle by researching it on the Internet or at the library. Then prepare for a class discussion or written summary on whether or not you believe Ford acted ethically throughout the crisis and why.

   Opinions will vary, but students are encouraged to support their opinions with facts and solid reasoning.

2. Visit the Ford Web site and click on several of the company’s pages dealing with socially responsible initiatives - the environment, education, and so forth. Then discuss the role you think these initiatives play in Ford’s overall corporate culture.

   Answers will vary, but students are encouraged to link social responsibility with a company’s overall corporate culture. Issues they should consider is how ingrained the social responsibility efforts are in the company’s overall culture—is there evidence that top management is actively supporting the efforts day to day? Are employees recognized for their efforts?

3. Ford Motor Company was founded by an entrepreneur and was once a small business. Name three ways in which you think Ford has contributed to the American economy and culture over the last century.

   Answers will vary, but examples might include the following: Ford helped develop one of the largest industries in America; Ford helped create a whole new market in America; Ford helped change the way people travel throughout America; Ford has provided tens of thousands of jobs to workers in America and around the world.