

Family Business

Lesson 12

The entrepreneurial family firm

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HBS DEFINITION

An entrepreneur moves to pursue new opportunities. When he determines a strategy he will be guided only by market opportunities, and will not accept limitation in his endeavour by the lack of resources.
(Howard Stevenson)

The Entrepreneur: A Special Species?

What do successful high tech entrepreneurs look like?

1. Integrity
2. Leadership
3. Impatient; bias toward action (with analysis).
4. Quick clockspeed
5. Modest ego. Seeks and accepts coaching. Recognizes, and hires to overcome weaknesses.
6. Willing to be different.
7. Pragmatic: willing to compromise (in order to move forward).
8. Rejoices in others' victories (no petty jealousy).
9. Driven to solve a valuable problem for customers (not driven by money or technology).
10. Able to attract world class talent.

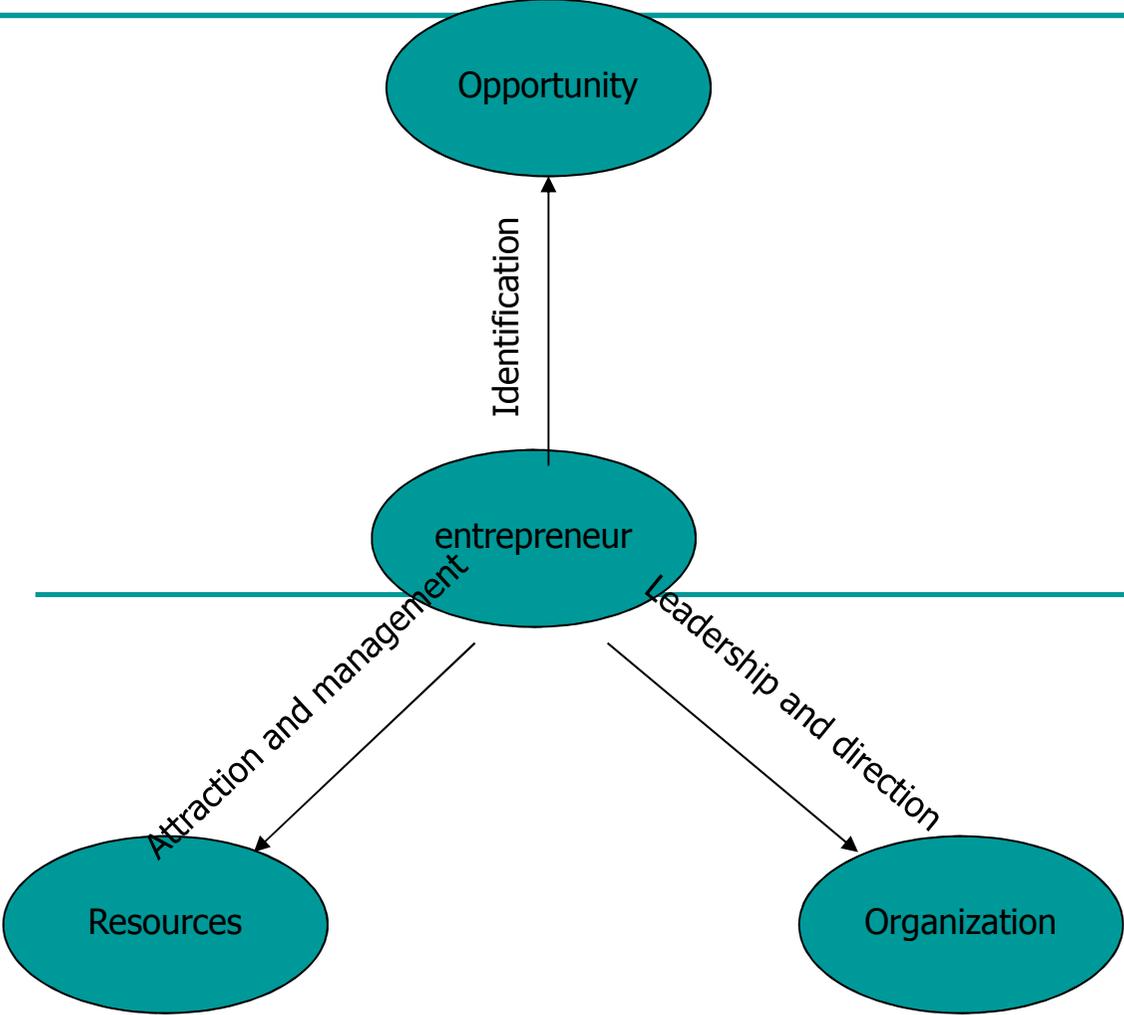
Fundamental difference between entrepreneurs and managers

