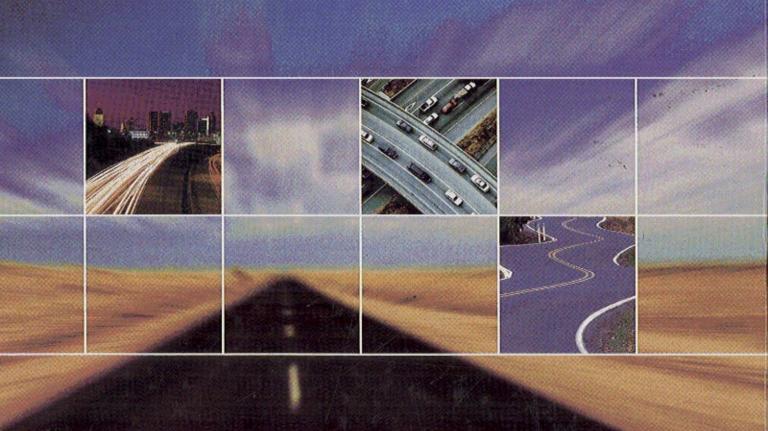
entrepreneurship

A PROCESS PERSPECTIVE



ROBERT A. BARON

SCOTT A. SHANE

PART

Entrepreneurship: Who, What, Why? CHAPTER 1 Entrepreneurship: A Field—And An Activity 2

The Field of Entrepreneurship: Its Nature and Roots 4 Entrepreneurship: An Engine of Economic Growth 6 Entrepreneurship: Foundations in Other Disciplines Entrepreneurship: A Process Perspective

Levels of Analysis: Micro Versus Macro Revisited 12 Entrepreneurship: The Intersection of Valuable Opportunities and Enterprising Individuals 13

Sources of Knowledge About Entrepreneurship: How We Know What We Know

Observation, Reflection, and Experimentation: Alternative Routes to Knowledge 15

Theory: Answering the Questions "Why" and "How" A User's Guide to This Text

Summary and Review of Key Points 22

CHAPTER 2 Uncovering Opportunities: Understanding Entrepreneurial Opportunities and Industry Analysis Sources of Opportunities: The Origins of New Ventures

Technological Change 30

Political and Regulatory Change 31 Social and Demographic Change 31

Forms of Opportunity: Beyond New Products and Services

Industries That Favor New Firms: Fertile Grounds for New Ventures

Knowledge Conditions 35

Demand Conditions 36

Industry Life Cycles 37

Industry Structure 38

Opportunities and New Firms 40

Why Most Opportunities Favor Established Firms 40 Opportunities That Favor New Firms 42

DANGER! PITFALL AHEAD! Exploiting an Incremental Innovation by Starting a Firm 44

Summary and Review of Key Points 46

CHAPTER 3 Cognitive Foundations of Entrepreneurship: Creativity and Opportunity Recognition 53

The Raw Materials for Creativity and Opportunity Recognition: Mental Structures That Allow Us to Store—And Use— Information 56

Cognitive Systems for Storing—And Using—Information: Memory, Schemas, and Prototypes 56

Limited Capacity to Process Information: Why Total Rationality Is Rarer Than You Think 58

Creativity: Escaping from Mental Ruts 60

DANGER! PITFALL AHEAD! "Too Much Invested to Quit":

The Potentially Devastating Effects of Sunk Costs 61

Creativity: Generating the Extraordinary 61 Concepts: Building Blocks of Creativity 62

Creativity and Human Intelligence 64

Encouraging Creativity: The Confluence Approach 65 Opportunity Recognition: A Key Step in the Entrepreneurial Process 67

Access to Information and Its Effective Use: The Core of Opportunity Recognition 68

Opportunity Recognition: Additional Insights from Cognitive Science 69

Practical Techniques for Increasing Opportunity Recognition 72 THE VOICE OF EXPERIENCE Some Thoughts on Avoiding False Alarms 73

