

Class 7

- Designing an Organization
- Products & Services
- Organizational analysis – See Class 10 & 11:
 - Leadership
 - Human Resources
 - Time management
- Preparation for Strategic Plan project
 - Where is your team?
- One week until Interviews are due: Schedule

10 – Startup Strategies
10 – Forms of Organization
11 – Operations

Review of the Online Class

- Class 6 – Intellectual Property
 - Did you clearly see the slides?
 - Was the handout helpful? Necessary?
 - Did you clearly hear me talk?
 - Did the short verbal exchange between me and a student work? Could you all hear it?
 - What did you think of the chat notes? Helpful?
 - Was it of any benefit to see me talk or was that just a distraction? (e.g., the camera display)?
 - How could we have been more interactive?
- Did it work?



Interview Schedule

- In Last Name alphabetical order
- Exceptions:
 1. _____
 2. _____
 3. _____
 4. _____
 5. _____
- How long is the presentation?
 - 6 - 9 minutes, + 1 minute Q&A

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Global/Local Events: What is happening of interest?

- What has caught your attention?
- Why?
- How does it relate to PEST / SET factors?
- What entrepreneurial opportunities arise from the changes associated with this insight?

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The Training Dilemma



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Class Exercise

- Objective: To work together as a team, under deadline pressure, to:
 1. Identify and understand a problem (an “issue”)
 2. Deconstruct the problem and identify individual responsibilities
 3. Research and formulate a coherent resolution
 4. Present the resolution to the stakeholders (the classroom)

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Class Exercise...

We will use playing card suits to form 4 groups:

1. Group 1 – Designing an Organization
2. Group 2 – Legal Structures
 - Note: More detail will be covered or reviewed in Class 10
3. Group 3 – A Paradigm of Entrepreneurship
4. Group 4 – Between Paralysis by Analysis and Extinction by Instinct
 - Following slide explains what to do...

- The Groups have **20 minutes** to study the topic
 - Handouts of my topical notes describe the topic
 - The Group may use my slides, if desired
- Each Group will, in turn, conduct a **15 – 20 minute** discussion of their topic to the class
 - Do not use this time for further preparation
 - Listen and participate to the presenting Group

Group 1 Discussion:



Designing an organization

- Allen Ch 7, Building The Founding Team
 - Eg, Green Sherpa, Filling the gaps on the founding team
 - Sole owner or team? Team has:
 1. Shared efforts of intense start-up requirements
 2. Can bear the loss of one team member
 3. Team covers expertise in a broader range of functional areas
 4. Skilled team lends credibility to stakeholders
 5. Decision making improves, benefitting from multiple perspectives

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Allen's team benchmarks



- Lead & team share the same vision
- Team members are passionate about the business concept *appropriate*
- 1 or more of team has industry experience
- Team has industry contacts w/sources of \$\$
- Team's experience covers the key functional areas of the business: finance, mktg, opns
- Team members have good credit ratings
- Team is free to spend the time & energy req'd

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Seeking professional advisors

- Attorneys
- Accountants
- Bankers
- Insurance agents
- also...
 - Property & casualty
 - Medical
 - Life (key managers)
 - Workers' comp
 - Directors & officers
 - Unemployment
 - Auto
 - Liability (product & personal)
 - Errors & omissions
 - Bonding
- Technology & industry-aware experts
- Entrepreneurial experience (growth, etc)

Should you have a Board of Directors? A Board of Advisors?

Allen: Board & business stages

Board Needs	Advice on feasibility – Devil's advocate	Resource expertise	Strategic advice	Access to capital markets & growth expertise	Catalyst for innovation	Turn-around specialist
Status	Concept Dev. Feasibility analysis	Startup Resources Management team	Early Growth Developing operational & sales capabilities	Rapid Growth Spurs need for capital & controls	Growth Slows Innovation required	Crisis Cash flows, market, leadership
Stage	Conception	Start-up	Early Growth	Rapid Growth	Maturity	Decline

Allen on SOX

Sarbanes-Oxley Act of 2002

- Primarily aimed at public companies and private firms that work with large firms or investors/lenders
- Four primary areas relating to private firms:
 1. Use more than 1 accounting firm
 2. Create an audit committee
 3. Develop a whistleblower act
 4. Ensure that the Board is substantially independent (not reporting to or having a business relationship with the firm)

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IRS 20-Point Test for Contractors

If these are true, the IRS considers the contractor an employee:

1. Must follow employer instructions about how to do the work
2. Receives training from the employer
3. Provides services that are integrated into the business
4. Provides services that must be rendered personally
5. Cannot hire, supervise, and pay his or her own assistants
6. Has a continuing relationship with the employer
7. Must follow set hours of work
8. Works full-time for an employer
9. Does the work on the employer's premises
10. Must do the work in a sequence set by the employer
11. Must submit regular reports to the employer
12. Is paid regularly for the time worked
13. Receives reimbursements for expenses
14. Relies on the tools and materials of the employer
15. Has no major investment in facilities to perform the service
16. Cannot make a profit or suffer a loss
17. Works for one employer at a time
18. Does not offer his or her services to the general public
19. Can be fired at will by the employer
20. May quit work at any time without incurring liability

IRS can decide that an IC is an employee even if only one of the 20 points is true!