	Promoter	Entrepreneurial Manager	Administrative Manager	Trustee
Strategic Focus		Opportunity Driven	Resource Driven	
Commitment to Opportunity		Action Oriented (Quickly)	Analysis Oriented (Cautiously)	
Resource Commitment		Incremental (As progress achieved)	Complete (At beginning)	
Control of Resources		Rent or Lease	Own	
Management Structure		Flat, Dynamic, Informal	Hierarchical, Static, Formal	
Reward Philosophy		Based on Success (TEAM)	Based on Resources Managed (INDIVIDUAL)	

An HBS scheme

	<u>Entrepreneurial manager</u>	<u>Trustee Manager</u>
Strategic approach	<ul style="list-style-type: none"> • Strategic view • Decision on opportunity 	<ul style="list-style-type: none"> • Driven by perception of opportunity • Quick Decision • Driven by resources owned • Following a slow and established process
Capability and resources	<ul style="list-style-type: none"> • Decision making • Control of resources 	<ul style="list-style-type: none"> • in steps with minimal exposure at each step • Rent, lease, or temp use in initial phase • Single decision with full commitment of all resources • Stable ownership of all necessary resources
Management style	<ul style="list-style-type: none"> • Structure • Pay system and meritocracy 	<ul style="list-style-type: none"> • flat, informal • Based on wealth generated for the team • Formal hierarchy • Based on individual contribution and promotion

