C • H • A • P • T • E • R

5

THE ENTREPRENEURIAL LEADER

I have found that great people do have in common an immense belief in themselves and in their mission. They also have great determination as well as an ability to work hard. At the crucial moment of decision, they draw on their accumulated wisdom. Above all they have integrity.

Yousuf Karsh
Turkish born Canadian Photographer

RESULTS EXPECTED

Upon completion of this chapter, you will be able to:

1. Explain the difference between an entrepreneurial leader and a manager, and appreciate why the team is so important.
2. Identify stages of growth that entrepreneurial ventures go through, the venture modes characteristic of the entrepreneurial domain, and the principal forces acting in the domain.
3. Articulate the skills, competencies, and philosophies entrepreneurial-thinking founders apply as they form, build, and lead a new venture team, and discuss the critical issues and hurdles they face.

RESULTS EXPECTED

THE ENTREPRENEURIAL DOMAIN

Converging on the Entrepreneurial Leader

There are convergent pressures on being an entrepreneur and being a manager as a venture accelerates and grows beyond founder-driven and founder-dominated survival. Key to achieving sustained growth, and an eventual harvest, is an entrepreneur's ability to have or develop competencies as an entrepreneurial leader.

In the past, those studying entrepreneurship and others active in starting new ventures, such as venture capitalists, professors, and researchers, have generally believed that the kind of person with the entrepreneurial spirit required to propel a new venture through start-up to a multi-million-dollar annual sales level is different from the kind of person who has the capacity to manage the new firm as it grows from zero to $20 million or more in sales. Further, it has long been thought that the entrepreneur who clings to the lead role too long will limit or impede company growth. However, many VCs will be set on replacing the entrepreneur with "professional management" as the enterprise transitions through

stages. But "entrepreneurs should not automatically be forced from their firms early. Several factors decide when the founder should step aside."[1]

Canadian economist John Kenneth Galbraith explained in 1971, "The great entrepreneur must, in fact, be compared in life with the male *apis mellifera*. He accomplishes his act of conception at the price of his own extinction."[2] In short, conventional wisdom stated that a good entrepreneur is usually not a good manager, since he or she lacks the necessary management skill and experience. Likewise, it is assumed that a manager is not an entrepreneur, since he or she lacks some intense personal qualities and the orientation required to launch a business from ground zero.

While results are mixed, some evidence suggests that new ventures that flourish beyond start-up and grow to become substantial, successful enterprises can be headed by entrepreneurs who are also effective leaders. Testing conventional wisdom, two researchers empirically studied the tenure of 54 Fortune 1,000 corporations' founders. They assumed that there are three ways founders have to adapt: (1) shift from creation to exploitation, (2) shift from passionate commitment to dispassionate objectivity, and (3) shift from direct personal control over organizational actions to indirect impersonal control. Taking into account the growth rate, the timing of the initial public offering, the founder's age, education, and other factors, this study found the following:

1. If the firm grows relatively slowly, and the founder is capable of some adaptation, then the firm can become quite large.
2. Founders with scientific or engineering backgrounds remain in control of the companies for shorter periods than do founders whose academic focus was business.
3. The founder's tenure will typically be longer in family-dominated firms.[3]

More recently, researchers "observed that many founders can and do manage growth successfully. The applicability of conventional wisdom regarding the 'leadership crisis' in rapid-growth entrepreneurial firms may no longer be valid, if, in fact, it ever was."[4] Terry Mathews is once again at the helm of the company he built—Mitel. Founder Bill Gates headed Microsoft until mid-2008, Ted Rogers, Jr. continued to lead his namesake—Rogers Communications—until his death in late 2008. Steve Jobs returned to the helm of Apple after stepping aside thinking that was best for the company he co-founded, and 40 years later Andy Grove is now the senior advisor to executive management at Intel. Numerous examples such as these clearly indicate founders can learn and grow faster than their companies do.

These and other data seem to defy the notion that entrepreneurs can start but cannot manage growing companies. While the truth is probably somewhere in between, one thing is apparent: Growing a higher potential venture requires leadership skills.

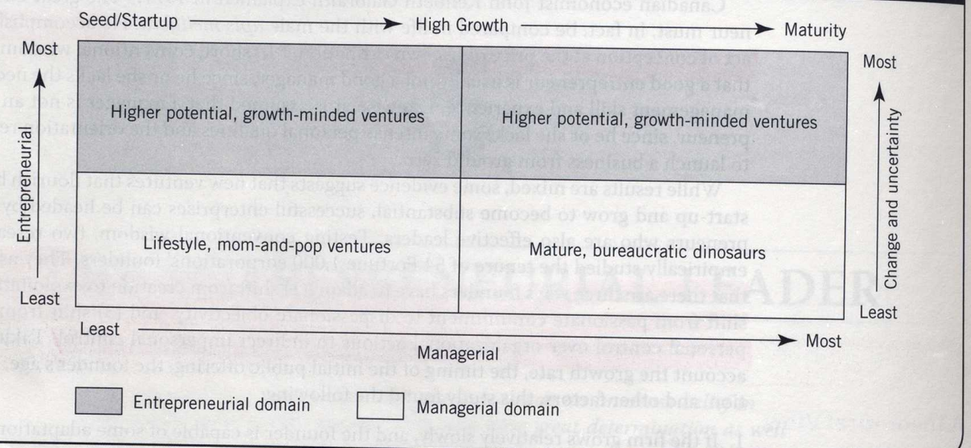
Clearly, a complex set of factors goes into making someone a successful entrepreneurial leader. Launching a new venture and then managing rapid growth involves skills not found in most mature or stable environments. Further, one of the greatest strengths of successful entrepreneurs is that they know what they do and do not know. They have disciplined intellectual honesty, which prevents their optimism from becoming myopic delusion and their dreams from becoming blind ambition. No individual has all these skills, nor does the presence or absence of any single skill guarantee success or failure. That an entrepreneur knows that he or she needs a certain skill and knows where to get it is as valuable as knowing whether he or she already has it.

