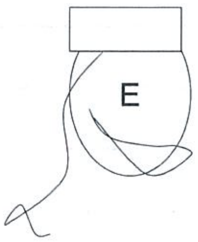
MOHAMAD ALI SEKAK

- Dip. Agric (College of Agric. Malaya, 1970); B. Ag Sc (University of Malaya, 1976); Ph D (University of London, 1983); MBA (UPM, 1995).
- Researcher: (MARDI, 1976 -1979); Sn Scientist: (PORIM, 1979 – 1989)
- G. Manager: (Eastern Plantation Agency, 1989 – 1992) & (UEM-PKPS Nursery & Landscape SB, 1992 – 1995
- Director: (Dydy Group of Companies, 1995 – 1999)
- Professor: (Universiti Industri Selangor, 2000 – kini)



"Would-be **entrepreneur** live in a sea of dreams. Their destinations are private islands-places to build, create, and transform their particular dreams into reality.

Being an entrepreneur entails envisioning your island, and even more important, it means getting in the boat and rowing to your island.

Some leave the shore and drift aimlessly in the shallow waters close to shore, while others paddle furiously and get nowhere, because they don't know how to paddle or steer. Worst of all are those remain on the shore of the mainland, afraid to get in the boat. Yet all those dreamers may one day be entrepreneurs if they can marshal the resources – external and internal – needed to transform their dreams into reality.

Everyone has dreams. We all dream while asleep, even if we don't remember dreaming. Entrepreneurs' dreams are different. Their dreams are not limited to dreams about fantasy islands or fast cars. Theirs are about business."

(Lloyd E. Shefsky, *Entrepreneurs Are Not Born* (New York: McGraw-Hill, Inc.,1994)

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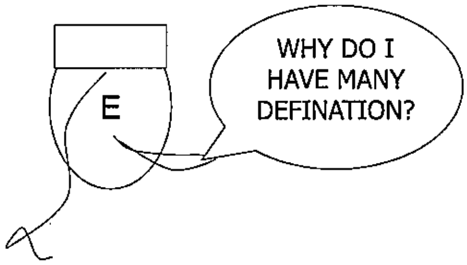
The Entrepreneur: Challenging the Unknown



THE STUDY OF ENTREPRENEURSHIP

RESEARCH FRAMEWORK:

1. Macro View
2. Micro View
3. Process Approaches
4. Multi-dimensional Approaches

Entrepreneurial School of Thought

1. MACRO VIEW

- Environmental School of Thought
- Financial/Capital School of Thought
- Displacement School of Thought

Environmental School of Thought

i. external factors that influence the potential development of entrepreneur's lifestyle
ii. focus is on institutions, values, and more.. Forming socio-political environmental framework.
iii. focus on social group i.e friends, family

The Financial/Capital School of Thought

i. views the entire entrepreneurial venture from financial management standpoint.
ii. focus is on the capital-seeking process, based on business-planning guides.

The Displacement School of Thought

i. " individuals will not pursue a venture unless they are prevented or displaced from doing other activities"
ii. Political displacement,
iii. Cultural displacement
iv. Economic displacement

Entrepreneurial School of Thought

2. MICRO VIEW

- Entrepreneurial Trait School of Thought (people view)
- Venture Opportunity School of Thought
- Strategic Formulation School of Thought

The Entrepreneurial Trait School of Thought

i. "Identifying traits common to successful entrepreneurs"
ii. " nuturing and support that exist within the home environment of an entrepreneurial family"
iii. Certain traits established and supported early in life will lead eventually to E's success.

The Venture Opportunity School of Thought

i. Focus is on the opportunity aspects of venture development
ii. "the search of idea sources, the development of concepts, and the implementation of venture opportunities"

The Strategic Formulation School of Thought

- "strategic planning is inextricably interwoven into the entire fabric of management" *(George Steiner, 1979)*
- *Unique markets*
- *Unique products*
- *Unique people*
- *Unique resources (land, labour, capital, raw materials +...)*

Entrepreneurial School of Thought

1. MACRO VIEW

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- Displacement School of Thought

2. MICRO VIEW

- Entrepreneurial Trait School of Thought (people view)
- Venture Opportunity School of Thought
- Strategic Formulation School of Thought

3. Process Approaches

1. Integrative Approach
2. Entrepreneurial Assessment Approach

3. Process Approach: Integrative Approach (Mooris et. al. 1994)

- Inputs to the "E" process; Outcomes from the "E" process

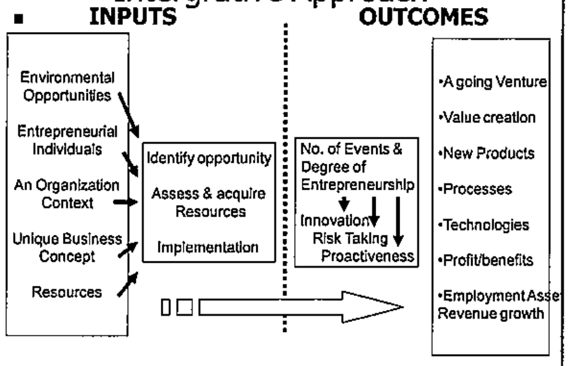
3. Integrative Approach

(Mooris et. al. 1994)

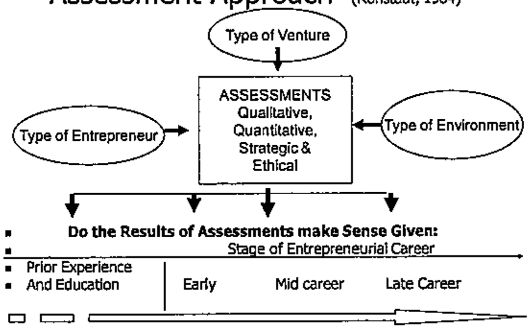
- INPUT
  1. Environmental opportunities
  2. Entrepreneurial Individuals
  3. An Organizational Context
  4. Unique business concept
  5. Resources

- OUTPUT
  - i. A going venture
  - ii. Value creation
  - iii. New products services
  - iv. Processes
  - v. Technologies
  - vi. Profits and /or personal benefits
  - vii. Employment, asset, and revenue growth

Intergrative Approach



3. Process Approach: Entrepreneurial Assessment Approach (Ronstadt, 1984)



3. Process Approaches

1. Integrative Approach
2. Entrepreneurial Assessment Approach

4. Multidimensional Approach
(Johnson, 1990)

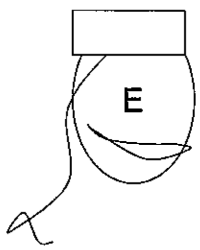
A Complex multidimensional framework the emphasize on:

1. Individual
2. The Environment
3. The Organization
4. The Process

Characteristics often attributed to Entrepreneurs

1. Confidence
2. Perseverance, determination
3. Energy, diligence
4. Resourcefulness
5. Calculated risks taker
6. Dynamism, leadership
7. Optimism
8. Need to achieve
9. Versatility
10. Creativity
11. Ability to influence others
12. Ability to get along with others
13. Initiative
14. Flexibility
15. Intelligence
16. Orientation to clear goal
17. Positive response to challenges
18. Independence
19. Responsive to suggestion & criticism
20. Time competence, efficiency
21. Quick decision making
22. Responsibility
23. Foresight
24. Accuracy, thoroughness
25. Cooperativeness
26. Profit orientation
27. Ability to learn from mistake
28. Sense of power
29. Pleasant personality
30. Egotism
31. Courage
32. Imaginative
33. Perceptiveness
34. Toleration to ambiguity
35. Aggressiveness
36. Capacity for enjoyment
37. Efficacy
38. commitment
39. Capacity to trust workers
40. Sensitivity to others
41. Honesty, integrity
42. Maturity, balance

The Entrepreneur: Challenging the Unknown



THE STUDY OF ENTREPRENEURSHIP

RESEARCH FRAMEWORK:

1. Macro View
2. Micro View
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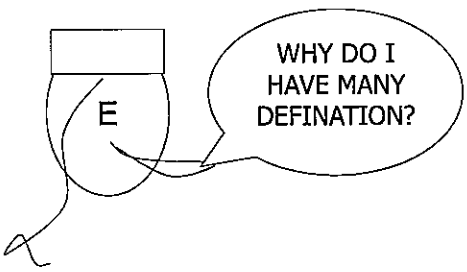
Entrepreneurship

Lecture 2

The Nature of Entrepreneurship

The Entrepreneur: Challenging the Unknown



Origin

In the 16th Century, people who organised and managed military and exploration expeditions in France were called 'entreprendre'. The word entrepreneur is derived from this French word meaning 'to undertake' (Richard Cantillon)

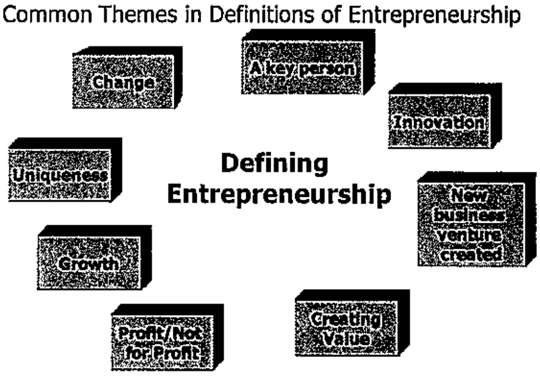
Definitions of Entrepreneurship

- "...is creating and building something of value from practically nothing..the process of creating and seizing an opportunity and pursuing it regardless of the resources controlled.."(*Timmons,1990*)
- "...the process of doing something new (creative) and something different (innovative) for the purpose of creating wealth for the individual and adding value to society" (*Kao,1995*)

Definitions of Entrepreneurship

- "...the creative application of change. The entrepreneur's objective cannot usually be achieved with the resources currently controlled by him or her; sometimes the resources don't exist at all and must be created as part of the process of creating a new enterprise. The act of entrepreneurship leads to an innovation, a new product, process of organization that changes the balances of market or social forces" (*Legge and Hindle,1990*)

Common Themes in Definitions of Entrepreneurship



What do these definitions imply ?

1. Entrepreneurship doesn't just happen. It is a process that requires management & organisation.
2. Resources need to be committed and controlled, but need not necessarily be already owned.
3. Risks will be involved. The entrepreneur is not a speculator, but a calculated risk taker.
4. Creativity and innovative action (not just thinking) is required.
5. Satisfaction, wealth & other rewards may result for both entrepreneur, other parties and society.

What Is An Entrepreneur ?

- Innovator who seizes new opportunities
- Convert opportunities into workable and marketable ideas
- Adds value through effort, money or skills
- Assumes risks; realizes satisfaction as rewards
- Agent of change & growth
- Personal achievement & goal achievement is very important
- Create/grow business

Common **Myths** About Entrepreneurs

1. Doers, not thinkers
2. Born, not made
3. Are only inventors
4. Academics and social misfits
5. Fit a typical trait profile
6. Only need $ to succeed
7. Are just lucky
8. Don't plan ("flying blind")
9. Often fail
10. Extreme risk takers (gamblers)

Can You Recognize These Entrepreneurs?

- Syed Mokhtar Bokhari
- Lim Goh Tong
- Boon Siew
- Azman Hashim
- Tony Farnandez
- Ananda Khrisnan
- Mustafa Kamal

- ▶ Bill Gate (US)
- ▶ Thaksinsinawat (Thailand)
- ▶ Wong Ngit Liong (S'pore)
- ▶ Tata (India)

Mega-entrepreneurs who started in their 20s

- Microsoft -Bill Gates & Paul Allen
- Netscape -Marc Anderssen
- Dell Computers -Michael Dell
- Gateway 2000 - Ted Waitt
- Apple Computers – Steve Jobs & Steve Wozniak
- Federal Express - Fred Smith
- Polaroid - Edwin Land
- Nike - Phil Knight

Source:Timmons (2002)

International Entrepreneurs

- Richard Branson
- Anita Roddick
- Warren Buffet
- Richard Pratt
- Li Ka Shing
- Ted Turner
- Debbi Fields

Local Entrepreneurs?

IT
Service
Manufacturing
Finance
E-commerce
Education
Transport
?
?

CHARACTERISTICS of an Entrepreneur

- Extremes of competitiveness
- Striving for achievement
- Aggressiveness
- Haste
- Impatience
- Restlessness
- Hyper-alertness
- Explosiveness of speech
- Feeling of being under pressure of time

People having this behavioral pattern so deeply and closely involved with their work that other aspects of their lives were relatively neglected.

Conditions Fostering Entrepreneurship?

- High levels of education
- Wealthy community
- Access to $ (personal, institutional)
- Stable political & regulatory environment
- Business support ser
- Cultural diff
- Local his

Do M'sia provide ALL these?
DISCUSS

Assingment (submit before next lecture)

Write a brief profile (1,500 words) of an entrepreneur of your choice by focusing on the following issues:

i. How he/she started the business?
ii. What factors that lead to creation of the business?
iii. What types of business/sector and who is the target group?
iv. What are the challenges faced and how they overcome it?
v. What are the key success factors in their respective business?
vi. What is the entrepreneur's philosophy in business?