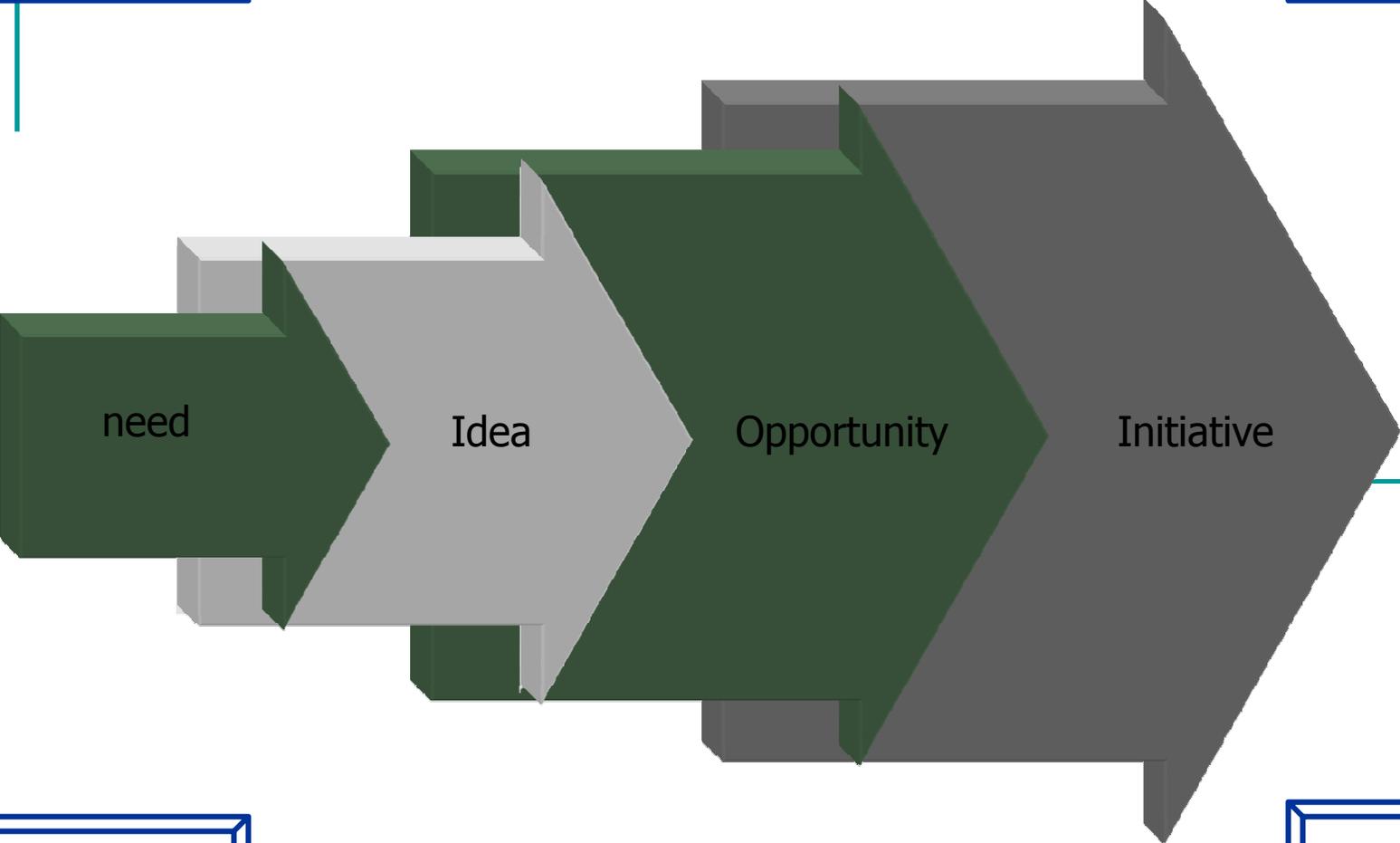
Axes of the new venture



A new venture should originate from a need that urges satisfaction

Capability

Risk



Resources

money

... which raise a number of questions to be addressed

Example of questions to answer to

Need

- Are there needs not addressed by anyone in the market?
- Is the need express or latent?
- How big is the need (e.g. size of target population, urgency of the need, ...)?
- Who does express the need?
- ...

Idea

- What do you offer to satisfy this need?
- What type of need is not addressed?
- ...

Opportunity

- How can I realise the idea?
- How can I generated the most desirable choice for customers?
- Has anyone else done something similar?
- ...