Principal Forces and Venture Modes

Companies, whether they are new, growing, or mature, occupy a place in either a managerial or an entrepreneurial domain, an area influenced by certain principal forces and characterized by ways of acting, called venture modes. Exhibits 5.1 and 5.2 illustrate the entrepreneurial and managerial domains and the dynamic of the principal forces acting in the domains and the dominant venture modes that result.

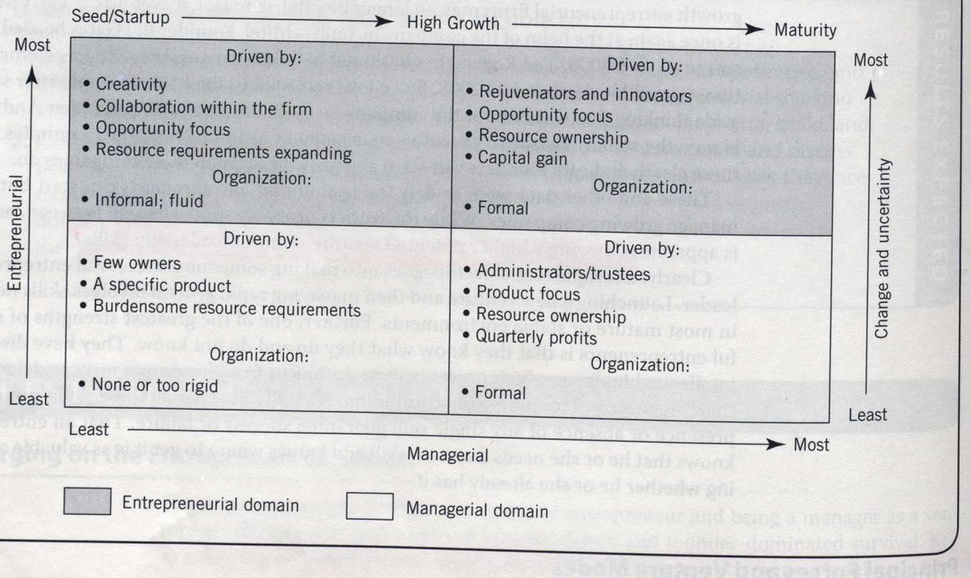
In the exhibits, the four cells are defined by the stage of the venture (upper axis), the extent of change and uncertainty accompanying it (right axis), and the degree to which a venture is managerial (bottom axis) or entrepreneurial (left axis). Clearly, the entrepre-

EXHIBIT 5.1 Dominant Venture Modes



Source: These exhibits are built on work by Timmons and Stevenson: See Howard H. Stevenson, "A New Paradigm for Entrepreneurial Management," in *Entrepreneurship: What It Is and How to Teach It* (Harvard Business School, 1985), 30–51; and Jeffry A. Timmons and Howard H. Stevenson, "Entrepreneurship Education in the 80s: What Entrepreneurs Say," in *Entrepreneurship: What It Is and How to Teach It*,115–34.

EXHIBIT 5.2 Principal Driving Forces



neurial domain is the two upper cells in both exhibits, and the domains are functions of both the change and uncertainty facing a venture and the stage of growth of the venture.

Each venture mode (i.e., way of acting) for firms in each cell is driven by certain principal forces. These forces are shown in Exhibit 5.2. Shown in Exhibit 5.1 are dominant venture modes characteristic of firms in each cell. Organizations at different stages are characterized by differing degrees of change and uncertainty and are therefore more or less entrepreneurial or more or less managerial. Thus, for example, a new venture in the seed/start-up stage, which is characterized by high change and uncertainty, is most entrepreneurial. These firms will be new, innovative, or backbone ventures; will be led by a team; will be driven by their founders' goals, values, commitment, and perceptions of the opportunities; and will minimize the use of resources. At the other extreme is a mature firm, one that is in the maturity stage and characterized by low change and uncertainty, is stable or contracting, is led by a manager, is driven by resource ownership and managerial efficiency, and is reactive. Other firms fall in between.

The managerial skills required of the firms in each cell are more evident upon examination of these principal forces and dominant venture modes. For example, creativity and comprehensive managerial skills are required to lead firms in both cells in the entrepreneurial domain. In the upper-left-hand cell, entrepreneurial leaders need to cope effectively with high levels of change and uncertainty, whether their management skills can be affectionately labelled MBWA (management by wandering around) or management by muddling through. Certainly, as the firm enters the high-growth stage, this changes.