Entrepreneurship

Lecture 3:
Understanding The Entrepreneurial Individual

Theories of Entrepreneurial Behaviour

Used to explain/predict entrepreneurial activity.

Schools-of-Thought Approach

- Macro:
  - Environmental
  - Financial/Capital
  - Displacement
- Micro:
  - Trait
  - Venture Opportunity
  - Strategic Formulation
- Process:
  - Entrepreneurial events
  - Entrepreneurial assesment
  - Multidimensional

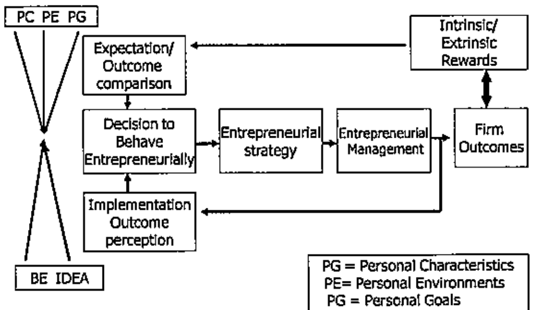
Enterprising Attributes

- Self-initiative, hard working
- Strong persuasive powers
- Moderate (not high) risk taking
- Flexibility
- Creativity, imagination
- Independence/autonomy
- Problem-solving ability
- Need for achievement
- High internal locus of control
- Leadership

The Dark Side of Entrepreneurship

- Confrontation with risk
  - Financial, career, family, social & psychic risk
- Dealing with stress
  - Isolation, business pressures, people problems & achievement
- Entrepreneurial Ego
  - Need for control, distrust of others, desire to succeed & unrealistic optimism
- Entrepreneurial motivation
  - Barriers & Triggers to new venture formation

A Model of Entrepreneurial Motivation



Naftizer, Hornsby and Kurato, (1990)

A model of enterprise formation: a WA study

- Methodology
- 93 nascent entrepreneurs:
  49 'starters' and 45 'non starters'
- Sample drawn from a variety of small business incubators and agencies in Western Australia
- Data collected through semi-structured interviews adopted from the literature
- To study the commonalities, trigger & barrier points amongst nascent entrepreneurs

Findings

Common activities of both starters & non starters were :

- Gathered some information on business start-up from various orgs (eg.SBDC or BEC), their family,or their friends.
- Prepare a business plan
- Looked for facilities or equipment
- Use saving money to set up their business

Findings:Triggers to start up (factor analysis)

- Invest (need a job; way to personal savings, super redundancy; earn a better salary)
- Creativity (take advantage of own talents; have an interesting job; create something new; realize a dream)
- Autonomy (work own hours,own location; be one's own boss)
- Status (follow example of a person I admire; increase status/prestige; maintain family tradition)
- Market Opportunity (saw one)
- Money (make more, keep more $)

Findings:Barriers to start up

- Lack of resources – lack of marketing skills, lack of management/financial expertise,lack of information, difficulty in obtaining finance
- Compliance costs – high taxes and fees, compliance with government regulation, problems finding suitable labour
- Hard reality – assessment that risks are greater than expected, uncertainty and fear of failure

Relative importance of the factors

Factor	Mean	Std Dev	t-value
Creativity (trigger)	4.17	0.78	
Autonomy (trigger)	3.89	0.85	2.98
Money (trigger)	3.77	0.90	
Hard reality (barrier)	3.18	0.97	4.25
Market opport (trigger)	3.16	1.06	
Invest (trigger)	2.75	0.83	3.40
Lack of res. (barrier)	2.63	1.22	
Status (trigger)	2.03	0.88	3.76

Significant at the 5% level between the mean scores above and below broken line

The E-Myth by Michael Gerber, 1995

1. E-myth:Most businesses owners are not true entrepreneurs who create businesses but merely technicians who created a job for themselves.
2. Thus most businesses fail because the owner is more of a technician rather than an entrepreneur.
3. Technician works very hard but realizes too little reward. Growth is thus severely restricted.
4. The problem lies in that there is a three-way battle between The Entrepreneur, The Manager and The Technician.
5. The solution is to think and act more like an ENTREPRENEUR

The E-Myth by Michael Gerber

- The Entrepreneur

1. Visionary & dreamer in us
2. Sees opportunity in events
3. Lives in the future
4. The innovator & the grand strategist
5. Thrives on change
6. Extraordinary need for control

(Gerber,1995)

(Cont) The E-Myth by Michael Gerber

- The Manager

- The pragmatic personality, who plans and puts order and predictability in the business
- See problems in events
- Live in the past
- Extraordinary need for order
- Thrives on status quo

(Gerber,1995)

(cont) The E-Myth by Michael Gerber

- The Technician

- The doer – "if you want it done right, do it yourself"
- Lives in the present as work needs to be done NOW!
- Believes thinking is unproductive unless it can be done.

(Gerber,1995)

Summary: The E-Myth by Michael Gerber

- The Entrepreneur

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(Gerber,1995)

Who are Entrepreneurs ?

Although entrepreneurs may have different personalities, they are driven by the same motivators:

1. Necessity, the need to earn a living (Anita Roddick)
2. A burning idea (Howard Schultz)
3. The desire to establish a business (Fred De Luca)
4. The desire to create something (Thomas Edison)
5. A deep sense of frustration about a product or service (Henry Ford)
6. A desire to bring about a change (Steve Job)

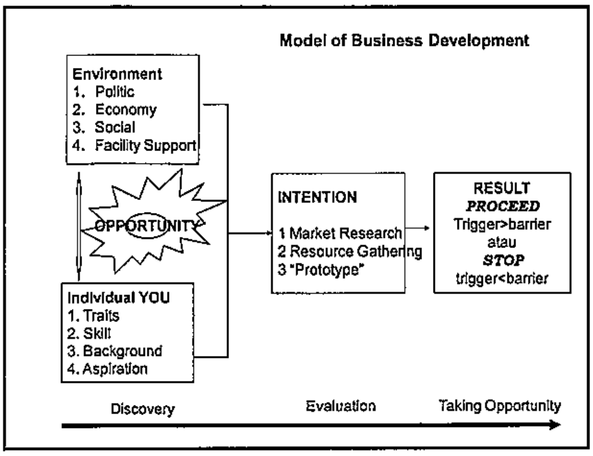
Source: https//olt.qut.edu.au.udf.ATN-leap

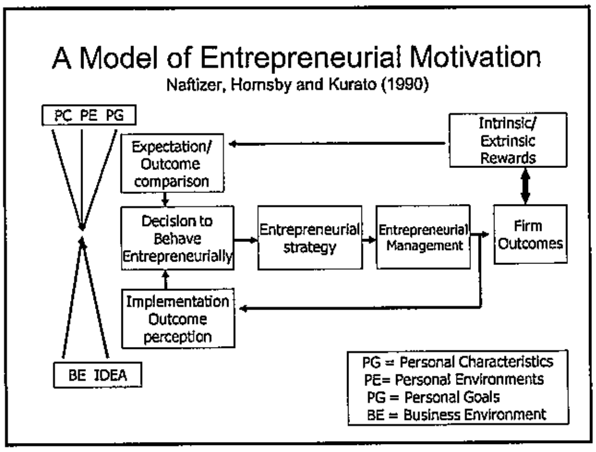
Common characteristics associated with entrepreneurs???

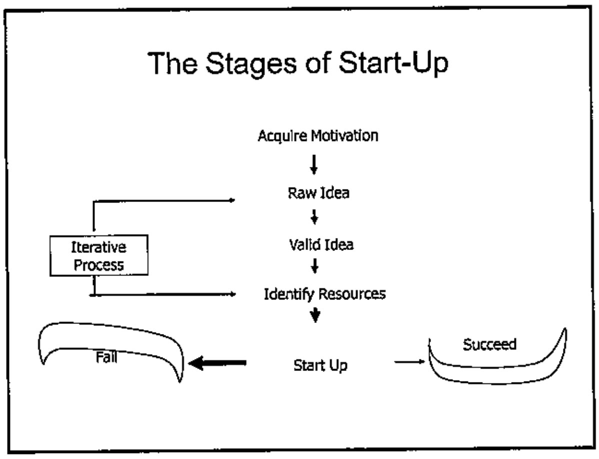
1. Total commitment, determination and perseverance
2. Drive to achieve & grow
3. Taking initiative & personal responsibility
4. Persistent problem solving
5. Seeking & using feedback
6. Internal locus of control
7. Calculated risk taking & risk seeking
8. Low need for status and power
9. Integrity & reliability

Source : Kao (1991)

Business development


Model of Business Development
Environment
1. Politic
2. Economy
3. Social
4. Facility Support
OPPORTUNITY
Individual YOU
1. Traits
2. Skill
3. Background
4. Aspiration
INTENTION
1 Market Research
2 Resource Gathering
3 "Prototype"
RESULT
PROCEED
Trigger>barrier
atau
STOP
trigger<barrier
Discovery
Evaluation
Taking Opportunity


A Model of Entrepreneurial Motivation
Naftizer, Hornsby and Kurato (1990)
PC PE PG
Expectation/ Outcome comparison
Intrinsic/ Extrinsic Rewards
Decision to Behave Entrepreneurially
Entrepreneurial strategy
Entrepreneurial Management
Firm Outcomes
Implementation Outcome perception
BE IDEA
PG = Personal Characteristics
PE= Personal Environments
PG = Personal Goals
BE = Business Environment


The Stages of Start-Up
Acquire Motivation
Raw Idea
Valid Idea
Identify Resources
Start Up
Iterative Process
Fail
Succeed

- You are out of job.
- You have more than RM100,000 to start a business.
- You are sufficiently motivated.
- How are you going to start a business?
- You can just plunge into a business or spend some time to plan your business. The choice is YOURS!!

Let start planning a business

- What Business Plan?

7-7

Why do business plans fail?

Why do business plans fail?

a. Capital Factor:

- Under-capitalized Lack of working capital (capital inadequacy)
- Confusion of cash flow over profit
- Failure to retain profits to fund growth
- Failure of capital management
- No USP (Unspecific Problem)

Why do business fail?

b. Business/ Management Factors:

- Goals are unreasonable and/or immeasurable.
- Total commitment to the business was never made.
- Entrepreneur has no sense of potential threats or weaknesses to business.
- Underestimate start up time
- Wrong business location
- Overestimating market size
- Customer's need was never established.
- Lack of management expertise
- Failure to monitor business performance
- Recruitment of wrong staff

Introduction to Entrepreneurship, 8e
Donald F. Kuratko

Chapter 4
The Social and Ethical
Perspectives of Entrepreneurship

Chapter Objectives

1. To examine the concept of "social entrepreneurship"
2. To introduce the challenges of social enterprise
3. To discuss the importance of ethics for entrepreneurs
4. To define the term "ethics"
5. To study ethics in a conceptual framework for a dynamic environment
6. To review the constant dilemma of law versus ethics
7. To present strategies for establishing ethical responsibility
8. To emphasize the importance of entrepreneurial ethical leadership

 4-2

The Social Entrepreneurship Movement

- Social Entrepreneurship
  - A new form of entrepreneurship applys to social problem solving traditional, private-sector entrepreneurship's focus on innovation, risk-taking, and large scale transformation.
- Social Entrepreneurship Process
  - Recognition of a perceived social opportunity
  - Translation of the social opportunity into an enterprise concept
  - Identification and acquisition of resources required to execute the enterprise's goals.

 4-3

Social Entrepreneurs

- Social Entrepreneur
  - A person or small group of individuals who founds and/or leads an organization or initiative engaged in social entrepreneurship.
  - Also referred to as "public entrepreneurs," "civic entrepreneurs," or "social innovators.

4-4

Social Entrepreneurs (cont'd)

- Characteristics of Social Entrepreneurs as Change Agents
  - Adoption of a mission to create and sustain social value (beyond personal value)
  - Recognition and relentless pursuit of opportunities for social value
  - Engagement in continuous innovation and learning
  - Action beyond the limited resources at hand
  - Heightened sense of accountability

4-5

The Social Enterprise Challenge

- Social Obligation
  - Firms that simply react to social issues through obedience to the laws.
- Social Responsibility
  - Firm that respond more actively to social issues; accepting responsibility for various programs.
- Social Responsiveness
  - Firms that are highly proactive and are even willing to be evaluated by the public for various activities.

4-6

Table 4.1 What Is the Nature of Social Enterprise?