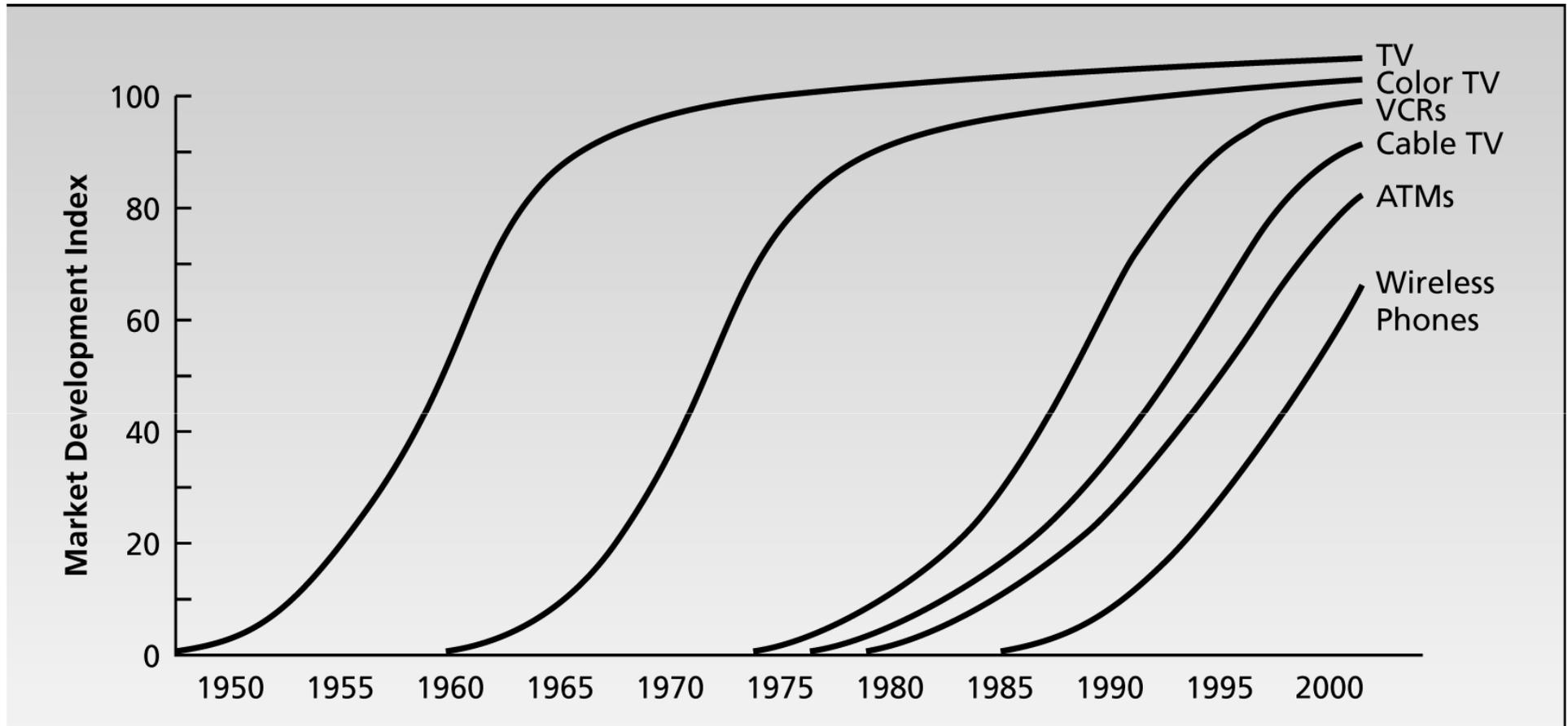
Initiative

- Which are the main steps to be implemented/executed in exploiting the opportunity?
- What are the resources to engage in the initiative?
- Which value added will be brought in the company thanks to the initiative?
- How is it measured the success of the initiatives?
- ...

The Entrepreneurial Manager

- **Recognizes Opportunity**
 - Cash Flow over Time
 - Careful Analysis of Chances of Success
 - Eventual Reward is Much Greater than Resources Needed
 - Context can make or break an Opportunity
- **Creates a Venture to Exploit the Opportunity**
 - Resources: Employees, Customers, Suppliers and Investors
 - Deals to Gain the Participation of the Resources
- **Manages the Venture over Time**
 - Conducts Experiments to Learn
 - Increases Probability of What can Go Right
 - Decrease Probability of What can Go Wrong
- **Manages Change, both Planned and Unplanned**
 - Monitors changes in Context
 - Designs Responses to avoid Fatal Damage if something goes Wrong
 - Creates and Maintains Options, Including the Option to Abandon
- **Creates Value for the Participants in the Venture**
 - Liquidity Event (IPO or Acquisition)
 - Build to Last: prepares Venture for the next stage of growth