Summary and Review of Key Points 75

PART

33

Assembling the Resources

CHAPTER 4 Acquiring Essential Information: Why "Look Before You Leap" Is Truly Good Advice for Entrepreneurs 82

Market Information: Determining What Your Customers Really Want

Direct Techniques for Gathering Market Information: Surveys, Perceptual Mapping, and Focus Groups 85 Indirect Techniques for Gathering Market Information: The Entrepreneur as Sherlock Holmes 88

Government Policies and Regulations: How They Affect New Ventures 89

Taxes: An Important Consideration for Entrepreneurs 90 Government Policy: Increasingly Favorable to New Ventures 91 Government Regulations: What Every Entrepreneur Should Know

DANGER! PITFALL AHEAD! When Good Ideas Fail: The Costs of Ignoring the Rules 96

Interpreting Information: Potential Pitfalls for Decision-Making Groups 97

Accepting "Early Favorites": Or, Why the Initial Majority Usually Wins 97

Group Polarization: Why Groups Often Do Go off the Deep End 98 Groupthink: When Too Much Cohesion Among Group Members Is a Dangerous Thing 98 Ignoring Unshared Information 99 Improving Group Decisions: Techniques for Countering the Pitfalls 100 THE VOICE OF EXPERIENCE Know Your Market—And Your Competitive Edge—Before You Start! 101 Summary and Review of Key Points 102	Types of Capital: Debt Versus Equity 146 Sources of Capital 147 The Structure of Venture Finance 151 The Equity Financing Process 151 Staging of Investment 152 The Cost of Capital 152 Social Capital and the Behavioral Side of Venture Finance 155 Social Ties and the Process of Raising Money 155 Behaviors and Actions That Encourage Investors 155 Summary and Review of Key Points 157
CHAPTER 5 Assembling The Team: Acquiring and Utilizing Essential Human Resources 107 Similarity Versus Complementarity: "Know Thyself" Revisited 109 Self-Assessment: Knowing What You Have Helps Determine What You Need 110 Choosing Cofounders: Maximizing the New Venture's Human Resources 113 Impression Management: The Fine Art of Looking Good— And How to Recognize It 113 Deception: Beyond Impression Management 115 DANGER! PITFALL AHEAD! The Partner Who Wasn't What He Claimed: When Social Perception Fails 117 Utilizing the New Venture's Human Resources: Building Strong Working Relationships Among the Founding Team 118 Roles: The Clearer the Better 118 Perceived Fairness: An Elusive But Essential Component 119 THE VOICE OF EXPERIENCE Why Your Family Should Be Part of the Team—Or at Least Fully On Board 120 Effective Communication 122 Expanding the New Venture's Human Resources: Beyond the Founding Team 124 Obtaining Excellent Employees: The Key Role of Social Networks 124	CHAPTER 7 Writing an Effective Business Plan: Crafting a Road Map to Success 163 Why Write a Business Plan? The Benefits of Clear-Cut Goals 165 Components of a Business Plan: Basic Requirements 167 The Executive Summary 168 Background, Product, and Purpose 170 Market Analysis 171 Development, Production, and Location 172 The Management Team 172 Financial Plans and Projections 173 Critical Risks: Describing What Might Go Wrong 174 Reaping the Rewards: Harvest and Exit 175 Scheduling and Milestones 175 Appendices 176 A Note on the Intangibles 176 DANGER! PITFALL AHEAD! The Seven Deadly Sins for New Venture Business Plans 177 Making an Effective Business Plan Presentation: The Ball Is Definitely in Your Court 178 Summary and Review of Key Points 181
Is Bigger Necessarily Better? Number of Employees as a Factor in New Venture Growth 125 Should New Ventures Hire Temporary or Permanent Employees? Commitment Versus Cost 126	PART 3 Launching the New Venture 185
CHAPTER 6 Financing New Ventures 133 Why Is It so Difficult to Raise Money? The Problems of Uncertainty and Information Asymmetry 135 Information Asymmetry Problems 135 Uncertainty Problems 137 Solutions to Venture Finance Problems 137 Amounts and Sources of Capital: How Much and What Type Do You Need? 140 Amount of Start-Up Capital 140 Estimating Financial Needs: Start-Up Costs, Proforma Financial Statements, Cash Flow Statements, and Breakeven Analysis 141 DANGER! PITFALL AHEAD! The Hazards of Raising Too Little Money 145	CHAPTER 8 The Legal Form of New Ventures—And the Legal Environment in Which They Operate 186 The Legal Forms New Ventures Can Take 187 Sole Proprietorship: One Company, One Owner 188 Partnerships: Different Forms, Different Benefits 189 Corporations: Limited Liability, But at a Cost 192 The S Corporation 193 The Limited Liability Company (LLC) 193 The Joint Venture 194 The Professional Corporation 194 The Legal Environment of New Ventures: Some Basics 195 New Ventures and the Law 195 DANGER! PITFALL AHEAD! What Can Happen When Entrepreneurs Are Ignorant of the Law 197 Business Contracts: Their Essential Components 197