Environment	Pollution control Restoration or protection of environment Conservation of natural resources Recycling efforts
Energy	Conservation of energy in production and marketing operations Efforts to increase the energy efficiency of products Other energy-saving programs (for example, company-sponsored car pools)
Fair Business Practices	Employment and advancement of women and minorities Employment and advancement of disadvantaged individuals (disabled, Vietnam veterans, ex-offenders, former drug addicts, mentally retarded, and hardcore unemployed) Support for minority-owned businesses
Human Resources	Promotion of employee health and safety Employee training and development Remedial education programs for disadvantaged employees Alcohol and drug counseling programs Career counseling Child day-care facilities for working parents Employee physical fitness and stress management programs
Community Involvement	Donations of cash, products, services, or employee time Sponsorship of public health projects Support of education and the arts Support of community recreation programs Cooperation in community projects (recycling centers, disaster assistance, and urban renewal)
Products	Enhancement of product safety Sponsorship of product safety education programs Reduction of polluting potential of products Improvement in nutritional value of products Improvement in packaging and labeling

Source: Richard M. Hodgetts and Donald F. Kuratko, *Management*, 3rd ed. (San Diego, CA: Harcourt Brace Jovanovich, 1991), 670

4–7

Table 4.2 Classifying Social Enterprise Behavior

DIMENSION OF BEHAVIOR	STAGE ONE: SOCIAL OBLIGATION	STAGE TWO: SOCIAL RESPONSIBILITY	STAGE THREE: SOCIAL RESPONSIVENESS
Response to social pressures	Maintains low public profile, but if attacked, uses PR methods to upgrade its public image; denies any deficiencies; blames public dissatisfaction on ignorance or failure to understand corporate functions; discloses information only where legally required	Accepts responsibility for solving current problems; will admit deficiencies in former practices and attempt to persuade public that its current practices meet social norms; attitude toward critics conciliatory; freer information disclosures than stage one	Willingly discusses activities with outside groups; makes information freely available to the public; accepts formal and informal inputs from outside groups in decision making; is willing to be publicly evaluated for its various activities
Philanthropy	Contributes only when direct benefit to it clearly shown; otherwise, views contributions as responsibility of individual employees	Contributes to noncontroversial and established causes; matches employee contributions	Activities of stage two, *plus* support and contributions to new, controversial groups whose needs it sees as unfulfilled and increasingly important

Source: Excerpted from S. Prakash Sethi, "A Conceptual Framework for Environmental Analysis of Social Issues and Evaluation of Business Patterns," *Academy of Management Journal* (January 1979): 68. Copyright 1979 by the Academy of Management. Reproduced with permission of the Academy of Management.

4–8

Environmental Awareness

- Ecovision
  - A leadership style that encourages open and flexible structures that encompass the employees, the organization, and the environment, with attention to evolving social demands.

4–9

Environmental Awareness

- Key Steps in an Environmental Strategy
  1. Eliminate the concept of waste.
  2. Restore accountability.
  3. Make prices reflect costs.
  4. Promote diversity.
  5. Make conservation profitable.
  6. Insist on accountability of nations.

 4-10

The Ethical Side of Entrepreneurship

- Why are ethics important?
- What exactly represents right or wrong conduct?
- How do we develop our own codes of conduct?
- What impact does integrity and ethical conduct have on creating a successful venture?

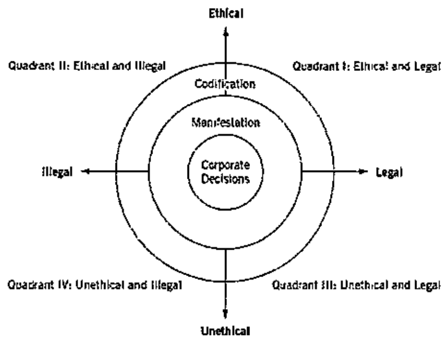
 4-11

Defining Ethics

- Ethics
  - A set of principles prescribing a behavioral code that explains what is good and right or bad and wrong; ethics may outline moral duty and obligations.
  - Provide the basic rules or parameters for conducting any activity in an "acceptable" manner.
- Reasons for Ethical Conflicts
  - The many interests that confront business enterprises both inside and outside the organization
  - Changes in values, mores, and societal norms
  - Reliance on fixed ethical principles rather than an ethical process

 4-12

Figure 4.1 Classifying Decisions Using a Conceptual Framework



Source: Verne E. Henderson, "The Ethical Side of Enterprise," *Sloan Management Review* (spring 1982): 42

4–13

Ethics and Laws

- Managerial Rationalizations
  - Justifications in defense of unethical acts are believing that an activity:
    1. Is not "really" illegal or immoral.
    2. Is in the individual's or the corporation's best interest.
    3. Will never be found out.
    4. That helps the company will be condoned by the company.

4–14

Table 4.3 Types of Morally Questionable Acts

Type	Direct Effect	Examples
Nonrole	Against the firm	Expense account cheating Embezzlement Stealing supplies
Role failure	Against the firm	Superficial performance appraisal Not confronting expense account cheating Palming off a poor performer with inflated praise
Role distortion	For the firm	Bribery Price fixing Manipulating suppliers
Role assertion	For the firm	Investing in South Africa Using nuclear technology for energy generation Not withdrawing product line in face of initial allegations of inadequate safety

Source: James A. Waters and Frederick Bird, "Attending to Ethics in Management," *Journal of Business Ethics* 5 (1989): 494

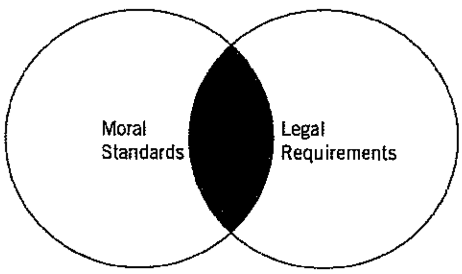
4–15

The Matter of Morality

- Ethical conduct may reach beyond the limits of the law.
  - The requirements of law may overlap at times but do not duplicate the moral standards of society.
  - Legal requirements tend to be negative (forbidding acts), whereas morality tends to be positive (encouraging acts).
  - Legal requirements usually lag behind the acceptable moral standards of society.
  - Inherent problems arise when people believe laws represent morality.

 4-16

Figure 4.2 Overlap between Moral Standards and Legal Requirements



 4-17

Economic Trade-Offs

- Innovation, risk taking, and venture creation are the backbone of the free enterprise system which fosters individualism and competition.
  - We cannot blame single individuals for the ethical problems of free enterprise.
  - Rather, we must understand the total, systematic impact that free enterprise has on the common good.

 4-18

Reasons for Unethical Behavior

- Greed
- Distinctions between activities at work and activities at home
- A lack of a foundation in ethics
- Survival (bottom-line thinking)
- Reliance on other social institutions to convey and reinforce ethics.

 4-19

Avoiding Another Enron Disaster

1. Bring hidden liabilities back onto the balance sheet.
2. Highlight the things that matter.
3. List the risks and assumptions built into the numbers.
4. Standardize operating income
5. Provide aid in figuring free-cash flow

 4-20

Establishing a Strategy for Ethical Enterprise

- Ethical Practices and Codes of Conduct
  - A code of conduct is a statement of ethical practices or guidelines to which an enterprise adheres.
  - Codes of conduct are becoming more prevalent in industry.
  - Recent codes are proving to be:
    - More meaningful in terms of external legal and social development
    - More comprehensive in terms of their coverage, and easier to implement in terms of the administrative procedures used to enforce them.

 4-21

Table 4.4 Approaches to Managerial Ethics

Organizational Characteristics	Immoral Management	Amoral Management	Moral Management
Ethical norms	Managerial decisions, actions, and behavior imply a positive and active opposition to what is moral (ethical). Decisions are discordant with accepted ethical principles. An active negation of what is moral is implied	Management is neither moral nor immoral, but decisions lie outside the sphere to which moral judgments apply. Managerial activity is outside or beyond the moral order of a particular code. A lack of ethical perception and moral awareness may be implied.	Managerial activity conforms to a standard of ethical, or right, behavior. Managers conform to accepted professional standards of conduct. Ethical leadership is commonplace on the part of management.
Motives	Selfish: Management cares only about its or the company's gains	Well-intentioned but selfish: The impact on others is not considered.	Good: Management wants to succeed but only within the confines of sound ethical precepts (fairness, justice, due process).
Goals	Profitability and organizational success at any price	Profitability; other goals not considered.	Profitability within the confines of legal obedience and ethical standards.
Orientation toward law	Legal standards are barriers management must overcome to accomplish what it wants.	Law is the ethical guide, preferably the letter of the law. The central question is what managers can do legally	Obedience is toward the letter and spirit of the law. Law is a minimal ethical behavior. Managers prefer to operate well above what the law mandates.
Strategy	Exploit opportunities for corporate gain. Cut corners when it appears useful.	Give managers free rein. Personal ethics may apply but only if managers choose. Respond to legal mandates if caught and required to do so.	Live by sound ethical standards. Assume leadership position when ethical dilemmas arise. Enlightened self-interest prevails

Source: Archie B. Carroll, "In Search of the Moral Manager," *Business Horizons* (March/April 1987), 12. Copyright © 1987 by the Foundation for the School of Business at Indiana University. Reprinted by permission.

4–22

A Holistic Approach

- Principle 1: Hire the right people
- Principle 2: Set standards more than rules
- Principle 3: Don't let yourself get isolated
- Principle 4: The most important principle is to let your ethical example at all times be absolutely impeccable

4–23

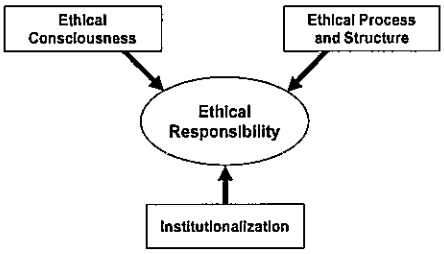
Shaping an Ethical Strategy

- The entrepreneur's guiding values and commitments must make sense and be clearly communicated.
- Entrepreneurs must be personally committed, credible, and willing to take action on the values they espouse.
- The espoused values must be integrated into the normal channels of the organization's critical activities.
- The venture's systems and structures must support and reinforce its values.
- Employees throughout the company must have the decision-making skills, knowledge, and competencies needed to make ethically sound decisions every day.

Source: Adapted from Lynn Sharp Paine, "Managing for Organizational Integrity," *Harvard Business Review* (March/April 1994): 106–117.

4–24

Ethical Responsibility



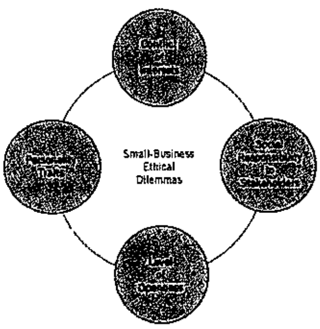
 4-25

Ethics and Business Decisions

- Complexity of Ethical Decisions:
  1. Ethical decisions have extended consequences
  2. Business decisions involving ethical questions have multiple alternatives.
  3. Ethical business often have mixed outcomes.
  4. Most business decisions have uncertain ethical consequences.
  5. Most ethical business decisions have personal implications.

 4-26

Figure 4.3 Four Main Themes of Ethical Dilemmas for Entrepreneurs



 4-27

Questioning the Ethics of Business Decisions

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what is your loyalty as a person and as a corporation member?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before making your decision?
9. Are you confident your position will be as valid over the long-term as it seems now?
10. Could you disclose without qualms your decision or action to your boss, your CEO, the board of directors, your family, and society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

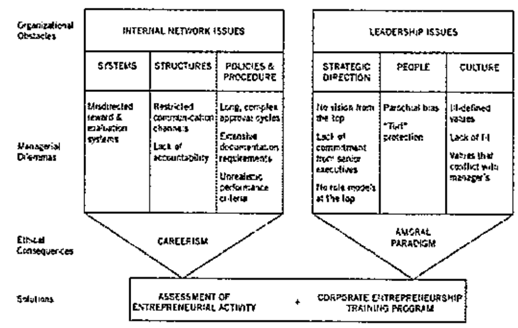
 4–28

Ethical Considerations in Corporate Entrepreneurship

- Corporate Entrepreneurs
  - Are managers or employees who do not follow the status quo of their co-workers.
  - Are depicted as visionaries who dream of taking the company in new directions.
  - Often walk a fine line between clever resourcefulness and outright rule breaking.

 4–29

Figure 4.4 Ethical Considerations in Corporate Entrepreneurship



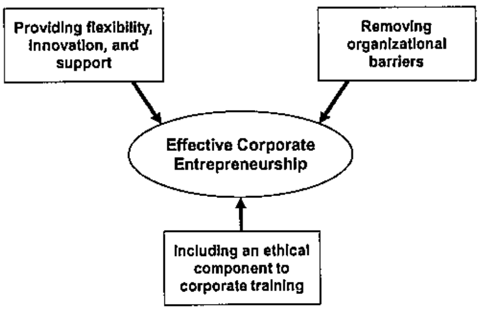
Source: Donald F. Kuratko and Michael G. Goldsby, "Corporate Entrepreneurs or Rogue Middle Managers? A Framework for Ethical Corporate Entrepreneurship," *Journal of Business Ethics* 55 (2004): 18.
 4–30

Effective Corporate Entrepreneurship

- Corporate Entrepreneurship requires:
  - Establishing the needed flexibility, innovation, and support of employee initiative and risk taking.
  - Removing the barriers that the entrepreneurial middle manager may face to more closely align personal and organizational initiatives and reduce the need to behave unethically.
  - Including an ethical component to corporate training that will provide guidelines for instituting compliance and values components into state-of-the-art corporate entrepreneurship programs.