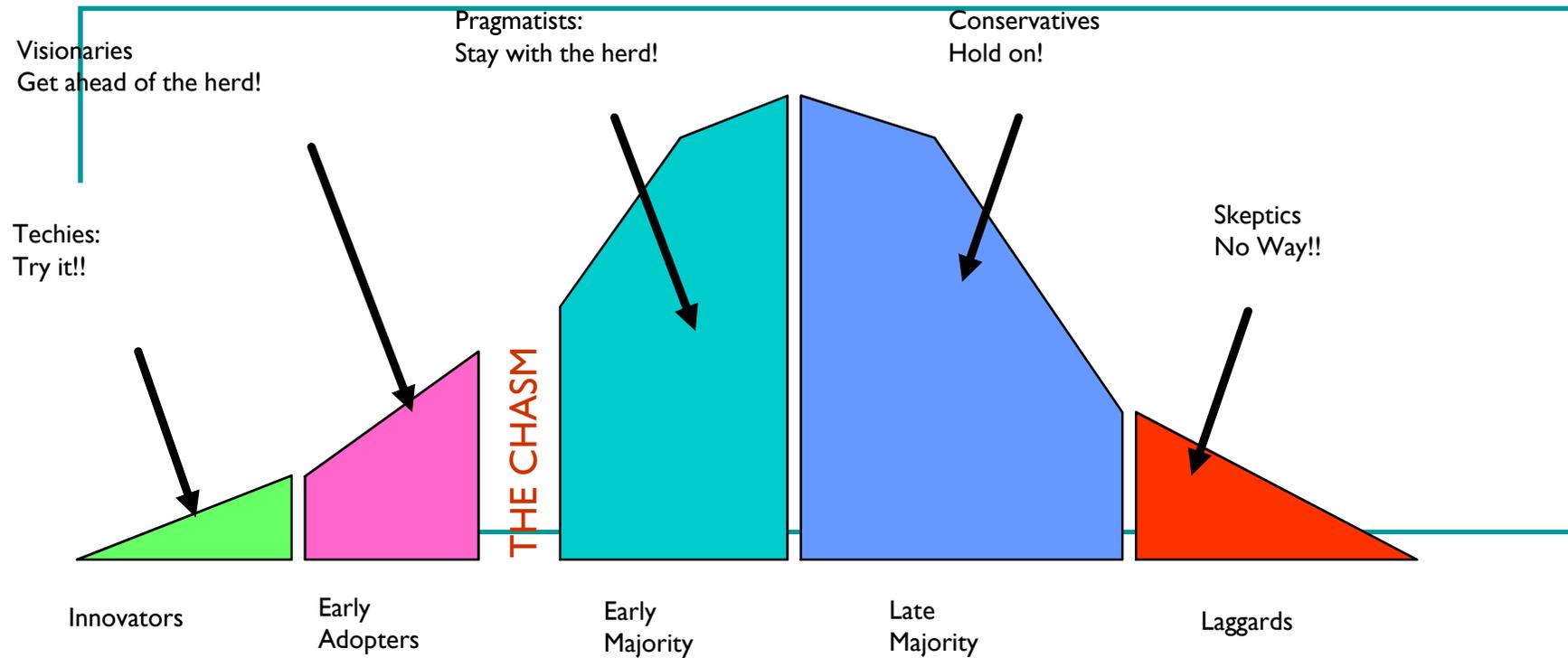
New products enter the market at higher speed