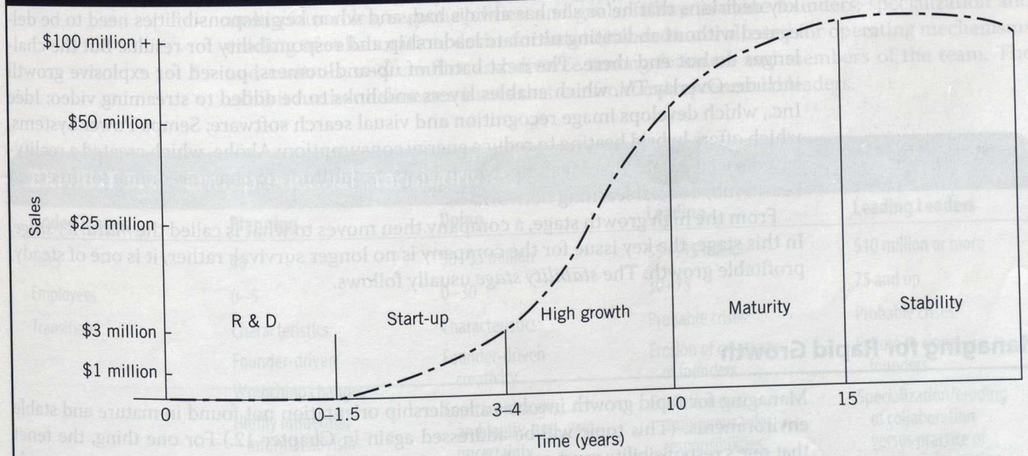
STAGES OF GROWTH

A Theoretical View

Clearly, entrepreneurship is not static. Exhibit 5.3 represents a *theoretical* view of the process of gestation and growth of new ventures and the transitions that occur at different "boundaries" in this process.[5] Ventures are sown, sprout, grown, and harvested. Even those successful ventures that are not grown to harvest (i.e., those that have been defined as "attractive") go through stages of growth.

This smooth, S-shape curve in the exhibit is rarely, if ever, replicated in the real world. If one actually tracked the progress of most emerging companies, the "curve" actually would

EXHIBIT 5.3 Stages of Venture Growth, Crucial Transitions, and Core Management Mode



Crucial transitions:				
Sales	0–$5 million	$5–$15 million	$10–$25 million+	
Employees	0 to 20–25	25–75	75–100+	
Core management mode	Doing	Managing	Managing managers	

be a ragged and jagged line with many ups and downs; these companies would experience some periods of rapid progress followed by setbacks and accompanying crises.

For the purposes of illustration, Exhibit 5.3 shows venture stages in terms of time, sales, and number of employees. It is at the boundaries between stages that new ventures seem to experience transitions. Several researchers have noted that the new venture invariably goes through transition and will face certain issues.[6] Thus, the exhibit shows the crucial transitions during growth and the key management tasks of the chief executive officer or founders. Most important and most challenging for the founding entrepreneur or a chief executive officer is coping with crucial transitions and the change in management tasks, going from leading to leading leaders, as a firm grows to roughly 30 employees, to 50, to 75, and then up.

The *research and development stage*, sometimes referred to as the nascent stage, is characterized by a single aspiring entrepreneur, or small team, doing the investigation and due diligence for their business idea. The nascent stage can be as short as a few months or can last years. Research indicates that if an idea is not turned into a going concern within 18 months, the chances of a start-up fall dramatically. Nascent entrepreneurs have many fits and starts, and the business model can change often in the process.

The *start-up stage*, a stage that usually covers the first two or three years but perhaps as many as seven, is by far the most perilous stage and is characterized by the direct and exhaustive drive, energy, and entrepreneurial talent of a lead entrepreneur and a key team member or two. Here, the critical mass of people, market and financial results, and competitive resiliency are established, while investor, banker, and customer confidence is earned. The level of sales reached varies widely, but typically ranges from $2 to $20 million. A new company then begins its high growth stage. The exact point at which this occurs can rarely be identified by a date on the calendar until well after the fact. It is in this stage that new ventures exhibit a failure rate exceeding 60 percent; that is, it is in this stage that the lemons ripen.

As with the other stages, the length of time it takes to go through the *high growth stage*, as well as the magnitude of change occurring during the period, varies greatly. Probably the most difficult challenge for the founding entrepreneur occurs during the high growth stage, when he or she finds it is necessary to let go of power and control (through veto) over key decisions that he or she has always had, and when key responsibilities need to be delegated without abdicating ultimate leadership and responsibility for results. But the challenges do not end there. The next batch of up-and-comers, poised for explosive growth include: Overlay.TV, which enables layers and links to be added to streaming video; Idée Inc., which develops image recognition and visual search software; Sempa Power Systems, which offers hybrid heating to reduce energy consumption; Akoha, which created a reality-based social game; GiveMeaning, which hosts a multitude of charities online for free; and LearnHub, a social learning network.

From the high growth stage, a company then moves to what is called the *maturity stage*. In this stage, the key issue for the company is no longer survival; rather, it is one of steady, profitable growth. The *stability stage* usually follows.

Managing for Rapid Growth

Managing for rapid growth involves a leadership orientation not found in mature and stable environments. (This topic will be addressed again in Chapter 12.) For one thing, the tenet that one's responsibility must equal one's authority is often very counterproductive in a rapid-growth venture. Instead, results usually require close collaboration of a manager with other people than his or her subordinates, and managers invariably have responsibilities far exceeding their authority. Politics and personal power can be a way of life in many larger and stagnant institutions, as managers jockey for influence and a piece of a shrinking pie in a zero-sum game; but in rapid-growth firms, power and control are delegated. Everyone is committed to making the pie larger, and power and influence are derived not only from achieving one's own goals but also from contributing to the achievements of others as well. Influence also is derived from keeping the overall goals in mind, from resolving differences, and from developing a reputation as a person who gets results, can lead others, and grows leadership talent as well.