Basic Elements of a Contract 197
Obligations Under Contracts 198
Franchising 199
Types of Franchising 200
The Benefits of Becoming a Franchisee 200
Drawbacks of Becoming a Franchisee 202
Legal Aspects of Franchising 204
The Future Shape of Franchising 205
Summary and Review of Key Points 207
CHAPTER 9 Market in a New Firm 213
Assessing the Market 215
Starting with a Real Need 215
Assessing Customer Preferences and the Market for New Products and Services 217
Conjoint Analysis: Determining Which Dimensions Are Most Important 220
Market Dynamics 222
, Knowing Your Market: The Importance of Market Size and Market Growth 222
Timing the Market: The S-Curve Story 222
Achieving Market Acceptance 224
Adoption Patterns: Understanding Which Customers Adopt
When 224 Moving from Early Adopters to the Early Majority 226
Focus: Choosing the Right Customers to Target First 227
Dominant Design: Product Convergence and Its Effect on New Ventures 227
Technical Standards: Getting Customers to Adopt Your Design as the Market Standard 228
DANGER! PITFALL AHEAD! Stymied by the Dominant Design: The Story of Electric Vehicles 229
The Marketing Process in a New Company 230
Personal Selling: The Central Component of Entrepreneurial Marketing 230
Pricing New Products: The Role of Cost Structure and Supply and Demand 231
Summary and Review of Key Points 233
CHAPTER 10 Strategy: Planning for Competitive Advantages 239
Competitive Advantage: An Essential Ingredient 241
Strategy: Protecting Profits from the Exploitation of
Opportunity 242
Secrecy: Keeping Others from Learning About or Understanding How to Exploit the Opportunity 243
DANGER! PITFALL AHEAD! Arrow's Paradox: The Problem of Disclosure 245
Establishing Barriers to Imitation 246
THE VOICE OF EXPERIENCE Establishing Competitive
Advantage: Recognize Your Strengths 248
Franchising or Licensing? The Choice of Organizational

Form

249

Minimizing the Cost of Exploiting the Opportunity 250
Accelerating the Pace to Market 251
Making Use of the Best Capabilities 251
Managing Information Problems in Orgànizing 252
Managing Information Asymmetry and Uncertainty in the
Pursuit of Opportunity 255
Growth from Small Scale 256
Forming Alliances and Partnerships with Established Firms 258
Legitimating the Opportunity and the New Venture 259
Summary and Review of Key Points 261

CHAPTER 11 Intellectual Property: Protecting Your Ideas 267

Capturing the Profits from New Products and Services 269
The Product Development Process 269
New Firm Advantages at Product Development 270
Ease of Imitating Entrepreneurs' Intellectual Property 272