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Chuck's Comments – Group 1

- healthEhabitats example:
 - Investment plan – Investment role (how? Why?)
 - Board of Advisors role
 - Key role in initial stages
 - Development of Business Plan
 - Exec Summary & Pitch
 - Financials – Top Down
 - Then detail derivation, bottom up
 - Prior entity used as a basis, multiple needs merged to define a new industry segment

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Group 2 Discussion: Legal Structures for New Ventures

- We'll discuss: (more discuss in Class 10)
 - Sole Proprietorship
 - Partnership
 - Corporation
 - Limited forms of partnerships & corporations
 - Franchise

This discussion uses information taken from Kuratko, Donald & Hodgetts, Richard, "Entrepreneurship: Theory, Process. & Practice", sixth edition.

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Sole proprietorship

- Owned & operated by one person
- Unlimited liability
- Rights to all profits

Advantages:

- Ease of formation
- Sole ownership of profits
- Owner-vested decision making & control
- Flexibility
- Relative freedom from corporate taxes

Disadvantages:

- Unlimited liability
- Lack of continuity
- Less available capital
- Relative difficulty in obtaining long-term financing
- Relatively limited viewpoint and experience

Partnership

- An association of two or more persons acting as co-owners of the business
- Each contributes and shares in profits and losses
- Different types of partnerships:
 - Ostensible partner
 - Active partner
 - Secret partner
 - Nominal partner
 - Silent partner
 - Dormant partner
 - Limited partner

- Advantages:
 - Ease of formation
 - Direct rewards
 - Growth & performance facilitated
 - Flexibility
 - Relative freedom from gov't control & regs
 - Possible tax advantages
- Disadvantages:
 - Unlimited liability for at least one partner
 - Lack of continuity
 - Relative difficulty in obtaining capital
 - Bound by acts of just one partner
 - Difficulty of disposing of partnership interest

Corporations

- An “artificial being, invisible, intangible, & existing only in contemplation of the law”

Advantages:

- Limited Liability
- Transfer of ownership
- Unlimited life
- Relative ease of securing capital
- Increased ability & expertise

Disadvantages:

- Activity restrictions
- Lack of representation
- Regulation
- Organizing expense
- Double taxation

Special forms of partnerships and corporations



- Limited partnership
 - Permits capital investment without liability for loss
- Limited liability partnership (LLP)
 - Avoids malpractice liability of other partners
- R&D limited partnership
 - Popular tool for funding R&D
- S corporation
 - “Tax option corp”, taxed like a partnership
- Limited liability company (LLC)
 - Taxed like partnership; liability of a corp.

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Franchise



- The owner of a trademark, trade name, or copyright licenses others to use it to sell goods & services
- Legally independent but economically dependent on the integrated business system of the franchise

Advantages:

- Training & guidance
- Brand name appeal
- Proven track record
- Financial assistance

Disadvantages:

- Franchise fees
- Franchiser control
- Unfulfilled promises

Franchises have outgrown the laws to regulate them: stronger regulations are being introduced in many states

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Chuck's Comments – Group 2

- Ease & small expense of setting up an LLC for exploratory purposes
 - E.g., HBS in DE
- Why share the startup with another/others?
 - The importance & issues with group startups
 - Think of the many successful businesses with multiple founders

Group 3 Discussion: Stevenson's propositions

From "A Paradigm of Entrepreneurship: Entrepreneurial Management"

- From "*A paradigm of entrepreneurship: Entrepreneurial management*", Howard H. Stevenson, Harvard Business School, Boston, MA, & J. Carlos Jarillo, IMD, Lausanne, Switzerland, 1990.
- Postulates a link between entrepreneurship and corporate management... with a view of moving towards an entrepreneurial organization

This article is really talking about Intrapreneurship

“3 Streams of Research that Stevenson & Jarillo Performed:

- Three Main Streams of studies on Entrepreneurship:
 1. What Happens When Entrepreneurs Act
 2. Why They Act
 3. How They Act
- When E’s act, the economy is affected by new business opportunities

Proposition 1

- An entrepreneurial organization is that which pursues opportunity, **regardless of resources currently controlled**
 - This is a definition of entrepreneurship
 - Remember the line:

Manager

Entrepreneur



Proposition 2

- The level of entrepreneurship within the firm (i.e., the pursuit of opportunities) is **critically dependent on the attitude of individuals** within the firm, ***below the ranks of top management***
 - The question is “how to encourage it?”
 - Read Peter Senge “The Learning Corporation”

Proposition 3 “Empowerment”

- The entrepreneurial behavior exhibited by a firm will be positively correlated with its efforts to **put individuals in a position to detect opportunities**
 - to train them to be able to do so
 - to reward them for doing so

What does your company do to encourage you to detect opportunities?

Have you detected opportunities? What did you do?

Proposition 4

- Firms which make a conscious effort to **lesson negative consequences of failure** when opportunity is pursued will exhibit a higher degree of entrepreneurial behavior
 - What is failure? Then what is learning?

Proposition 5

- Not only the success **rate**, but the very **amount** of entrepreneurial behavior will be a function of the **employees'** (subjective) **ability to exploit opportunities**
 - How is this different than Proposition 3?
 - Rate and amount vs level – what does this mean?
 - **Increased by**: Strength of tech & mgmt ability; may require different mgrs at different stages
 - **Important skill**: using resources outside your control

Proposition 6

- Organizations which **facilitate the emergence of informal internal and external networks**, and **allow the gradual allocation and sharing of resources**, will exhibit a higher degree of entrepreneurial behavior
 - How do we facilitate networks & resource sharing?

What does it mean?

- Corporate entrepreneurship is a concept wider than just “corporate venturing” or setting up intra-firm venture capital processes
- Entrepreneurial behavior, following Schumpeter, the quest for growth through innovation
- But the pursuit of opportunity (individually or corporately) constitutes the core of entrepreneurship

Chuck's Comments – Group 3

- This is about entrepreneurial thinking in existing entities...
 - Its importance
 - How to achieve it
- Which of the 6 propositions is most important? Why do you think so?

Group 4 Discussion: Between 'paralysis by analysis' and 'extinction by instinct'

Prof. Ann Langlely
University of Quebec

We need to tread a fine line between
ill-conceived arbitrary decisions and an
unhealthy obsession with facts and figures

- Formal analysis would be less necessary if people could execute their decisions themselves and nobody had to convince anybody of anything.
- The more decision making is shared among people who don't quite trust each other, the more formal analysis is required.

Why is formal analysis used?

- Information
- Communication (to base decisions)
- Direction & Control (e.g., to meet objectives)
- Symbolism (impression of concern)

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Contextual factors that affect formal analysis

- Breadth of participation
- Distribution of power
- Range of opinions
- Leadership style
- Cognitive style

} Structural factors

} Intuitive vs. Analytic

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Factors that affect the quantity of analysis produced

**Risk of extinction
by instinct**

Limited

Concentrated

Convergent

Autocratic

Intuitive

**Risk of paralysis
by analysis**

Widespread

Diffuse

Divergent

Consensual/passive

Analytical

← *Participation* →

← *Power* →

← *Opinions/Motivations* →

← *Leadership Style* →

← *Cognitive Style* →

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Paralysis by analysis

The 3 situations which organizations carry out excessive formal analysis...

1. The dialogue of the deaf

- The issue was completely blocked
- Org engages in seemingly interminable exchange of docs and reports between levels, which fundamentally disagree
- Individual analysis carried out to justify positions, but lead nowhere – sides don't understand each other
- Resolved by coalition-building

2. The vicious cycle

- Studies were simply ammunition in a battle
- Persistent paper fights within a level
- Is the debate on facts or on fundamental values and objectives
- Laissez-faire (passive) leadership enhances conflict

3. The decision vacuum

- Analysts become ivory-tower theoreticians
- Orgs need to create flexible structures and incentives to encourage staff groups to remain responsive to mgmt needs

Observations

1. Formal analysis is rarely the cause of paralysis; it is the reverse.
2. The forces that create the problems are partly structural, look beyond short-term specific solutions.