Thus, among successful entrepreneurs and entrepreneurial leaders, there is a well-developed capacity to exert influence *without* formal power. These people are adept at conflict resolution. They know when to use logic and when to persuade, when to make a concession and when to exact one. To run a successful venture, an entrepreneur learns to get along with many different constituencies, often with conflicting aims—the customer, the supplier, the financial backer, and the creditor, as well as the partners and others on the inside. Similarly, an entrepreneurial leader must operate in a world that is increasingly interdependent. Attempting to advise managers on how to exert "influence without authority," Allan Cohen and David Bradford assert, "If you are a manager, you not only need to exercise influence skills with your peers and your own boss, but also to help the people who work for you learn to be effective influencers—even of you—since that will free you to spend more of your time seeking new opportunities and working the organization above and around you."[7]

Whereas successful entrepreneurs are interpersonally supporting and nurturing—not interpersonally competitive—successful entrepreneurial leaders understand their interdependencies and have learned to incorporate mutual respect, openness, trust, and mutual benefit into their management style. Fundamental to this progressive style of management is the awareness and practice of reciprocity for mutual gain.[8] When a strong need to control, influence, and gain power over others characterizes the lead entrepreneur, or when he or she has an insatiable appetite for putting an associate down, more often than not the venture gets into trouble. A dictatorial, adversarial, and dominating management style makes it very difficult to attract and keep people who thirst for achievement, responsibility, and results. Compliant partners and managers are often chosen. Destructive conflicts often erupt over who has the final say, who is right, and whose prerogatives are what.

In the corporate setting, the "hero-making" ability is identified as an essential attribute of successful entrepreneurial leaders.[9] These hero makers try to make the pie bigger and better, rather than jealously clutching and hoarding a tiny pie that is all theirs. They have a capacity for objective interpersonal relationships as well, which enables them to smooth out individual differences of opinion by keeping attention focused on the common goal to be achieved.[10]

Exhibit 5.4 characterizes probable crises that growing ventures will face, including erosion of creativity by founders and team members; confusion or resentment, or both, over ambiguous roles, responsibilities, and goals; failure to clone founders; specialization and eroding of collaboration; desire for autonomy and control; need for operating mechanisms and controls; and conflict and divorce among founders and members of the team. The exhibit further delineates issues that confront entrepreneurial leaders.

EXHIBIT 5.4 Entrepreneurial Transitions

Modes/Stages	Planning	Doing	Leading	Leading Leaders
Sales	$0	$0–$5 million	$5–$15 million	$10 million or more
Employees	0–5	0–30	30–75	75 and up
Transitions	Characteristics:	Characteristics:	Probable crises:	Probable crises:
	Founder-driven	Founder-driven creativity	Erosion of creativity of founders	Failure to clone founders
	Wrenching changes	Constant change, ambiguity, and uncertainty	Confusion over ambiguous roles, responsibilities, and goals	Specialization/eroding of collaboration versus practice of power, information, and influence
	Highly influential informal advisor	Time compression	Desire for delegation versus autonomy and control	Need for operating controls and mechanisms
	Resource desperation	Informal	Need for organization and operating policies	Conflict among founders
	Very quick or very slow decision making	Communications		
		Counterintuitive decision making and structure		
		Relative inexperience		

Compounding of Time and Change In the high growth stage, change, ambiguity, and uncertainty seem to be the only things that remain constant. Change creates higher levels of uncertainty, ambiguity, and risk, which, in turn, compound to shrink time, an already precious commodity. One result of change is a series of shock waves rolling through a new and growing venture by way of new customers, new technologies, new competitors, new markets, and new people. In industries characterized by galloping technological change, with relatively minuscule lead and lag times in bringing new products to market and in weathering the storms of rapid obsolescence, the effects of change and time are extreme. For example, the president of a rapidly growing, small computer company said, "In our business it takes 6 to 12 months to develop a new computer, ready to bring to the market, and product technology obsolescence is running about 9 to 12 months." This time compression has been seen in such industries as electronics and aerospace in the 1960s; small computers, integrated circuits, and silicon chips in the 1970s; microcomputers in the 1980s; telecommunications, the Internet, and biotechnology in the 1990s; and nano and green/clean technology in the 2000s.

Nonlinear and Nonparametric Events Entrepreneurial leadership is characterized by nonlinear and nonparametric events. Just as the television did not come about by a succession of improvements in the radio, and the jet plane did not emerge from engineers and scientists attempting to develop a better and better piston engine plane, so too events do not follow straight lines, progress arithmetically, or even appear related within firms. Rather, they occur in bunches and in stepwise leaps. For example, a firm may double its sales force in 15 months, rather than over eight years, while another may triple its manufacturing capacity and adopt a new materials resource planning system immediately, rather than utilizing existing capacity by increasing overtime, then adding a third shift nine months later, and finally adding a new plant three years hence.

Relative Inexperience In addition, the management team may be relatively inexperienced. The explosive birth and growth of these firms are usually unique events that cannot be replicated, and most of the pieces in the puzzle—technology, applications, customers, people, the firm itself—are usually new. Stewart Butterfield from Victoria, B.C. and his wife Caterina Fake founded Ludicorp in Vancouver and began to work on an online multiplayer game. The tools for this project were re-deployed for Flickr—a far more promising opportunity. The move proved to be a shrewd one; Flickr launched in February 2004 and immediately captured users and industry attention. In March 2005 Yahoo! acquired this phenomenally growing enterprise.