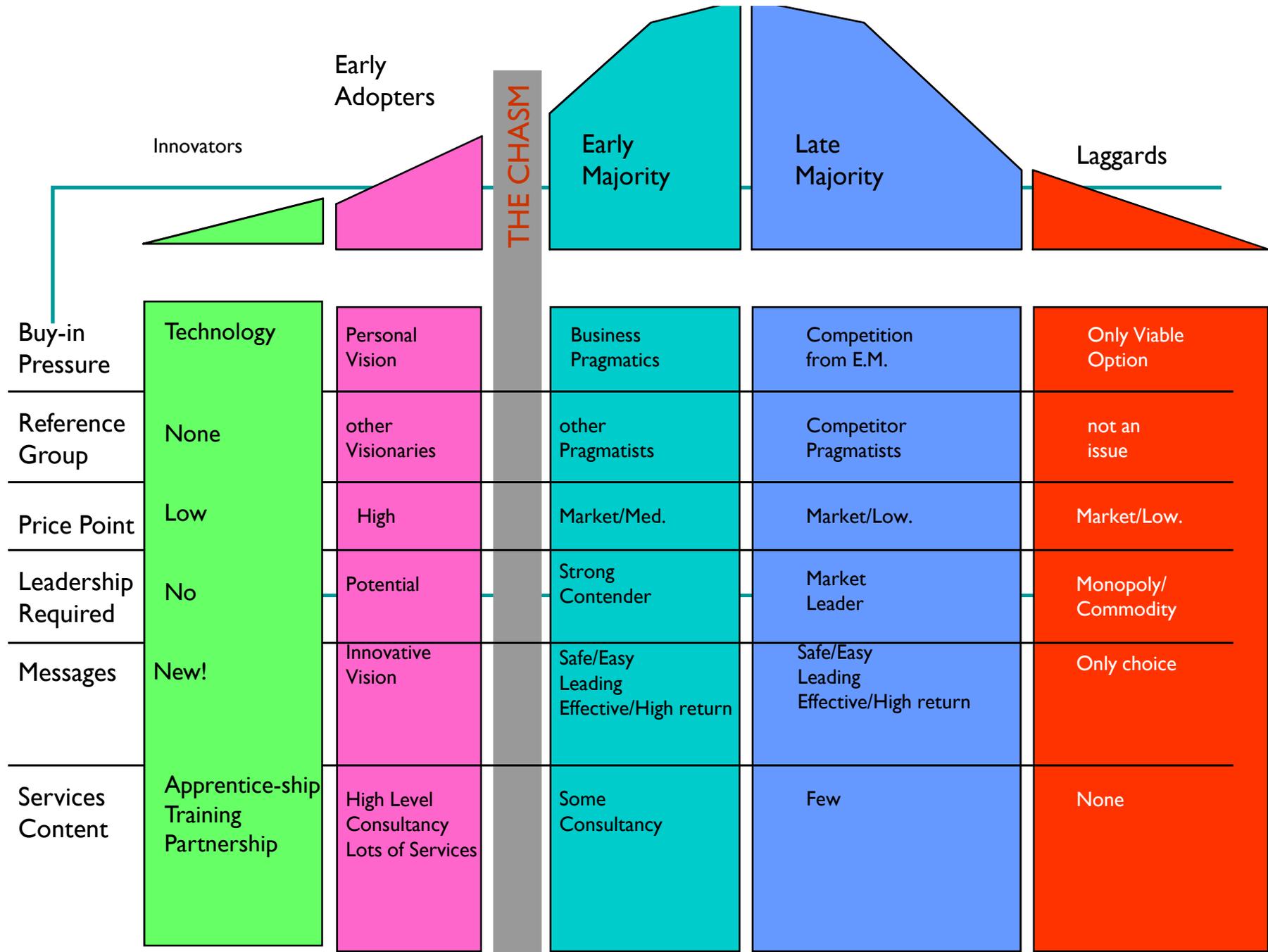


Roger Best, Market-Based Management, 2nd ed.

... beginning of life cycle lasts less; start ups have less time to exploit their advantage

Technology Adoption Life-Cycle – buying motives





Some firm's slow growth is written in their dna

D. Birch, A Haggerty e W. Parsons¹ classify firms in:

- **elephant**: big firms that do not grow
- **mice**: small firms that produce income for their promoters and their families
- **gazelle**: firms with high growth rate