4-31

Effective Corporate Entrepreneurship



4-32

Ethical Leadership by Entrepreneurs

- The Opportunity for Ethical Leadership by Entrepreneurs
  - An owner has the unique opportunity to display honesty, integrity, and ethics in all key decisions.
  - The owner's actions serve as a model for other employees to follow.
  - An owner's value system is a critical component of the ethical considerations that surround a business decision

4-33

Table 4.5 Issues Viewed by Entrepreneur/Owners

Demands Strong Ethical Stance	Greater Tolerance Regarding Ethical Position
Faulty investment advice	Padded expense account
Favoritism in promotion	Tax evasion
Acquiescing in dangerous design flaw	Collusion in bidding
Misleading financial reporting	Insider trading
Misleading advertising	Discrimination against women
Defending healthfulness of cigarette smoking	Copying computer software

Source: Justin G. Longenecker, Joseph A. McKinney, and Carlos W. Moore, "Ethics in Small Business," *Journal of Small Business Management* (January 1989): 30

 4–34

The Ethics of Caring

- Caring
  - A feminine alternative to the more traditional and masculine ethics that are based on rules and regulations.
- Following laws may not lead to building as strong of relationships as one could.
- Entrepreneurs must realize that their personal integrity and ethical example will be the key to their employees' ethical performance.

 4–35

Key Terms and Concepts

- amoral management
- code of conduct
- ecovision
- environmental awareness
- ethics
- immoral management
- moral management
- nonrole
- rationalizations
- role assertion
- role distortion
- role failure
- social entrepreneurship
- social obligation
- social responsibility
- social responsiveness

 4–36

Business Plan

- **Different Plans for different uses, therefore different emphasis in preparation.**
- 1. *For internal use* —
- *2. For long term use*
- *3. For investor*

Business Plan

- **Different Plans**
  1. ***For internal use*** —This is a business plan that will be distributed to management and employees, and is around 10 pages long. Included within is a company structure, a calendar detailing planned activities and a six-month budget.
- Because your plan is what drives the business, you should educate your employees about it. There are, of course, certain aspects of the plan that should be reserved for those who hold managerial positions, while subordinate employees should be provided with information about what kind of company they work for, and what it is meant to do. This direction and leadership will go a long way in guiding your company.

Business Plan

- **Different Plans**
  2. *For long-term growth* —This may involve highly technical or mechanical operations. A long-term plan should detail extensively the company's operations structure. The 10- to 30-page document should lead with an executive summary and end with 3 to 5 years' worth of pro forma financials.

Business Plan

- **Different Plans**
  3. *For investors* —When a potential investor takes interest in your company, the focus of the business plan should shift to your company's management structure. "The central theme in the preparation of a business plan for investors is to have a very detailed picture of the management structure of the organization now and in the future," Hoback says. You should include in the plan a non-inflated financial statement, "which details for the investors a clear picture of an exit strategy for return on their investment," he adds.

Business Plan

1. Executive Summary .... (05 marks)
2. Introduction/background .... (05 marks)
3. Analysis of competitors .... (10 marks)
4. Marketing Plan .... (15 marks)
5. Operation/Production Plan ....(15 marks)
6. Administrative Plan .... (15 marks)
7. Financial Plan .... (15 marks)
8. Risk factors .... (05 marks)
9. Milestone .... (05 marks)
10. Others (formating, appendixes, ... (10 marks) presentation etc...)

BP: Marketing Plan

1. Introduction/background
2. Analysis of competitors
3. Strategic approach based on 4Ps
   1. Price
   2. Positioning
   3. Product
   4. Promotion
4. Human resources requirement
5. Budget
6. Risk factors

Production Plan

- Introduction
- Production flow chart
- Layout plan
- Production requirement: fix and variable inputs
- Human resources
- Budget
- Risk factors & mitigation

Organizational Plan

1. Introduction
2. Organizational chart
3. Description of team players
4. Office requirements
5. Support staff
6. Budget
7. Risk factors & mitigation

Financial Plan

- Introduction
- Personnel requirement
- Financial statements:
  - Balance sheet
  - Income statement
  - Cash flow analysis
- Break-even analysis
- Risk factors

Entrepreneurial Mindset

QUALITIES of an entrepreneurs

1. Total commitment, determination & perseverance
2. Drive to achieve & grow
3. Taking initiative & personal responsibility
4. Persistent problem solving
5. Seeking & using feedback
6. Internal locus of control
7. Calculated risk taking & risk seeking
8. Low need for status and power
9. Integrity & reliability

Source : Kao (1991)

Entrepreneurial Mind-set

Involves the ability to rapidly sense, act, and mobilize, even under uncertain environments when stake is high, time pressures are immense, and involves emotional investment

- How entrepreneurs think
- Entrepreneurial Decision Making
- Learning from mistake/failure

Entrepreneurial Mind-Set

How Entrepreneurs Think?

1. Effectuation vs Causal Process

   Business leaders is trained to think rationally, & able to see alternative ways of doing things (causal process). It involves segmentation, targeting and positioning (STP)

   Entrepreneur: Takes what they have and select among possible outcomes (effectuation process).

Effectuation process

the 5 principles

- Patchwork quilt principle
- Affordable loss principle
- Bird-in-hand principle
- Lemonade principle
- Pilot-in-the plane principle

Cognitive Adaptability

- The extent of **dynamism, flexibility, self regulating, and engaged** in the process of **generating multiple decision frameworks** focus on sensing and process changes in the environments & acting on them.
- Ability to reflect upon, understand & control
- Achieve through:
  - i. comprehending questions,
  - ii. connection tasks,
  - iii. strategic tasks,
  - iv. reflection tasks

Learning from Business Failure

- Failure due to inexperience
- Introduction of errors
- Failure generate grief (feels from the loss of something important)
- Grief recovery process:
- 1. Loss-orientation
- 2. Restoration-orientation

Entr. Decision Making Process

- Driven by perception of opportunity
- Revolutionary with short duration
- Many stages with minimal exposure
- Episodic use or rent of required resources
- Flat with multiple informal network
- Based on creation
- Rapid growth is top priority
- Promoting broad search for opportunities

Why do business plans fail?

1. Goals are unreasonable and/or immeasurable.
2. Total commitment to the business was never made.
3. Entrepreneur has no sense of potential threats or weaknesses to business.
4. Underestimate start up time
5. Wrong business location
6. Overestimating market size
7. Customer's need was never established.

Why do business plans fail?

8. Lack of management expertise
9. Failure to monitor business performance
10. Recruitment of wrong staff
11. Under-capitalized Lack of working capital (capital inadequacy)
12. Confusion of cash flow over profit
13. Failure to retain profits to fund growth
14. Failure of capital management
15. No USP

Why do business plans fail?

11. Under-capitalized Lack of working capital (capital inadequacy)
12. Confusion of cash flow over profit
13. Failure to retain profits to fund growth
14. Failure of capital management
15. USP

Entrepreneurship

Lecture 6 :
Intrapreneurship
Developing Entrepreneurship
Within A Corporation

Why Intrapreneurship ?

- Increased competition
- Find new ways of corporate management
- Managers turned entrepreneurs
- International competition
- Downsizing
- Improve efficiency and productivity
- Keep best & brightest, innovative staff

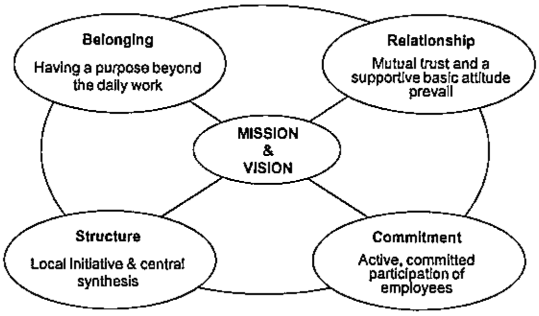
Intrapreneurship in Practice

- Climate of management practice must be right
  - Foster creativity and innovation, tolerate failure and encourage enterprising behaviour
- Develop individual 'enterprising' skills/abilities.
  - Provide avenue for staff with enterprising tendencies
- Provide opportunities for new products/ideas
- Spinning off and out new ventures
  - With financial & marketing support from parent firm.
- Stimulating innovation in process
  - Rigid bureaucracy & poor communication will stifle it

Elements of a Corporate Intrapreneurial Strategy

1. Develop the vision
2. Encourage innovation
3. Structure and intrapreneurial climate
4. Develop venture team

1. Developing Shared Vision



2. Encourage Innovation

- Radical Innovation
  - new, original ideas or products
  - 'post-it' notes, Macintosh computers
- Incremental Innovation
  - systematic evolution of products or services
  - microwaves popcorn, frozen yogurt
- Need Encouraging
  - Top management support
  - Project champions

3. Structure & Intrapreneurial Climate

- Develop Rewards System for Staff
  (Managers must provide goal setting, feedback, individual responsibility & reward effort)
- Provide Management Support
  (Managers must be willing to risky ventures; create systems for new idea adoption; provide finance)
- Intrapreneurial Structure
  (Should be flat with limited bureaucracy, multidisciplinary thought & action; avoid standard operations; flexible in job task/variety)
- Encourage Risk Tasking
  (Balance controlled risk taking for harmful risk taking; create a firm culture tolerant of risk taking; offer managers' prescribed limits')

4. Developing Venture Teams

- Composed of 2 or more people who formally create and share the ownership of a new org.
- It is semi-automous.
- The leader may be caller product champion.
- Separated from other parts of the firm.
- Small business within a large firm.

Nine Steps to Successful Intrapreneurship

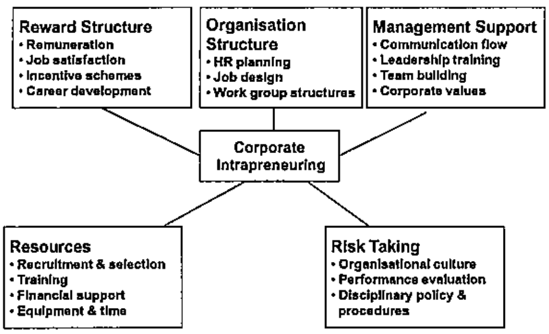
(Pryor and Shays 1983)

1. Obtain commitment from top management.
2. Establish the specific parameters for the program, such that the goals, compensation and action plans are acceptable to the company.
3. Find the latent intrapreneurs in the company and encourage them to step forward.
4. Develop the skills among managers needed to recognise, manage & nurture intrapreneurs.
5. Select a team of intrapreneurs.
6. Help intrapreneurs by providing training and resources they need to bring their projects to market.
7. Allow intrapreneurs to experiment, fail, recover.
8. Steer the intrapreneur away from internal and technical problems to focus on the customer.
9. Establish support mechanisms to encourage long-team intrapreneurial activity through the company.

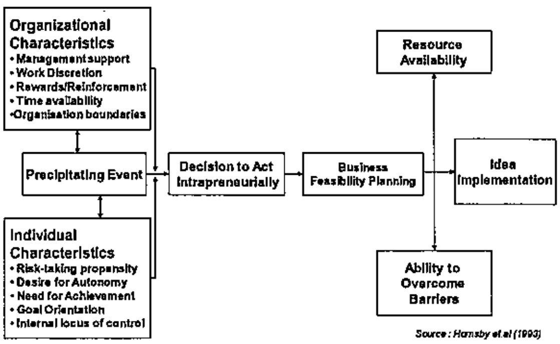
Example of an Intrapreneur Program at Bell Atlantic

- Candidates used their own ideas or adopted one from company backlog.
- Generally limited to low/middle managers.
- Selected candidates given training, coaching; $1,000 budget; 5 hours of company time.
- Completed project presented to a cross-functional review committee; passed or terminated.
- All intrapreneurs eligible for $1,000 reward for their work.

A HRM Framework for Corporate Intrapreneuring



Interactive Model of Corporate Entrepreneuring



10 Commandments of an Intrapreneur

1. Come to work each day willing to be fired.
2. Circumvent any orders aimed at stopping your dream.
3. Do any job needed to make your project work, regardless of your job description.
4. Network with good people.
5. Build a spirited team : choose and work with only the best.
6. Avoid publicity; it triggers the corporate immune mechanism.
7. Be loyal & truthful to your sponsors.
8. Remember it is easier to ask forgiveness than for permission.
9. Be true to your goals, but realistic about how to achieve them.
10. Keep the strong vision.

social entrepreneur

inventing new approaches and creating sustainable solutions to improve society

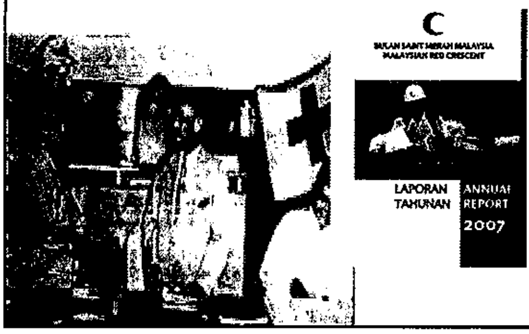
Muhammad Yunus of Grameen Bank

Profil Pesantren Modern Sahid

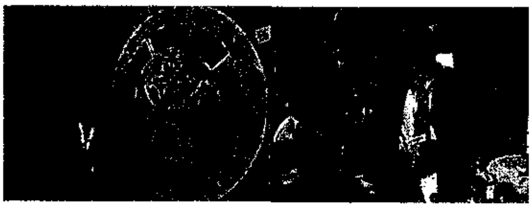
dirikan pada tahun 2000 dan telah diwakafkan pada tanggal 27 mei 2006 oleh **Prof. Dr. H. Sukamdani Sahid Gitosardjono** bersama istri **Hj. Juliah Sukamdani** yang bertujuan membentuk generasi Muslim unggul, berbudaya dan Islami.