Counterintuitive, Unconventional Decision Making Yet another characteristic of rapidly growing ventures in the entrepreneurial domain is counterintuitive, unconventional patterns of decision making. For example, a computer firm needed to decide what approach to take in developing and introducing three new products in an uncertain, risky marketplace. Each proposed new product appeared to be aimed at the same end-user market, and the person heading each project was similarly enthusiastic, confident, and determined about succeeding. A traditional approach to such a problem would have been to determine the size and growth rates of each market segment; evaluate the probable estimates of future revenue costs and capital requirements for their accuracy; compare the discounted, present-value cash flow that will emerge from each project; and select the project with the highest yield versus the required internal rate of return. Such an analysis sometimes overlooks the fact that most rapid growth companies have many excellent alternatives and, more commonly, the newness of technology, the immaturity of the marketplace, and the rapid discovery of further applications make it virtually impossible to know which of any product proposals is best. The computer firm decided to support all three new products at once, and a significant new business was built around each one. New market niches were discovered simultaneously and the unconventional approach paid off.

Fluid Structures and Procedures Most rapid growth ventures also defy conventional organizational patterns and structures. It is common to find a firm that has grown $25 million, $50 million, or even $150 million per year in sales and that still has no formal organizational chart. If an organizational chart does exist, it usually has three distinguishing features: First, it is inevitably out of date. Second, it changes frequently. For example, one firm had eight major reorganizations in its first five years as it grew to $5 million. Third, the organizational structure is usually flat (i.e., it has few management layers), and there is easy accessibility to the top decision makers. But the informality and fluidity of organization structures and procedures do not mean casualness or sloppiness when it comes to goals, standards, or clarity of direction and purpose. Rather, they translate into responsiveness and readiness to absorb and assimilate rapid changes while maintaining financial and operational cohesion.

Entrepreneurial Culture There exists in growing new ventures a common value system, which is difficult to articulate, is even more elusive to measure, and is evident in behaviour and attitudes. There is a belief in and commitment to growth, achievement, improvement, and success and a sense among members of the team that they are "in this thing together." Goals and the market determine priorities, rather than whose territory or whose prerogatives are being challenged. Managers appear unconcerned about status, power, and personal control. They are more concerned about making sure that tasks, goals, and roles are clear than whether the organizational chart is current or whether their office and rug reflect their current status. Likewise, they are more concerned about the evidence, competence, knowledge, and logic of arguments affecting a decision than the status given by a title or the formal position of the individual doing the arguing. Royston Greenwood and Roy Suddaby, both of the University of Alberta, explore institutional entrepreneurship, which is viewed as an oxymoron by some. How can those embedded within constraining structures, systems, and processes be motivated and able to promote change? Greenwood and Suddaby's research shows that such entrepreneurial actions are more likely at the periphery, among those less connected and who may be disadvantaged by prevailing arrangements and can benefit from change.[11] Japan and Korea are known to be discouraging environments for entrepreneurship whereas Taiwan encourages new business ventures and supports start-ups with the necessary resources to succeed.[12] Culture—be it national or corporate—clearly has a bearing on entrepreneurial activity.

This entrepreneurial climate, or culture, exists in larger firms also. Such a climate attracts and encourages the entrepreneurial achievers, and it helps perpetuate the intensity and pace so characteristic of high growth firms. Exhibit 5.5 shows how five companies studied by Rosabeth Moss Kanter range from most to least entrepreneurial. Kanter, who has been studying "intrapreneurship" since the 1980s, asserted that the global economy was experiencing the postentrepreneurial revolution, which "takes entrepreneurship a step further, applying entrepreneurial principles to the traditional corporation, creating a marriage between entrepreneurial creativity and corporate discipline, cooperation, and teamwork."[13] This revolution has not made managing any easier; in fact, Kanter suggests, "This constitutes the ultimate corporate balancing act. Cut back and grow. Trim down and build. Accomplish more, and do it in new areas, with fewer resources."[14] Clearly, some corporations will embrace these challenges with more success than others; the following section will shed some light on how "giants learn to dance."[15]

What Entrepreneurial Leaders Need to Know

Much of business education traditionally has emphasized and prepared students for life in the managerial domain. There is nothing wrong with that, but education preparing students to start and lead vibrant, growing new ventures cannot afford to emphasize managerial efficiency, maintenance tasks, resource ownership, and institutional formalization. Rather, such a program needs to emphasize skills necessary for life in the entrepreneurial domain. For example, effective entrepreneurial leaders need to be especially skillful at regulating conflict, resolving differences, balancing multiple viewpoints and demands, and building teamwork and consensus. These skills are particularly difficult when working with others outside one's immediate formal chain of command.