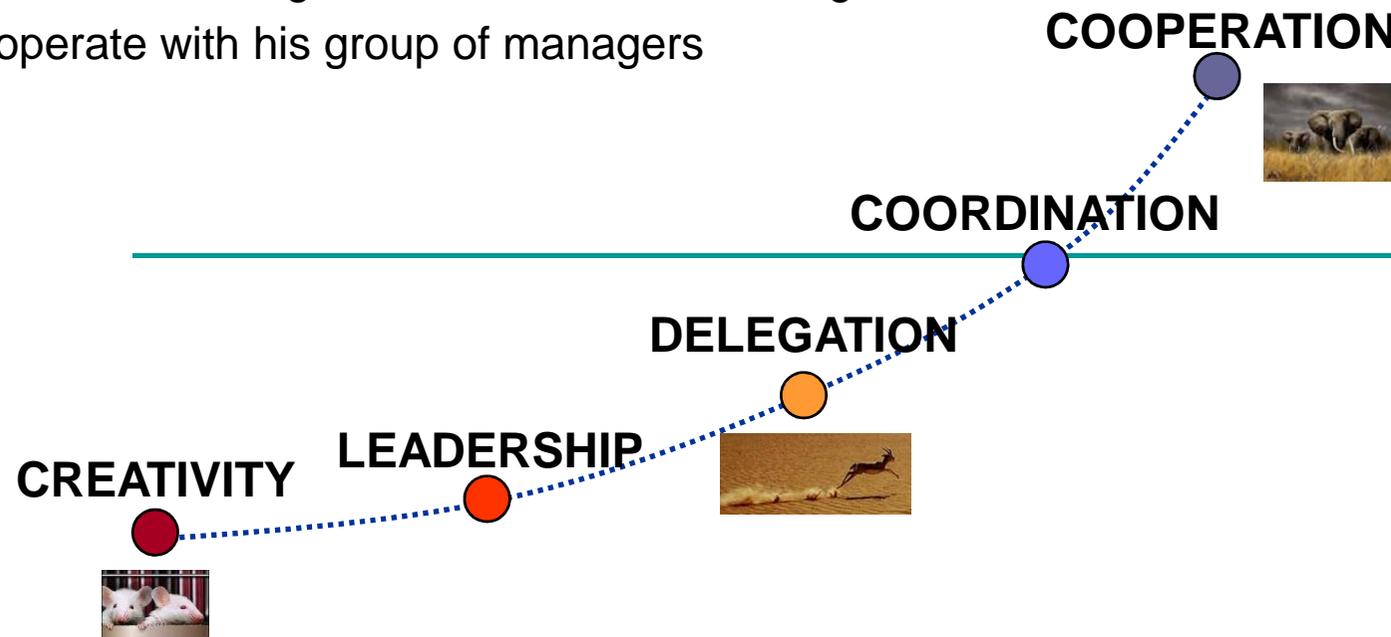
- Annual sales bigger than 1 mio€
- Roughly 10 employees
- Sales growth in last 3 year
- Sales doubled in last 3 years
- Cumulated profit positive in last 4 years
- “organic” growth (internal)

¹ Birch, David, Haggerty, Andrew and Parsons, William (1995), “Who’s Creating Jobs?” Boston: Cognetics

Management team is the key ingredient in successful start ups

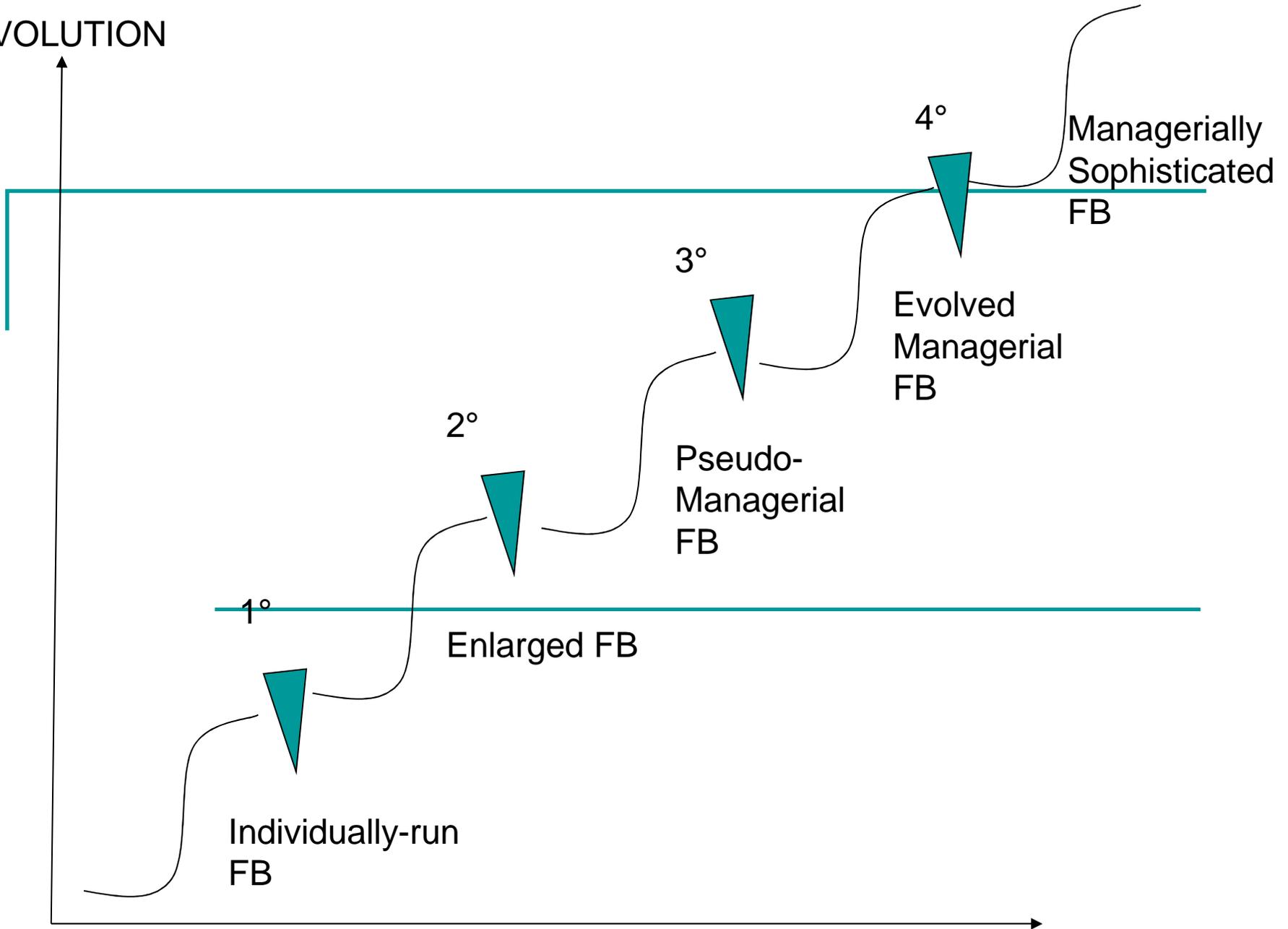
The entrepreneur must learn to do different things in different stages of its growth :