PANGER! PITFALL AHEAD! Nondisclosure and Noncompete Agreements 274

Legal Forms of Intellectual Property Protection 275

Patents 275
Trade Secrets 277
Trademarks 279
Copyrights 280

Nonlegal Forms of Intellectual Property Protection 281

Learning Curves, Lead Time, and the First-Mover

Advantage 282

Complementary Assets 284

Summary and Review of Key Points 286

PART | 4

Running the Business: Building Lasting Success 291

CHAPTER 12 Essential Skills for Entrepreneurs:
Enhancing Social Competence, Creating Trust, Managing
Conflict, Exerting Influence, and Dealing with Stress 292
Getting Along Well with Others: Building Social Competence 294
The Nature of Social Skills 294
The Impact of Social Competence on Entrepreneurs 295
Working Effectively with Others: Building Trust and Managing
Conflict 297

THE VOICE OF EXPERIENCE Why People Skills Really Matter 298

Building Cooperation: The Key Role of Trust 298

Managing Conflict: Heading Off Trouble at the Pass 301

DANGER! PITFALL AHEAD! How to Create an Affective Conflict When There Is None 304

Tactics of Influence: Which Ones Are Most Common? 305

Influencing Others: From Persuasion to Vision 305

viii

Other Tactics of Influence: From Ingratiation to the Foot-inthe-Door 306

Managing Stress: How Entrepreneurs Can Survive to Enjoy the Fruits of Their Labor 308

Stress: Its Nature and Causes 308 The Adverse Effects of Stress 310

Personal Techniques for Managing Stress 311

Summary and Review of Key Points 313

CHAPTER 13 Building the New Venture's Human Resources: Recruiting, Motivating, and Retaining High-Performing Employees 319

Recruiting and Selecting High-Performing Employees 321

The Search for High-Performing Employees: Knowing What You Need and Where to Look 321

Selection: Techniques for Choosing the "Cream of the Crop" 322

Motivating Employees: Maximizing the Value of the New Venture's Human Resources 326

Reaching for the Moon—Or at Least, the Next Level Up: The Key Role of Goals—And Vision 326

Tying Rewards to Performance: The Role of Expectancies 328 Fairness: An Essential Ingredient in Motivation 330

DANGER! PITFALL AHEAD! Employee Theft: Evening the Score with an Unfair Employer 331

Designing Jobs to Make Them Motivating 332

Retaining High-Performing Employees 333

Reward Systems: Linking Pay and Performance 333

Building Employee Commitment 335

Overcoming the "Control Barrier": A Note on the Necessity of "Letting Go" 336

THE VOICE OF EXPERIENCE The Four Pillars of New Venture Success 337

Summary and Review of Key Points

PART

Harvesting the Rewards 347

CHAPTER 14 Exit Strategies for Entrepreneurs:

When—And How—To Harvest the Rewards

Exit Strategies: The Major Forms 350

Sale or Transfer to Insiders: Succession, Leveraged Buyouts,

and Employee Stock Ownership Plans 351

Sale to Outsiders: When Valuation Becomes Crucial 353

Determining the Value of a Business: A Little Art, a Little

Science 354

Taking a Company Public: The Lure of IPOs 357

Negotiation: The Universal Process

Negotiation: Its Basic Nature 359

THE VOICE OF EXPERIENCE The Multiple Benefits of an

Appropriate Exit Strategy 360

Tactics of Negotiation: Procedures for Reducing an

Opponent's Aspirations 360

DANGER! PITFALL AHEAD! The Costs of Negotiating to

Win: Watch Out for the "Ankle-Biters"! 364

Exit Strategies and the Life Span: Different Needs-And

Goals—At Different Times of Life 365

Summary and Review of Key Points 368

APPENDIX 1 Case Studies

APPENDIX 2 Video Case Library 397

GLOSSARY 415

NAME INDEX 421

SUBJECT INDEX 425