In talking of larger firms, Kanter identifies power and persuasion skills, skill in managing problems accompanying team and employee participation, and skill in understanding how change is designed and constructed in an organization as necessary. Kanter notes:

EXHIBIT 5.5 Characteristics of Five Companies, Ranging from Most to Least Entrepreneurial

	Companies Studied				
	Chipco	**Radco**	**Medco**	**Finco**	**Utico**
Percent of effective managers with entrepreneurial accomplishments	71%	69%	67%	47%	33%
Economic trend	Steadily up	Trend up but now down	Upward trend	Mixed	Downward trend
Change issues	Change normal; constant change in product generation; proliferating staff and units.	Change normal in products, technologies; changeover to second management generation with new focus.	Reorganized 2–3 years ago to install matrix; normal product and technology changes.	Change a shock; new top management group from outside reorganizing and trying to add competitive market posture.	Change a shock; undergoing reorganization to install matrix and add competitive market posture and reducing staff.
Organization structure	Matrix	Matrix in some areas; product lines act as quasi divisions.	Matrix in some areas.	Divisional; unitary hierarchy within division; some central officers.	Functional organization; currently overlaying matrix of regions and markets.
Information flow	Decentralized	Mixed	Mixed	Centralized	Centralized
Communication emphasis	Free Horizontal	Free Horizontal	Moderately free Horizontal	Constricted Vertical	Constricted Vertical
Culture	Clear, consistent; favours individual initiative.	Clear, though in transition from invention emphasis to routinization and systems.	Clear; pride in company; belief that talent will be rewarded.	Idiosyncratic; depends on boss and area.	Clear but undergoing changes; favours security, maintenance, and protection.
Emotional climate	Pride in company, team feeling, some burnout.	Uncertainty regarding changes.	Pride in company; team feeling.	Low trust; high uncertainty.	High uncertainty, confusion.
Rewards	Abundant; visibility, chance to do more challenging work in the future, and get bigger budget projects.	Abundant; visibility, chance to do more challenging work in the future, and get bigger budget projects.	Moderately abundant; conventional.	Scarce; primarily monetary.	Scarce; promotion and salary freeze; recognition by peers grudging.

Source: Reprinted by permission of *Harvard Business Review*. From "Middle Managers as Innovators" by Rosabeth Moss Kanter, July-August 1982, p. 103. Copyright © 1982 by the Harvard Business School Publishing Corporation; all rights reserved.

> In short, individuals do not have to be doing "big things" in order to have their cumulative accomplishments eventually result in big performance for the company… They are only rarely the inventors of the "breakthrough" system. They are only rarely doing something that is totally unique or that no one, in any organization, ever thought of before. Instead, they are often applying ideas that have proved themselves elsewhere, or they are rearranging parts to create a better result, or they are noting a potential problem before it turns into a catastrophe and mobilizing the actions to anticipate and solve it.[16]

A study of midsized growth companies having sales or profit growth of more than 15 percent annually over five years confirms the importance of many of these same fundamentals of entrepreneurial management.[17] For one thing, these companies practised opportunity-driven management. According to the study, they achieved their first success with a unique product or distinctive way of doing business and often became leaders in market niches by delivering superior value to customers, rather than through low prices. They are highly committed to serving customers and pay very close attention to them. For another thing, these firms emphasize financial control and managing every element of the business.

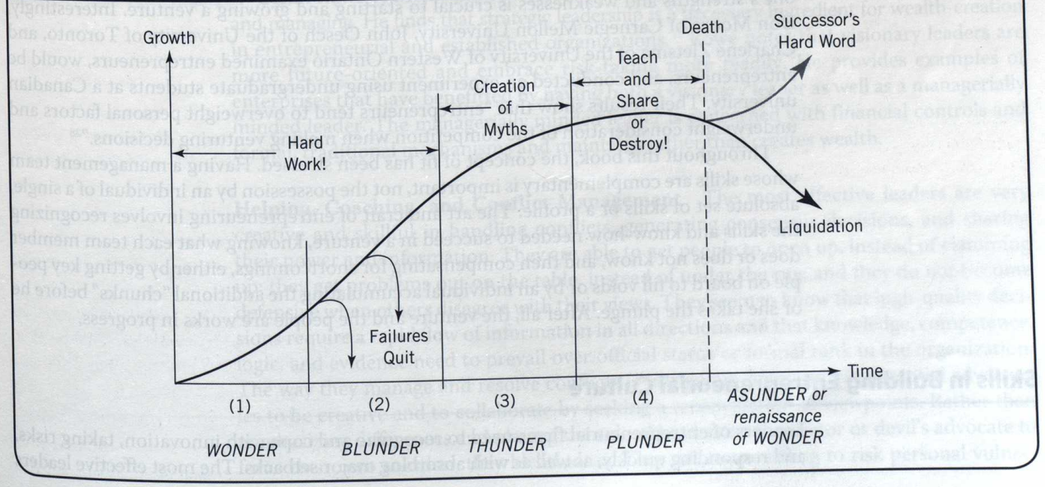
In a book that follows up on the implementation issues of how one gets middle managers to pursue and practise entrepreneurial excellence (first made famous in *In Search of Excellence* by Tom Peters and Bob Waterman), two authors note that some of the important fundamentals practised by team-builder entrepreneurs—who are more intent on getting results than just getting their own way—also are emulated by effective middle managers.[18] Or as John Sculley, of Apple, explained:

> The heroic style—the lone cowboy on horseback—is not the figure we worship anymore at Apple. In the new corporation, heroes won't personify any single set of achievements. Instead, they personify the process. They might be thought of as gatekeepers, information carriers, and teams. Originally heroes at Apple were the hackers and engineers who created the products. Now, more teams are heroes.[19]

The ability to shape and guide a cohesive team is particularly critical in high-tech firms where the competitive landscape can shift dramatically in the face of disruptive technologies. In his book *The Innovator's Dilemma*, Clayton Christensen finds that even aggressive, innovative, and customer-driven organizations can be rendered obsolete if they fail to take decisive, and at times radical, actions to stay competitive.[20] The point of greatest peril in the development of a high-tech market, writes Geoffrey Moore in his book *Crossing the Chasm*, lies in making the transition from an early market, dominated by a few visionary customers, to a mainstream market that is dominated by a large block of customers who are predominantly pragmatists in orientation.[21] In Exhibit 5.6, entrepreneur Edward Marram describes this as the "Blunder" stage of growth, perilously positioned between "Wonder" and Thunder."