Pesantren Modern Sahid terletak di kawasan Padepokan Sahid Wisata Gunung Menyan (70 Ha) yang luas dan asri. didikung fasilitas yang lengkap, SDM yang profesional, dan sistem Manajemen Mtu ISO 9000:2000. Pesantren Modern Sahid terus berkembang sesuai harafan wakif yaitu menjadi pusat Pendidikan Islam yang Modern dan bertaraf International mulai tingkat Teka sampai perguruan Tinggi. **Sistem Pendidikan** Melaksanakan pendidikan keluarga (berasrama), Sekolah dan lingkungan secara terpadu selama 24 jam setiap hari dalam suasana Islami, Dinamis dan Humanis di bawah asuhan ustad/murobi yang mukhlis dan

social entrepreneur



grassroot social entrepreneurship fair



others.....

- Jim Frutchterman of Benetech : uses technology to reporting of human rights violations
- John Wood of Room to Read: under privileged children gain control of their lives through literacy
- Marie Teresa Leal: sewing cooperative in Brazil respects environment and fair labor practices
- Inderjit Khurana who teaches homeless children in India at the train stations where they beg from passengers.

- "social entrepreneur are not content just to give fish or teach how to fish. They will not rest until they have revolutionized the fishing industry"
- "whether they are working on a local or international scale, social entrepreneurs share a commitment to pioneering innovation that reshape society and benefit humanity"
- "quite simply, they are solution-minded pragmatists who are not afraid to tackle some of the world's biggest problems"

Characteristics of a social entrepreneur

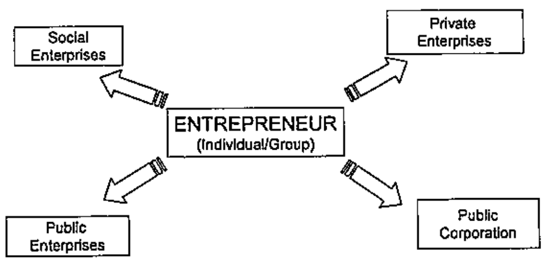
1. Ambitious
2. Mission driven
3. Strategic
4. Resourceful
5. Result oriented

- What are the differences between business entrepreneurs and social entrepreneurs?
- What are the similarities between business entrepreneurs and social entrepreneurs?
- How to be social entrepreneur?

Lecture 8

SOCIAL ENTREPRENEURSHIP

ENTREPRENEURIAL ACTIVITIES



Who Is A Social Entrepreneur?

"I can't define a social entrepreneur, but I know it when I see it"

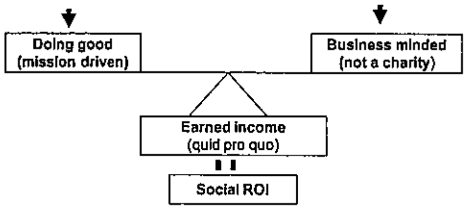
- Agents of social change & transformation
- Application of entrepreneurial approach to community & not-for-profit organizations (NPOs) problem
- Producing better community & environmental outcomes
- Is about changing individuals, communities & worldview, not just personal monetary gain
- e.g playground (Europe), seahorse farming (Tasmania), Tekun, Mercy, Yayasan Salam....

Who Is A Social Entrepreneur?

- *" a social entrepreneur is a social leader who possesses entrepreneurial characteristics"*
  - *(The Schwab Foundation)*
- *"social entrepreneur are not content just to give fish or teach how to fish. They will not rest until they have revolutionized the fishing industry"*
  - *(Bill Draton, Founder of Ashoke"*

What is Social Entrepreneurship?

- ...is entrepreneurship in a non profit arena
- Simultaneously pursuing both financial and social ROI (the "double bottom lines")



Key Principles of Social Entrepreneurship

<u>Doing Good</u> (Mission driven)
- Pay attention to a double bottom line (i.e financial & social ROI)
- Strive to make a difference in people's lives & have program available to more & more people

<u>Earned Income</u>
- A *quid pro quo* arrangement (direct exchange of product or service for monetary value)
- It includes fee-for- service payments, contracts, rents/leases/product sales and so forth
- Although unearned income is important, it is always with string attached and uncontrollable

<u>Business minded</u> (beyond charity)

- Find a niche- don't try to be all things to all people
- Be a major player – concentrate on areas where you can be the leader
- Price aggressively – think of what competitors are charging, value perception held by payers and profit margins required to keep an organization afloat

- **Social ROI** refers to the non-financial returns sought by a social entrepreneur.
- Examples: number of jobs created, the number of people served, the no. of new product or services developed etc

Why non-profits adopt entrepreneurial strategies?

1. To sharpen their organizational focus
   - They cannot be all things to all people
   - Organized abandonment is the first step towards sharpening organization's focus
2. To expand the impact of their programs
   - Fewer programs will lead them to maximize the usage of their resources on successful ones
   - More time to focus on market positioning and developing marketing plan that works

3. To realize incremental gains for their individual programs or entire organization
   - Setting reasonable objective to increase earnrd income by the amount equal to 15% of the annual operating budget for the first 3 years
4. To be self-sufficient in long term
   - Able to accumulate enough funding to cover its operating expenditures
5. to achieve significant profitability and growth
   - Thru spin-off business ventures

3 common types of business ventures

1. Mission-driven product or service businesses
   - Ventures that generate revenue from the actual delivery of product or services to clients, although payment may come from a third party such as a govt. agency
2. Affirmative business
   - Ventures created specifically to provide permanent jobs, competitive wages, career opportunities and ownership for people who are disadvantaged such as the blind and disabled
3. Unrelated businesses
   - Revenue-generating activities created principally from the organization's under-utilized assets

Mapping the social purpose business sector

- The three traditional sectors:
  - Public sector (govt. and its agencies)
  - Private sector (for profit companies
  - Not-for-profit sector
- Social purpose business is a new sector in our social, political and economic landscape
  - It is a product from the combination of the above tri-partite matrix
- However, the distinguishing characteristics are the direct or indirect impact on one or more social needs and the emphasis on earned income rather philanthropic or government subsidy

Social vs Private entrepreneurship

Similarities

- Key role of 1 or 2 enterprising individuals in changing whole organization/community
- Risk taking, innovation, gathering resources
- Needs a strategy, business plan
- Still needs to be financially feasible (cover cost, build group/individual wealth
- Focus on opportunities/assets, not just problems/needs

Social vs Private entrepreneurship

Differences

- Often lack conventional business skills
- Getting access to finance (sponsorship, fund-raising, charity drives)
- Triple bottom line (social, monetary, environmental)
- Seek to share ideas/solutions

Differences: For-Profit & Social Entrepreneurs

For profit

i. Focus on short-term financial gain
ii. No limit on types or scope of ideas/ventures
iii. Profit is an end
iv. Profit pocketed and/or distributed to shareholders
v. Risk personal and/or investor assets

For social

i. Focus on building long term capacity of the org
ii. Ideas/ventures based on core competencies & mission
iii. Profit is a means
iv. Profit is ploughed back into firm to do more mission
v. Risk org's assets, image & public trust

Social Entreprneurship in Action

- Bill Drayton, Founder of Ashoka
  - Find & fund 1,400 social entrepreneurs who implement innovative ideas for change in their community, regions, countries and continents
- Fabio Rosa, Project Light
  - Low cost rural electrification
- Datin Paduka Marina Mahathir, Aids
- Dato Farid Ariffin, Makna = cancer research

microfinance: the concept

The problem:
- Global wealth inequality: 3 b. people live on $2/day
- Avoid 5/6 interest by moneylenders (20% interest), child bonding
- Poor adults not looking for handout; but a working solution to poverty
- Permanent help with dignity, not help

The solution?
- Provide collateral-free business loans
- Support with business training, mentoring, leaderships, saving schemes, financial planning
- Recycle the funds; multiplier effects of loans
- Long term, sustainable improvement in people's live

Example
- Bangladesh: Prof Yunus
- In Malaysia: Tabung Zakat; Ikhtiar??

Assignment 2

- Identify and briefly describe a social entrepreneurship activity in your locality. How could this social entrepreneur be made more successful?

Entrepreneurship

Lecture 9 :
Financing Issues for New Ventures

Sources of Entrepreneurial Capital

- Three sources of capital :
1. Personal ("bootstrap")
   - personal savings
   - family and friends
   - working capital
2. Debt
   - bank loans
3. Equity
   - private and public

A Typology of Financing

- Financing can be categorized into :
  - Providers of capital (debt vs. equity)
  - Timeframe perspective (short-term vs. long-term)
  - Financing needs according to life stages (early stage vs. expansion finance)

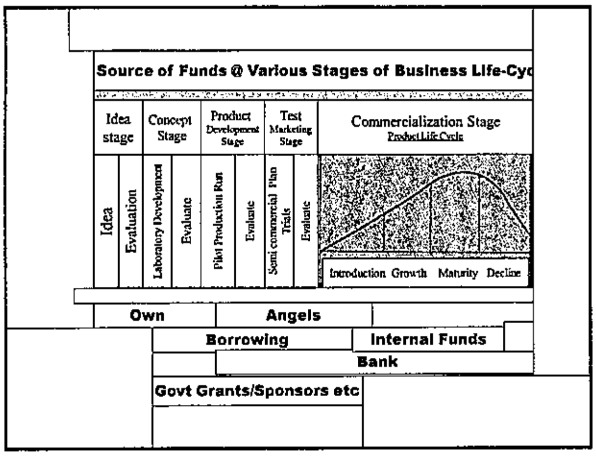
Short-term vs. Long-term

- Short-term financing is used to finance day-today operations.
- Short-term loans may be secured or unsecured.
- Long-term financing is used to finance long-term expenditures such as purchase of fixed assets.
- Long-term loans are normally secured with collateral

Early-Stage Finance vs. Expansion Finance

- Early-stage financing
  - Seed capital
  - start-up financing
  - First-stage financing
- Expansion financing
  - Second-stage financing
  - Third-stage (mezzanine) financing
  - Initial public offering (IPO)

Financing Options at Different Stages of the Business Life-Cycle



Definitions of Debt & Equity

- Debt – funds or obligations to an external party based on specific terms and conditions eg. Bank overdraft, commercial bills, mortgage loans, factoring, credit cards
- Equity – 'patient' funding from an investor in exchange for part ownership of the business eg. Issued shares, partnership capital, venture capital, business angels

Debt Vs. Equity

- Equity = share => ownership
- Return in the form of dividend & bonus
- Equity provides residual ownership of the business whereas debt does not.
- Debt = borrowing
- Debt has to repaid (principal + interest) whereas equity provides dividend

Advantages of Debt

- Retain **control** over the business
- **Opportunity** for increased ROI as equity is limited to owner's initial investment
- **Growth** in value of the business is retained by the owner
- Debt **repayment** commitment can be fixed
- Lower **cost of capital**
- Lower **cost of raising debt finance**
- Ability to raise funds in excess of security
- Less exposure to interest rate increase
- External resources – add strategic input & alliances
- Improved profile with lenders
- Increased financial control
- More stable financial structure
- Improved purchased power with greater liquidity

Disadvantages of Debt

1. Ability to raise funds is limited by available security
2. Business may be exposed to **financial risks** as a result of interest rates
3. Reduced opportunity to establish new external alliances
4. Liquidity exposure of a **highly-geared** structure
5. Business opportunities may be lost through **tight cash flow**
6. Profitability reduced by high **debt servicing costs**
7. Loss of 100% control & autonomy in decision making
8. Greater pressure for higher returns
9. Possibility of personality conflicts between owners & investors
10. Additional **costs** of equity process
11. Greater management **reporting** required
12. **Lag period/Delay** of 3 to months to raise equity

Advantages & Disadvantages of Debt

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Checklists for Bank Financing

1. Cashflow
2. Collateral
3. Character
4. Conditions (of the market)
5. Contribution (by entrepreneur)
6. Detail sought: purpose of the loan, what funds are required and for what period, your business plan, existing financial information (P&L, balance sheet, financial ratios)

Equity Financing

1. Private Investors
   1. Business Angels
   2. High net worth individuals; difficult to find; require careful management
2. Venture Capital
   1. Focus on certain sectors; demand good returns; demand good management
3. Public Float
   1. listing source of capital; highly regulated; risk of loss of control

Equity Investor's Investment Decision

- Return from Investment
  - Provide the appropriate financial projections to show the anticipated returns which are supported by solid assumptions
- People
  - assessment of management's expertise, capabilities and experience
- Ability for Future Exit
  - include consideration of appropriate targets for a trade sale in the future, potential for listing or the potential for buying out the investor

Business Angels

- Used in the theatre when financial backers invested in a theatrical production and contributed their skills and contacts to enhance the success of the show.
- They consist of
  - Younger professionals
  - Retirees
  - Consultants
  - Entrepreneurs
  - Ex-CEO or directors of large firms
- Level of funding usually $100,000 to $500,000 (sometimes up to $1M).