Extinction by instinct

Groupthink as a cause of poor decision making; weak checks and balances in the process

1. The dominant leader

- Extinction by instinct is caused by the combination of narrow participation in decisions, centralized power, and a highly directed leadership style
- The “yes-man” environment
- You can exit, voice, or accept
- The antidote may be a strong independent board

2. Parallel Power

- Orgs where individuals or groups low in the hierarchy are powerful enough to do what they want, even when contrary to organizational objectives
- Two problems:
- Incentives/rewards need to reflect org goals

3. Natural unanimity

- Everyone shares the same opinion
 - Perhaps unsync'd with org goals?
- Create a capacity for challenge

Toward equilibrium

- Avoiding extinction: instill checks and balances so people think their ideas through
 - Cross function teams, devil's advocacy, toleration of dissidence
- Avoiding Paralysis: Speed to market means that checks & balances can impede progress. Reexamine where decisions are made in the hierarchy

Chuck's Comments – Group 4

- How are decisions made in your organization?
- Balance:
 - Sometimes not possible or desirable
 - E.g., Quick decision to secure a fleeting opportunity

End of Group Exercise Material

- Was that interesting?
- Did you learn from presenting/conducting?
- Did you learn from your classmates?
- Suggestions for improvement?

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The knowledge pyramid

How do we climb the knowledge pyramid – people, process, or technology?

- Wisdom** Insight re-applied and lessons learned
- Insight** Information in the human context
- Knowledge** Conditioning based on experience or experience
- Information** Data that makes a difference
- Data** Discrete facts

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* Details follow...

Your time

- **A Brand New Day ***
Create a successful day from the start by taking these steps to get motivated.
- **Just Take Your Time**
... and rethink what you do with it. Does multitasking really get anything done?
- **Juggling Multiple Tasks ***
How to find the time to do all you need to do--and then some
- **Make Over Your Office for \$200**
It's not brain surgery...ditch the clutter and get organized in less than a day!
- **What's a Good Use of a Leader's Time?**
Don't sweat the small stuff. Instead, focus on building your organization.
- **Find Time for Marketing**
...or kick yourself later when your client pool dries up. Here are 6 ways to make time for marketing.
- **Making Time for Organization**
You can't afford not to with all the time you waste being unorganized.
- **Practice "Hands-Off" Management**
Let go of some time-sucking duties, and see what you can really get accomplished.

Taken from www.entrepreneur.com article "Time Management and Organization" © Copyright 2003-2013, Chuck Thomas

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- **Take a Vacation!**
You—and your employees—stand to benefit from having you out of your business's hair for a while.
- **Delegating Responsibility**
At some point, you've got to let go a little.
- **Keeping Time ***
Increase your efficiency by evaluating how you use your time.
- **Follow Through on Your Follow-up**
Use these methods to organize your commitments to clients.
- **Juggling Time**
Having difficulty balancing work and play? Make the most of each day with these time-management techniques.
- **What's Worth More: Time or Money?**
If you're spending time to save money, you may be spending more than you bargained for.
- **Five Tools for Improving Your Efficiency ***
Neaten up your office and economize your time with these tips.
- **So Much To Read...So Little Time***
Magazines and newsletters threatening to take over your time and your space? Take control of your business reading.
- **Board Yet?**
Get directorial advice without building a boardroom.

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It's a brand new day

1. Start the day the night before
2. Create and outcome-oriented task list the night before
3. Take time to invest in yourself
4. Visualize your achievement

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Juggling multiple tasks

- Quit crying
- Eschew (“avoid”) perfection
- Meet smart
- Make time to have fun
- Treasure your family time
- Don’t dwell on the past

Five tools for improving your efficiency

1. A to-do list
2. A current filing system
3. A functional workstation or desk
4. Drawer dividers and other useful organizing products
5. A computer with enough memory & speed to meet your needs (& network bandwidth)

Keeping time

1. Is the task you're working on a top priority?
 2. Is the task going to increase your business or income?
 3. Does the task correspond with your goals?
 4. Is it a task that someone else could handle, leaving you free to handle more important tasks?
- When scheduling appointments with clients, also make appointments with yourself to work on specific projects and keep those appointments.
 - Group similar tasks. For example, return all phone calls during the same block of time, write letters during another block of time, and focus on your e-mail inbox the same hour each day.
 - When compiling your to-do list, focus on your top priorities. However, if you have a task that's lower priority but will take only a few minutes to complete, get it out of the way quickly. Then move on to your higher priority tasks.

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So Much To Read...So Little Time

- Designate places for must read & may read
- Separate business publications from personal reading
- Periodically, clean them out
- Evaluate your subscriptions
- Set time aside to read
- Get articles online

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Next class

- Financial Analysis
- Allen Ch 8 – Analyzing Start-up Financials
- Angel readings
- Guest Speaker: Dave Chase, Founder of Training Allies: Addressing Risk in Growth
 - Dave will be our guest the following Thursday Class