Lead entrepreneurs whose companies successfully break into the mass market must then find a way to manage the hyper-growth and gigantic revenues that can result from an international surge in demand.[22] Several entrepreneurial leaders who have skillfully negotiated these high-tech waters are as well-known as the companies they founded: think Michael Dell, Robert Herjavec, Michael Cowpland, and Suhayya Abu-Hakima. What sort of skills and personality are required to achieve such high levels of performance in a dynamic and uncertain marketplace? As portrayed in Stephen Covey's classic work, *The 7 Habits of Highly Effective People*, these individuals are curious, proactive team builders who have a passion

EXHIBIT 5.6 Stages of Growth



for continuous improvement and renewal in their lives and in their ventures. Maybe most important in this context: these leaders have "the ability to envision, to see the potential, to create with their minds what they cannot at present see with their eyes . . . "[23]

Ethical Entrepreneurial Leadership

According to Donald Kuratko, an authority in the field, "No perspective of entrepreneurial leadership would be complete without the acknowledgement of the ethical side of enterprise. ... A leader has the unique opportunity to display honesty, integrity, and ethics in all key decisions." A leader's behaviour serves as a model for others to emulate.[24] Clearly the entrepreneurial leader's value system plays an important role, one that will be more fully explored in Chapter 7 "Ethical Decision Making and the Entrepreneur."

"In entrepreneurial ventures, the ethical influence of the owner is more powerful than in larger corporations because his or her leadership is not diffused through layers of management."[25] A venture founder is readily recognized and under constant scrutiny by the whole team. Entrepreneurial owners have the potential to set high ethical standards in all business decisions.[26] It is worth noting that there is a 'dark side' of entrepreneurial behaviour—a potentially destructive element resides within the energetic drive of successful entrepreneurs."[27] Leaders must monitor their entrepreneurial ego and know that an inflated self-view can have negative repercussions. Beyond the notion that 'power corrupts,' risk, control, trust, and optimism are all forces that entrepreneurs must embrace. Risk, for example, is something both sought after and avoided by entrepreneurs in a manner different from non-entrepreneurs.

COMPETENCIES AND SKILLS

Entrepreneurs who build substantial companies that grow to more than $10 million in sales and 75 to 100 employees are good entrepreneurs and good leaders. Typically, they will have developed a solid base and a wide breadth of leadership skills and know-how over a number of years working in different areas (e.g., sales, marketing, manufacturing, and finance). It would be unusual for any single entrepreneur to be outstanding in all areas. More likely, a single entrepreneur will have strengths in one area, such as strong people management, conceptual and creative problem-solving skills, and marketing know-how, as well as some significant weaknesses. While it is risky to generalize, often entrepreneurs whose background is technical are weak in marketing, finance, and general management. Entrepreneurs who do not have a technical background are, as you might expect, often weakest in the technical or engineering aspects. Honest self-assessment is therefore key. Knowing one's strengths and weaknesses is crucial to starting and growing a venture. Interestingly, Don Moore of Carnegie Mellon University, John Oesch of the University of Toronto, and Charlene Zietsma of the University of Western Ontario examined entrepreneurs, would be entrepreneurs, and conducted an experiment using undergraduate students at a Canadian university. Their results show that "entrepreneurs tend to overweight personal factors and underweight consideration of the competition when making venturing decisions."[28]

Throughout this book, the concept of fit has been stressed. Having a management team whose skills are complementary is important, not the possession by an individual of a single, absolute set of skills or a profile. The art and craft of entrepreneuring involves recognizing the skills and know-how needed to succeed in a venture, knowing what each team member does or does not know, and then compensating for shortcomings, either by getting key people on board to fill voids or by an individual accumulating the additional "chunks" before he or she takes the plunge. After all, the venture and the people are works in progress.

Skills in Building Entrepreneurial Culture

Leaders of entrepreneurial firms need to recognize and cope with innovation, taking risks, and responding quickly, as well as with absorbing major setbacks. The most effective leaders

seem to thrive on the hectic, and at times chaotic, pace and find it challenging and stimulating, rather than frustrating or overwhelming. They use a consensus approach to build a motivated and committed team, they balance conflicting demands and priorities, and they manage conflicts adroitly.

These leaders thus need interpersonal/teamwork skills that involve (1) the ability to create, through management, a climate and spirit conducive to high performance, including pressing for performance while rewarding work well done and encouraging innovation, initiative, and calculated risk taking; (2) the ability to understand the relationships among tasks and between the leader and followers; and (3) the ability to lead in those situations where it is appropriate, including a willingness to manage actively, supervise and control activities of others through directions, suggestions, and the like.