The Nature of Venture Capital

- Most Venture Capital Firms
  - are small independent partnerships
  - $50 - $90 million is assets
- Capital is supplied in stages
  - performance benchmarks are set
  - capital can be denied if returns are poor
- Taking Firms Public is a Goal
  - main goal is to list the firm

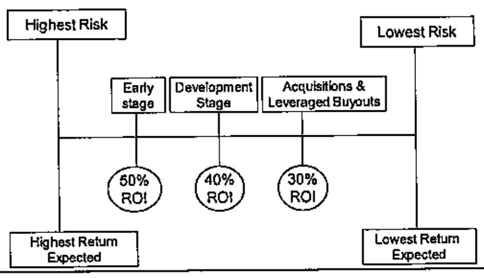
Other Financial Services Provided by VCs

- Market research and business strategy
- Management audit and evaluation
- Contacts and networks
- Negotiating technical agreements
- Management and accounting controls
- General consultancy
- Risk management and insurance programs

Australian Venture Capital Industry (ABS, 1999)

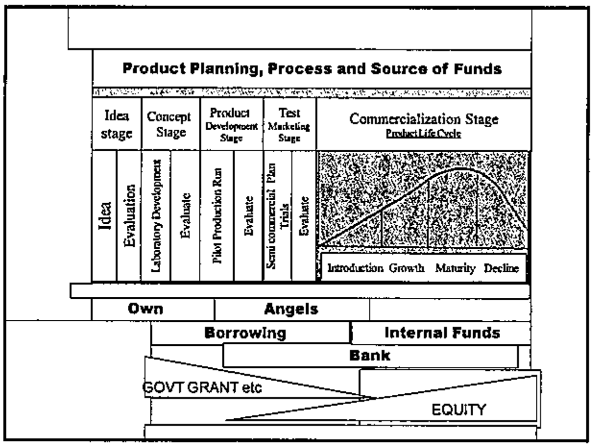
- Investors have committed $4.9b to venture capital investment
- There are 97 active venture capital managers who managed 123 investment vehicles
- Australian superannuation funds (35%) were the largest investors in venture capital vehicles
- M'sia: PUNB, EPF etc

Venture-Capital Financing: Risk & Return Criteria



Venture-Capital Process

1. Preliminary screening
   1. Initial evaluation of a deal
2. Due diligence
   1. The process of deal evaluation
3. Final Approval



Deal Structures

- To secure a financing deal the entrepreneur must :
- **Understand the Business**
  - amount the funds required
  - level of risk
  - timing and size of returns
- **Understand Financier's Viewpoint**
  - level of return required
  - level of risk accepted
  - timing and nature of returns
  - degree of control required
- **Understand Entrepreneur's Own Needs**
  - control required
  - finance required
  - risk & return required

More Issues to Consider

- For SBs valued on their intangible assets (services, professions), there is less opportunity to leverage upon tangible assets.
- These firms should rely less on debt finance than firms with tangible assets (manufacturing);
- SB owner often averse to using external equity; prefer internally generated funds.

Preparation of Pro-forma Financial Statements

- Pro-forma cash flow statement
- Pro-forma trading, profit and loss statement
- Pro-forma balance sheet
- Personal Finance?? (Mastercard approach)

Cash-flow Pro-forma Statements

- It is projected statements of cash inflows and outflows throughout the planned period
- It shows the following :
  - Cash inflows
  - Cash outflows
  - Deficit or surplus
  - Cash position (beginning & ending balances)

P&L (Income) Statement

- A summary of business revenue & expenses over the course of a financial year
  - Income : Sales revenue
  - Less : Cost of goods sold
  - Gross profit
  - Less : Expenses (operating, financial)
  - Net profit
  - Less : tax
  - Net profit after tax

The Balance Sheet

- Shows the business's financial position at a specific time
- A "snapshot" of the firm's worth at a given moment in time :
- Assets (financial resources owned by the firm)
- Liabilities (claims against these resources)
- Owner's equity (net worth)

Learn How to Value the Business

- Business owners often face problems in valuing growth projects
- Three broad types of evaluation
- Market-based valuations
  - going market rate method
    [VB = Selling price of similar size firms]
- Revenue multiplier method
  [VB=Turnover x Standard industry multiple]

Learn How to Value the Business

- Asset-based valuations
- Book value

  [VB=Tangible assets + Intangible assets – Liabilities]
- Adjustable book value
- Liquidation value
- Replacement value

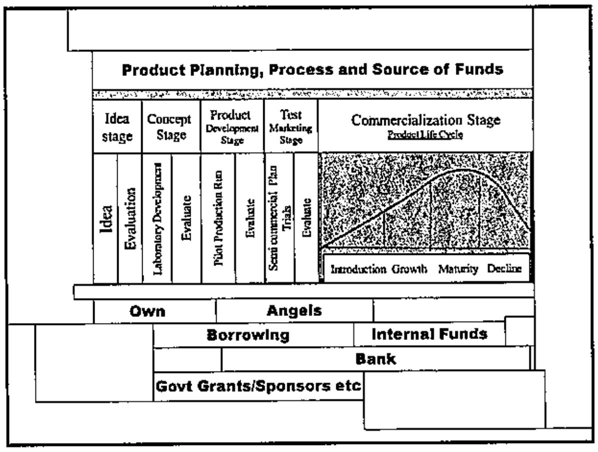
Learn How to Value the Business

- Earnings-based valuations
- Return on investment (ROI)
  - less risk = less return = higher price
  - [VB = net annual profit x (100/ROI)]
- Discounted cash flow methods
  - [VB = PV of future CF + terminal value]

[Due diligence study has to be carried out in order to determine the final value of the business]

Entrepreneurship

Lecture 9:
Managing Entrepreneurial Growth



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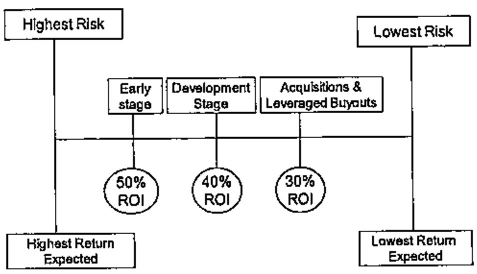
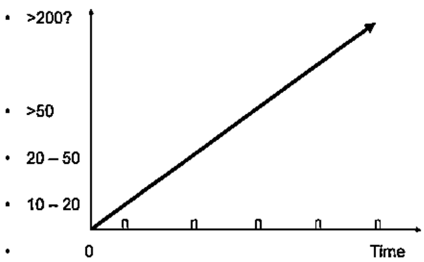


STAGES OF DEVELOPMENT WITHIN AN INDEPENDENT ENTREPRENEURIAL VENTURE

Precommencement
⇩
Start-up
"making a living"
⇩
Growth
"getting bigger"
⇩
Stablisation
"consolidation"
⇩
Innovation or Decline

A model of Business Growth

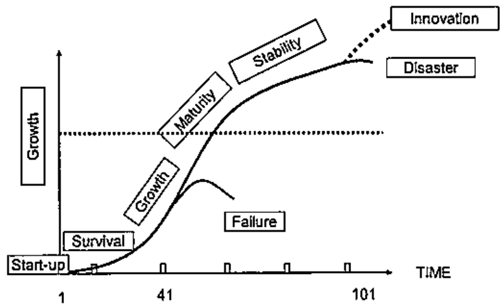


What Is Meant By A "Growing Business?"

Conventional Measures :

- Profit
- Turnover
- Numbers employed
- Increased assets
- Net worth of the business
- Value added
- Productivity
- Change in structure / function / owner

A True model of Business Growth



Growth : The Ideal Outcome

As firms get larger, they should hopefully have :

1. Manager retains the entrepreneurial attitude
2. Innovative, learning organisation
3. Entrepreneurial vision shared with staff
4. All jobs promote opportunity, flexibility
5. Encourage change, not status quo
6. Failure tolerance
7. Teamwork

Issues in Growth Management

1. Lack of capital
2. Internal resistance to change (Ossification)
3. Increasing demands on resources
4. Shifting control of managerial functions
5. Devolving decision-making
6. Cost v. quality
7. Flexibility v. formalised strategies
8. Bureaucracy v. decentralisation

market

- Local market
- National market
- International market

MARKET BOUNDARY

Local market

What are the characteristics of local market??

- ✓ Early stage of company's development
- ✓ In the vicinity of your operation
- ✓ Launching pad for your products to known customers, in your immediate community.. and pride at stake.
- ✓ The further you are from the operation locus, the indifferent the customers are.
- ✓ Promotional activities more personal (pamphlets etc)

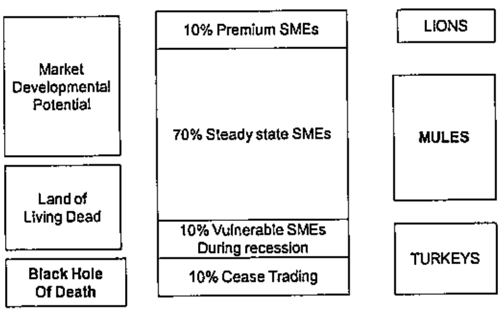
National market

- At the mid-growth stage of venture's growth
- The market is diverse within the national boundary.
- Promotional activities to reach potential customers become more expensive and sophisticated.
- Professional management team to ensure smooth performance

3 Types of Small Firm

- Lions
  - Growth focused, dynamic & innovative
  - Seeks Partnerships, new market & value-added products or service.
  - It is not price driven
- Mules
  - Satisfied with slow steady progress
  - Does not embrace change willingly but can do well in a stable environment
  - Usually die in harness
- Turkeys
  - Lacks clear focus & direction
  - Price driven, with little interest in new ideas or external environment
  - Generally short life span

Dynamics of a healthy SME Sector



What is Entrepreneurial Growth?

- Expanding markets domestically and internationally
- New products and new markets
- New branches or outlets
- Diversification
- Size of assets
- Evolution of company, etc.

International market

- Beyond the national boundary
- Customers differences
- Rule and regulation of different market
- Logistics requirement

Importance Of International Trade

- Expand one's market
- Develop economies of scale
- Insurance against local market setbacks
- Decreasing legal trade barriers
- Easier movement of goods, people ideas
- Rise of multilateral & regional blocs
- Service- & information-based economies

International Trade Frameworks

- WTO
- Australia – New Zealand C.E.R.
- EU
- Association of S.E. Asian Nations (ASEAN)
- Asia Pacific Economic Cooperation (APEC)
- North American Free Trade Agreement (NAFTA)
- MERCOSUR

Methods of "going international"

- Importing / exporting
- Joint ventures
- Strategic international alliances
- Direct foreign investment
- Licensing
- Franchising

Steps to going international

1. Market research
2. Prepare a feasibility study
3. Secure adequate financing
4. File proper documents
5. Draw up and implement the plan
6. Regularly review & evaluate activities

Factors sustaining international activity of Australian SMEs

- Attention to customer needs (70%)
- Management skills (48%)
- Knowledge of competitors (28%)
- Strategic planning (26%)
- Support of associated firms (21%)
- Access to finance (19%)

Factors impeding international activity of Australian SMEs

- Difficulty accessing information (36%)
- Difficulty accessing finance (28%)
- Regulations overseas (26%)
- Regulations in Australia (25%)
- Taxation (21%)

Export Internationalisation Model

Some Key Success Factors For International Trade

1. Goodwill & trust
2. Effective communication
3. Dependence / commitment of the partner
4. Marketing competencies
5. Cultural sensitivity
6. Likeability of partner
7. Reputation / skills of the partner
8. Product suitability
9. Entering an appropriate market

Managers v. Entrepreneurs

Transition : entrepreneurial, one-person leadership to managerial, team-based focus.

Entrepreneurs :

- Find opportunities; utilise resources
- Flexible, independent

Managers :

- Reduce risk; value efficiency & stability
- Order & task integration

The Entrepreneurial Culture: Contrasting Metaphors

Large Business/Public Sectors	Small Business
Order	Untidiness
Formal	Informal
Accountability	Trust
Information	Use of Judgement
Demarcation	Overlap
Planning	Strategic awareness & Intuition
Professional	Amateur
Control	Autonomy
Standards	Personal Observation
Clarity	Ambiguity
Functional	Holistic
Systems	Feel
Appointment	Ownership
Performance Target & Appraisal	Customers and networks
Proctected	Exposed

Hofer & Charan's 7-Stage Model

1. Entrepreneur strongly wants change.
2. Increase participation, decision-making.
3. Institutionalize key operational roles.
4. Develop middle managers.
5. Review business strategy.
6. Formalize structure & procedures.
7. Appoint professional directors

WHAT HAVE WE LEARN?