- be creative
- direct good managers
- delegate good managers
- coordinate managers that direct other managers
- Cooperate with his group of managers



Rielaborazioni STEP di: N.C. Churchill, V.L.Lewis – The five stages of small business growth – Harvard Business Review May-June 1983

EVOLUTION



= Discontinuity

TIME

TYPICAL GROWTH STEPS

Organization	First step	Second step	Third step
Core problem	Survival	Growth Management	Control and resources allocation
Central function	Unification of talents and goals in firm	Specialized functions	Fusion of independent units in interdependent firms
Systems of control	Personnel ; survival	Cost centres ; potential growth	Profit centers and performance ; expansion potential
Compensation – motivation	Ownership by family	Salary, opportunity, problems with growth	Salary , bonus , stock options, peer prestige
Style of management	Individualistic, direct management	Integrate specialists, cooperation	Integrate generalists, collective
Structure	Informal	Specialists	Divisional
First task of CEO	Direct supervision of employees	Management of specialized managers	Management of generalist managers
Management levels	Two	three	Four

Tools for family business diagnostics

1. Genogram
2. Swot analysis
3. 3 circles models
4. Governance scheme
5. Family constitution (rulebook, article of association)

Innovation...

The Innovation Culture Table

	Status Quo Culture	Innovation Culture
1.	Predictability	Un-predictability
2.	Seek stability	Seek novelty
3.	Focus on core competence	Focus on edge competence
4.	High success rate	High failure rate
5.	Reinforce the organizational hierarchy	Reinforce organizational networks
6.	Fear the hierarchy	Focus on creative tension
7.	Avoid surprises	Embrace surprises
8.	Focus on inside knowledge	Combine inside and outside knowledge
9.	Easy to live with	Hard to live with
10.	Corporate politics	Moving the cheese
11.	Efficiency through standardization	Efficiency through innovation
12.	Extend the status quo	Abandon the status quo
13.	Avoid change	Embrace change
14.	Measure stability	Measure innovation
15.	Look for data to confirm existing management models	Look for data to contradict existing management models
16.	Look for certainty	Embrace ambiguity