Entrepreneuship

Lecture 11 :

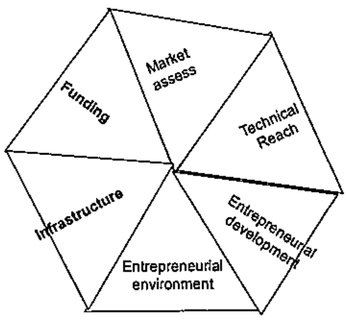
Service Providers & Advice for New Businesses

Entrepreneurs' Need for Assistance

- Many business failures are due to a lack of management information, skill & experience.
- But the entrepreneurial personality makes it difficult to seek assistance.

Business Support Systems

Entrepreneurial Support System



Common Problems Of New Entrepreneurial Ventures

- Starting entrepreneur usually in the dark where/how to start
- How to choose advisor?
- How ....

Issues To Consider When Choosing A Professional Adviser

- Price
- Qualifications
- Experience / industry knowledge
- Membership of professional associations
- Personal rapport
- Range of services
- Conflicts of interest

Types of Professional Advisers

Consultans

- Accountants
- Management or marketing specialists
- Bank managers
- Financial planners
- Lawyers
- Insurance
- IT specialists

Counsellors

- Government support agencies
  - BEC managers
  - SBDC advisers
- Chambers of commerce
- Industry associations

Consulting Versus Counseling

Consultants

- Expert in a specific area of technical skill; able to solve problems in this narrow field
- Provides a contracted service
- Uses expertise to provide client with 'magic bullet' solutions to complex problems
- Gives independent advice with recommendations of further action

Counselors

- Provides a helping relationship
- Uses expertise to assist client to find their own solutions to problems
- Help educate client to take action and own outcomes
- Not expert in specific areas, but able to network client to those with specialist skills

What excellent advisers do

- Operate as 'Problem Solvers'- valued for their ability to help
- Become 'hands on' when appropriate
- Don't require specific expertise to establish relationships
- Valued for their ability as generalists with broad knowledge
- Use networks to attract client via word of mouth referral
- Have well developed communication & relationships skills
- Are able to read people and situations
- Are able to develop rapport with clients & show empathy
- Rely on 'credibility' rather than credentials
- Assess a client's growth potential and realism
- Set the expectation that they will not do all the work
- Achieve results – both hard and soft
- "Go the extra mile" for clients- exceed expectations
- Assess a client's 'wants' rather than 'needs'
- Make use of third party specialists
- Move clients from operational to strategic issues
- Impart learning to client and value learning themselves
- Are people focused

Key Element for Effective Counseling

- Ability to relax the client
- Short succinct introduction to counselor, agency and purpose of interview
- Use of open and closed questions to elicit relevant information from the client
- Control of the flow and direction of the interview by a logical questioning structure, short summaries and use of subtle non-verbal signals
- Use of clear frame of reference to build an understanding of the client's project which both facilitates client learning and enables clear proposals for action to be formulated
- Counselor and client working interactively to clarify next steps and relevant sources of information, contacts etc to offer assistance
- Clear and succinct final summary that leaves client in no doubt as to the outcome of the interview and action required to solve the problem or move project to next stage

The Stages of Problem Solving

Role of an effective advisor

- Skilled specialist assistance
- Sounding board / critical analysis
- Business planning
- Information referrals
- Funding & other assistance
- Help entrepreneurs to see new ideas, possibilities, techniques

Motivations for Growth

(Question – "Why Grow"? Study of 50 entrepreneurs at Curtin University, 1996-98)

I. **Internal:**
   I. Financial security
   II. Personal Challenges
   III. Improve Lifestyle
   IV. Ego
   V. To increase Wealth
II. **External:**
   I. Grow to sell business
   II. Response to Market Pressure
   III. Take advantage of opportunity
   IV. Grow or Die
III. **Altruistic:**
   I. Generate employment
   II. Benefit others in community

Three Types of Small Firm

1. Growth focused, dynamic & innovative
2. Seeks Partnerships, new markets & value added products or service. Is not price driven
3. Satisfied with slow steady progress. Does not embrace change willingly but can do well in a stable environment usually die in harness
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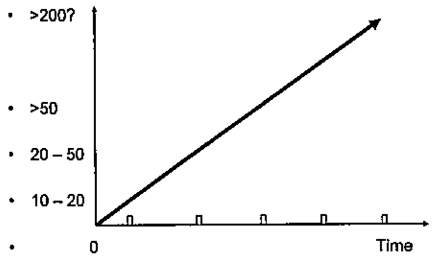
Service Provider

A model of Business Growth



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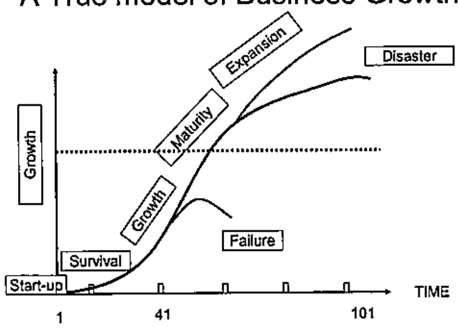
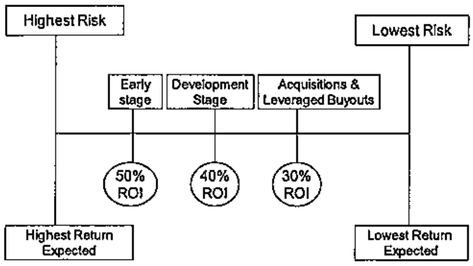
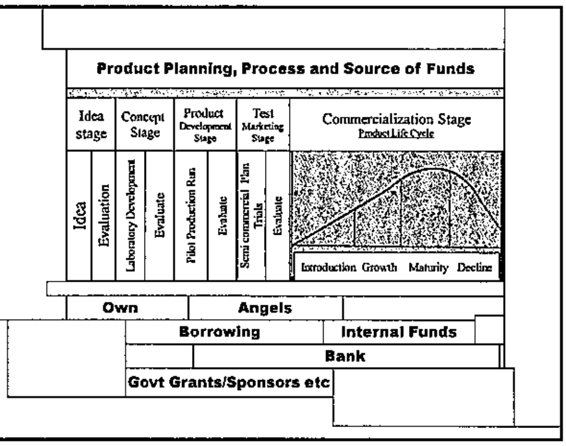


Venture-Capital Financing: Risk & Return Criteria





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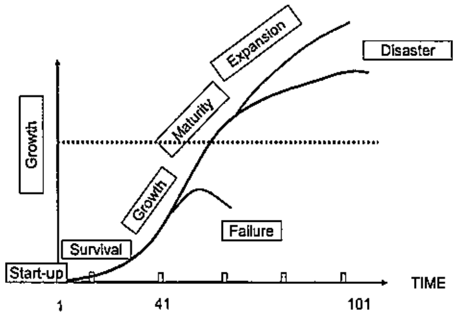

Entrepreneuship

Lecture 10 :
Service Providers & Advice for New Businesses

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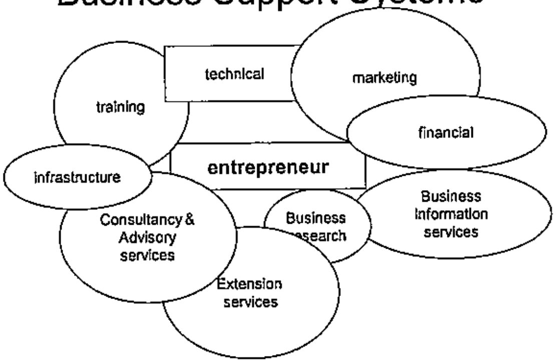

Common Problems Of New Entrepreneurial Ventures

"The Forseeable"
1. Ideas
2. Resources
3. Finance
4. management

"The Unforeseen"
1. Economic downturns
2. Changes in key personnel
3. Failure of key
4. customers/suppliers
5. Regulations & legal changes
6. Illness or Family circumstances

Basic Systems Consolidation
1. Cash flow management & planning
2. Lack of system & method in running the business
3. Profit & loss forecasting & budgeting systems
4. Provision for liabilities
5. Sales analysis and feedback systems
6. Selecting and using professional adviser

Issues To Consider When Choosing A Professional Adviser

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- Experience / industry knowledge
- Membership of professional associations
- Personal rapport
- Range of services
- Conflicts of interest

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The Stages of Problem Solving

1. Identifying (and agreeing with client) the overriding problem or opportunity
2. Identifying the potential causes/barriers
3. Selecting most likely causes/barriers
4. Identifying possible solutions
5. Selecting appropriate solutions
6. Agreeing actions and priorities
7. Monitoring & support

Role of an effective advisor

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- Sounding board / critical analysis
- Business planning
- Information referrals
- Funding & other assistance
- Help entrepreneurs to see new ideas, possibilities, techniques

HARVESTING TIME

HARVESTING TIME

You built your business venture, thus you have created value!!

– what should you do now? EXIT STRATEGY

You can CASH it through:

1. **Reducing your equity**
2. **Terminating the venture (EXIT)**

EXIT?

- Regardless of which option you take, **exiting** a business involves **harvesting**
- Harvesting is **reaping the reward** for the effort the entrepreneur has put into building, growing and nurturing the business – it is reaping the value of the **owner's investment**

- **"Do not wait to put your package together until something dramatic happens.** Begin thinking about exit strategy and start going through the motions, so that if something happens, you will have time to think through your options"
  - Ed Cherney, an entrepreneur who has sold two companies.

Planning a Harvest Strategy

An effective harvest strategy has to be planned. The questions entrepreneur should ask are:

1. What is total value expected from the transaction?
2. What is the extent of my involvement in the business after my exit?
3. When will the exit process be completed?

Why Exit?

1. Legal problems (Bankruptcy)
2. Retirement
3. No longer profitable/ business decline
4. Changing industry
5. Bored or no longer committed
6. Offer to good to refuse
7. Family/partner squabbles
8. Other opportunity
9. Lack of successor
10. Health/personal cost
11. Death

EXIT

- **Transferring of equity** so that the owner gets monetary return from his/her initial investment.

Part Exit: Sale part of the equity

Total Exit:

i. Outright sale of whole equity
ii. Strategic alliances and merger
iii. Passing the business to a successor

Total Exit

- **Total Exit**: Outright sale of whole equity (death, change of interest; family dispute; retirement etc)
- Ideal option due to cash is better than stock
- Type of buyer: Strategic buyers who are interested in the synergies that can be gained from the acquisition
- Financial buyers may be interested in the firm as stand alone business
- Employee buyer who may simply be interested in preserving employment (MBO)

Exit due to Bankruptcy

- Owner **may** or **may not** get residual value of his company (investment)
- Business sold or liquidated to:
- i. ensure fair distribution of assets to creditors.
- ii. protect debtors from unfair depletion of assets.
- iii. protect debtors from unfair demands by creditors.

17-5

Warning signs of bankruptcy:

1. Management of finances is neglected.
2. Directors unable to document large transactions.
3. Customers are given large discounts to enhance payments due to poor cash flow.
4. Accepted contract below standard amounts to generate cash.

17-6

5. Bank requests payment of its loan.
6. Key personnel leave the company.
7. Raw materials are lacking to meet orders.
8. Payroll taxes are not paid.
9. Suppliers demand payments in cash.
10. Customer complaints regarding both quality and service increase.

17-7

Exit due to succession of a business

- Experts estimate that half of businesses fail to make the transition from first to second generation ownership.
- When a family member is not interested in assuming responsibility for the business, a number of alternative choices remain:

Succession Planning

- The transition of ownership/management in a firm
- May involves transfer to:
  - Family members or non-family members
- Average life expectancy of family firm is only 24 years (working life of owner)
- Only 14-16% of family firms make it to the third generation. WHY?

Succession Strategies

- Family succession:
- identify a successor
- groom an heir
- agree on a written plan
- consider professional external advice
- If family will not succeed owner:
- train an employee & retain equity
- retain control & hire professional management
- sell the business

Expect Conflict of Exiting

i) **Emotional Conflict**: entrepreneur's personal ties with the business that he/she created. A buyer can be quite unemotional and detached, while a seller is likely to be much more concerned about non-financial considerations.

Exiting: Expected Conflict

- ***"It is definitely a lot more fun to buy than to be bought"*** Jim Porter
- Stress & strain associated with selling of business:
- i) emotional conflict
- ii) cultural conflicts.

Succession Plan Checklist

- For Owner
- Learn to delegate
- Draw up organization chart
- Plan for more than one successor
- Draft a personnel development plan
- Build up successor experience
- Keep plan fresh
- Plan strategically
- Establish family business meetings or board

- For Children
- Announce plans to succeed
- Take responsibility to undertake personal development
- Get a mentor
- Gain experience outside the family firm
- Education in business
- Blend family tradition with future business goals
- Avoid family feuds
- Eliminate "Dad or Mom" ghost

Partial EXIT

- **Exit:** Sale part of the equity through:
- 1. Private sale of part of the equity;
- 2. Initial Public Offering (IPO)

Strategic Alliances and Mergers

- An entrepreneur may choose to sell part of the business to an investor in the business or may merge with a competitor to form a new legal entity. Benefits:
- Greater economies of scale
- Higher business profile
- Achieve critical mass to continue growth
- Passing on management control to another person who may be committed to the business
- Possibility of going public at a later stage

Initial Public Offer (IPO)

- Primarily used as means to raised additional equity capital to fund growth and only secondarily as a way to harvest owner's investment
- Established firms tend to go public in order to liquidate the shareholdings or business owners.

Preparing to sell the business: Maximising the ROI

1. Develop a formal business plan
2. Reorganize management into team that can bring the company to the targeted objectives
3. Get rid of unprofitable product lines
4. Systematize the business processes
5. Document your policies, procedures
6. Ensure financial records are accurate
7. Formalize customer agreements
8. Organize staffing arrangements and duties

Exiting: Expect Conflict

- **ii) cultural** conflicts.
- *"There is a danger of culture conflict between the acquiring versus the acquired firm's management"* Lynn Baker
- Entrepreneur who sold his venture is not going to be good employee.
- Those who decided to stay with the firm become disillusioned quickly and end up leaving prematurely.

17-8

- Pass the business to an employee. This ensures that the new owner is familiar with the business.
- Hire a professional manager.
- Harvest the business by selling it outright to an employee or an outsider.
- Transfer ownership of the business through a public offering.
- Merge with another business.

Acquisition: Underlying Issues

1. Reasons for the Acquisition
2. Goals of the Buyer and Seller
3. Emotional Bias
4. Other factors to consider

Acquisition: Underlying Issues

- **Reasons for the Acquisition**
- 1. Developing more growth phase product
- 2. Increase number of customers
- 3. Increase market share
- 4. Improving marketing channels
- 5. Expending product line
- 6. Reduce fix cost
- 7. Using idle plant capacity
- 8. Integrating vertically

Steps in Acquisition of a Business Venture

1. Personal Preferences
2. Examination of Opportunities
3. Evaluation of the Selected Venture
4. Due Diligence

Steps in Acquisition of a Business Venture

1. Personal Preferences
   1. Entrepreneur's background, skills, interest, and experience are important in selecting the type of business to buy.
   2. Personal preferences for location and size
2. Examination of Opportunities
3. Evaluation of the Selected Venture
4. Due Diligence

Acquisition of a Business Venture

1. Personal Preferences
2. Examination of Opportunities
   1. Examine through:
      1. Business brokers
      2. Newspaper ads
      3. Trade sources
      4. Professional sources
3. Evaluation of the Selected Venture
4. Due Diligence

Acquisition of a Business Venture

1. Personal Preferences
2. Examination of Opportunities
3. Evaluation of the Selected Venture
   1. The business environment
   2. Profits, sales, and operating ratios
      1. Review past profits
      2. Past sales
      3. Operating ratios
      4. Projected sales and profits for the next two years
   3. The business assets
4. Due Diligence

Acquisition of a Business Venture

1. Personal Preferences
2. Examination of Opportunities
3. Evaluation of the Selected Venture
4. Due Diligence
   1. Why the business is sold?
   2. Physical condition of the business
   3. How many key personnel will remains?
   4. Degree of competition
   5. Condition of the lease
   6. Do any liens against the business exist?
   7. Will the owner sign a covenant not to compete?
   8. Are any special licenses required?
   9. What are the future trends of the business
   10. How much capital is needed to buy?

Acquisition: Underlying Issues

1. Reasons for the Acquisition
2. Goals of the Buyer and Seller
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4. Other factors to consider

Acquisition: Underlying Issues

- Goals of the Buyer and Seller
  - Buyer wants it cheap
    - To start a business, expands business etc
  - Seller wants it expensive
    - Exit or harvesting
- Emotional Bias
- Reasons for the Acquisition

Acquisition: Underlying Issues

- Reasons for the Acquisition
- Goals of the Buyer and Seller
- Emotional Bias
  - Entrepreneur has sentimental attachment to the venture and think it is worth higher. Be objective – rational decision making

Analyzing the Business

1. Lack of Management Depth
2. Undercapitalization
3. Insufficient controls
4. Divergent goals

Establishing a Firm's Value

- **Valuation Methods**
- 1. Adjusted Tangible Book Value
- 2. Price/Earning Ratio
- 3. Discounted Earnings Method
  - Real value is its potential earning power
  - DEM is to determine its true value:
  - Expected Cash Flow
  - Appropriate discount rate
  - Life expectancy of the business
  - Discounting the estimated cash flow by appropriate discount rate over the expected life of the business

Other Factors to Consider

1. Avoiding Start-up Costs
2. Accuracy of Projections
3. Controlling factor

Other Factors to Consider

1. **Avoiding Start-up Costs**
   1. Buyer willing to pay higher to avoid the costs associated with start-up and willing to pay more for an existing firm.
   2. The higher price they pay will be still less than actual start-up costs and also avoids the problems associated with working to establish a clientele.
1. Accuracy of Projections:
2. Controlling factor

Other Factors to Consider

1. Avoiding Start-up Costs
2. Accuracy of Projections: a sale and earning of a venture are always projected on the basis of historical financial and economic data. Critical to examine trends, fluctuations, or pattern involved in projections for sale revenues, market potential, and earnings potential. Each need to be understood or measured for the accuracy of the projection.
3. Controlling factor

Other Factors to Consider

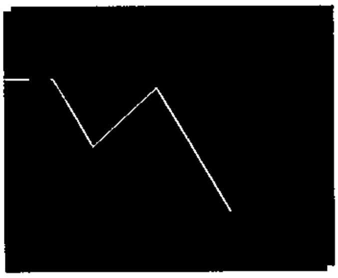
1. Avoiding Start-up Costs
2. Accuracy of Projections:
3. Control Factor:

- controlling the company via % share holding.
- 100% share-holding (control) has higher value compared to 49% share- holding (control).

- GOOD NITE

When The Chip is Down

17-1



Business Failure

1. During business's life cycle, adversity may occur due to external & internal conditions.
2. Severity of adversity may cause:
   1. bankruptcy,
   2. need to refocus, and
   3. strive for turnaround.

The Reality of Failure

1. Stressful, frustrated, end-of-the-world
2. Loss of wealth, loss of face (shame), can even loss of family
3. Failure does happen and can be turn into success

If Failure Happen, what should you do?

- Discuss with your family what is happening
- Seeks outside assistance from professional
- Do not hang-on to the failing venture, it will drain resources. "Trying to save a dying business as an opportunity cost".
- Might as well use the time for starting new venture.

Bankcruptcy

www.kpdnhep.gov.my/index.cgi?action=pub&pub=akta_503

- Section 218. Circumstances in which company may be wound up by Court:
  1. Resolution by the company
  2. Default in lodging statutory report
  3. Not commencing business within 1 year
  4. Number of member is reduced
  5. Unable to pay debt

Bankcruptcy

www.kpdnhep.gov.my/index.cgi?action=pub&pub=akta_503

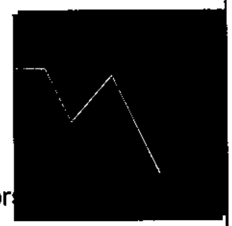
- Section 218. Circumstances in which company may be wound up by Court

6. Director conducting business for own interest
7. Expiry of Memorandum/article
8. Court of opinion it is just to wound up
9. Financial licence revoked or surrender
10. Company used for unlawful purposes
11. Company used for any purpose prejudicial to national security

17-1

The bankruptcy act of 1978 protects entrepreneurs from both creditors and competitors. The act was designed to:

- ensure fair distribution of assets to creditors.
- protect debtors from unfair depletion of assets.
- protect debtors from unfair demands by creditor



17-5

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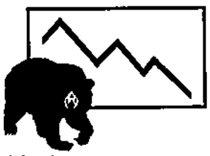

17-5

5. Bank requests subordination of its loan.
6. Key personnel leave the company.
7. Materials are lacking to meet orders.
8. Payroll taxes are not paid.
9. Suppliers demand payments in cash.
10. Customer complaints regarding both quality and service increase.

- In the case of bankruptcy, who are the beneficiary?
- what do the owner gets?

Refocus: Keeping the Venture Going

i. Pay attention / learn from the mistake made as well as made by others
ii. Strategies to meet changing market condition
iii. Disengage from unsuccessful ventures

Requirement for Keeping a Venture Afloat

1. Avoid excess optimism when business appears to be successful
2. Always prepare good marketing plans with clear objective
3. Make good cash projections and avoid over capitalization
4. Keep abreast of the market place
5. Identify stress points that can put the business in jeopardy

Starting Over

i. **Failure** tend to provides a better understanding and appreciation for the need for market research, more initial capitalization, and stronger business skills.
ii. **Past failure** should be address with open mind when seeking venture capital.

Turnarounds

- Recognizes the warning signs of bankruptcy. If unable to do so, get help from outside experts (accountants, consultants etc)

Principle of Turnarounds

- **Principle** 1. Do aggressive **hands-on management audit:**
- 1. to engage the employees thro. meeting & communication to find the root causes (Internal audit)
- 2. Motivate all employees to improve productivity
- 3. Stabilize the internal environment

Principles of Turnarounds

- **Principle 2. Have plan.**
- "Where are we now?" Revisit your BP
- Internal factor: financial standing, market share, resources: raw material, human capital
- External factor: market trend, economic condition, competitors
- Then "Where are we going?"

Principles of Turnarounds

- 3. Implementation of plan:
- "How do we go there?"
- aggressive corrective action
- get on track
- time is the essence
- is there requirement to conserve existing resource

ASSIGNMENT

Elaborate, how you are going to save your non performing company.

or

Discuss, how you would manage your company to ensure success.

e-com·merce (k m rs) KEY

- Commerce that is transacted electronically, as over the Internet
- Covers marketing, promoting, buying, paying and selling of goods and services, particularly via Internet.

e-com·merce

It encompasses various models of internet use:

i. e-tailing (virtual store fronts) which is site for shopping and making purchases;
ii. Electronic data interchange (EDI) which is B2B exchange of data;
iii. e-mail and computer faxing;
iv. B2B buying and selling.
v. Ensuring the security of data transaction

Why e-commerce?

- Low cost
- Extremely efficient way to display merchandise, attract & reach new and potential customers and handle purchase orders

Challenges of e-commerce

- Initial start-up
- Difficulty in attracting and keeping technologically skilled personnel to service the site and customers
- Establishment of adequate security for a small business's data
- Customer trust

Advantages of e-commerce

1. Ability of small firms to compete with other companies both locally, nationally & globally
2. Creation of the possibility and opportunity for more diverse people to start a business
3. Convenient & easy way of doing business transactions (24seven)
4. Inexpensive way for small business to compete with larger companies
5. Higher revenues for small businesses

Disadvantages of e-commerce

1. Managing upgrades
2. Assuring security for a web site & the back-in integration with existing company systems
3. Avoiding being a victim of fraudulent activities online
4. Handling the costs required to maintain the site
5. Finding & retaining qualified employees

Emerging e-commerce strategies

1. 3-P growth Model

1. **Presence**: the ramp-up stage where the entrepreneur needs to build an excitement about the specific capabilities or offerings of the venture in the marketplace
2. **Penetration**: the hypergrowth stage where the entrepreneur focuses on gaining market share & establishing greater virtual integration
3. **Profitability**: the managed growth where the entrepreneur needs to focus on expanding revenue via B2B transactions and increased operational efficiencies.

Emerging e-commerce strategies

2. RRA Model (Evans & Wurster, 1999)

1. Reach relate to access and connection
2. Richeness focuses on the depth and detail of information it collects about the customers
3. Affiliation is the specific interests that the business represents

Product Development

- Finding a process that works
- New product development is important to small businesses because it keeps the company competitive. Product development refers to the processes involved with generating an **idea** and introducing a product in a given market.
- It can involve either creating a new product or modifying or updating an existing product.
- Businesses should always strive to move ahead, as new developments can lead to financial gain.
- In addition to selling the product to clients, businesses can sell the products to other companies.

- **Website, market it, sell online!** helps small businesses reach new customers online, so when people search Goggle and other search engines, they can find you.
- You have to build a website. And once you've created your website, to help your business succeed by increasing your online traffic, sell products and services online and efficiently accept credit card payments.

E-Commerce: entry strategy

a. New Entry:
   1. New product
   2. New market
   3. New player

b. Early entry strategy (leader) vs. delayed entry strategy (followers)

c. Target customers
   1. IT savvy.
   2. IT coverage/support availability.
   3. Rule and Regulation

- Anyone can build a website which is straightforward, intuitive, yet powerful: the perfect combination!
- Some of the designs created using our software: **small business website designs** and **real estate website designs**.

- Build your website to fit your business to a "T"... **Customize and update your site with ease**

- Add or delete pages, change navigation labels, and add links wherever you need them. Add forms to your website to collect contact information from visitors, so you can convert them to customers by sending promotional emails and newsletters.
- You can also add a guest book to collect and publish comments from satisfied customers.
- Whether you'd rather get help by talking to a live person or via email, our excellent support staff is happy to help.

- Make it easy for customers to find you on the Web and build a professional image with your own personalized domain name (www.yourbusinessname.com), and email branded with the same address.
- The name you want must make your customers remember.