Hao Ma of Peking University and Justin Tan of York University see the entrepreneur as a pioneer. Whether building a new venture or via intrapreneurship, pioneers are relentless champions of creativity and innovation.[29] Characteristics of pioneers include: passion, perseverance, purposeful, persuasive, and relentless in pursuit of goals. Bruno Dyck and Frederick Starke both of the University of Manitoba observed a number of instances where individuals either broke away from an existing business to start a new venture as a result of a polarizing event or were assuaged to stay. A leader can learn to handle such situations and recognize causes of conflict and instill harmony.[30]

These interpersonal skills can be called entrepreneurial influence skills, since they have a great deal to do with the way these managers exact influence over others.

Leadership, Vision, Influence Successful entrepreneurs are skillful in creating clarity out of confusion, ambiguity, and uncertainty. These entrepreneurial leaders are able to define adroitly and gain agreement on who has what responsibility and authority. Further, they do this in a way that builds motivation and commitment to cross-departmental and corporate goals, not just parochial interests. But this is not perceived by other managers as an effort to jealously carve out and guard personal turf and prerogatives. Rather, it is seen as a genuine effort to clarify roles, tasks, and responsibilities, and to make sure there is accountability and appropriate approvals. This does not work unless the leader is seen as willing to relinquish his or her priorities and power in the interest of an overall goal. It also requires skill in making sure the appropriate people are included in setting cross-functional or cross-departmental goals and in making decisions. When things do not go as smoothly as was hoped, the most effective leaders work them through to an agreement. Those who are accustomed to traditional line/staff or functional chains of command are often baffled and frustrated in their new role. While some may be quite effective in dealing with their own subordinates, it is a new task to manage and work with peers, the subordinates of others, and even superiors outside one's chain of command.

Glenn Rowe of Memorial University of Newfoundland examines the paradox of leading and managing. He finds that strategic leadership is a necessary ingredient for wealth-creation in entrepreneurial and established organizations.[31] Rowe notes that visionary leaders are more future-oriented and embrace risk-taking more readily. He provides examples of enterprises that have benefitted by having both a visionary leader as well as a managerially minded leader. The managerially minded leader is concerned with financial controls and formal, traditional mechanisms and maintains rather than creates wealth.

Helping, Coaching, and Conflict Management The most effective leaders are very creative and skillful in handling conflicts, generating consensus decisions, and sharing their power and information. They are able to get people to open up, instead of clamming up; they get problems out on the table, instead of under the rug; and they do not become defensive when others disagree with their views. They seem to know that high-quality decisions require a rapid flow of information in all directions and that knowledge, competence, logic, and evidence need to prevail over official status or formal rank in the organization. The way they manage and resolve conflicts is intriguing. They can get potential adversaries to be creative and to collaborate by seeking a reconciliation of viewpoints. Rather than emphasizing differences and playing the role of hard-nose negotiator or devil's advocate to force their own solution, they blend ideas. They are more willing to risk personal vulner-

ability in this process—often by giving up their own power and resources—than are less-effective leaders. They insist on fairness and integrity in the short and long term, rather than short-term gain. The trade-offs are not easy: At the outset, such an approach involves more managers, takes more time, often appears to yield few immediate results, and seems like a more painful way to lead. Later, however, the gains from the motivation, commitment, and teamwork anchored in consensus are striking. For one thing, there is swiftness and decisiveness in actions and follow-through because the negotiating, compromising, and accepting of priorities is history. For another, new disagreements that emerge do not generally bring progress to a halt, since there is both high clarity and broad acceptance of the overall goals and underlying priorities. Without this consensus, each new problem or disagreement often necessitates a time-consuming and painful confrontation and renegotiation simply because it was not done initially. Apparently, the Japanese understand this quite well.

Teresa Coady and Bunting Coady Architects

Teresa Coady's university thesis on "living breathing buildings" was rejected as not being architecture. Ahead of her time, it envisioned structures that would enhance, not harm, the natural environment—providing healthy and aesthetic surroundings for the buildings' inhabitants. Teresa overcame that obstacle and pushed for greener, cleaner building solutions. Today as CEO of the firm she founded with Tom Bunting, she leads over 50 full-time employees on cutting-edge projects. On the subject of her clients, she says: "They love the way we work and they love our values."[32]

Teresa's Vancouver-based firm has a positive impact on resource use. The work climate is collaborative from start to finish delivering a building. Teresa is credited with pioneering the integrated design process. This defies the traditional view of the architect as a sole creator, accepting no outside input. Both Teresa Coady and her firm contribute to causes of interest, including scholarships and hospital charities. Teresa sits on the boards of directors for both the U.S. and Canadian green building councils.[33]

An employee describes Teresa as an "inspirational leader" indicating that Teresa is very positive and asks others to never criticize. In an interview when she received a 2008 Canadian Woman Entrepreneur Award, Teresa said, "It's so important to find your passion in life. And once you do everything you learn will just go in effortlessly. And when you have a passion other people will recognize it in you and help you achieve your goals."[34]

Teamwork and People Management Another form of entrepreneurial influence has to do with encouraging creativity and innovation, and with taking calculated risks. Entrepreneurial leaders build confidence by encouraging innovation and calculated risk taking, rather than by punishing or criticizing whatever is less than perfect. They breed independent, entrepreneurial thinking by expecting and encouraging others to find and correct their own errors and to solve their own problems. This does not mean they follow a throw-them-to-the-wolves approach. Rather, they are perceived by their peers and other managers as accessible and willing to help when needed, and they provide the necessary resources to enable others to do the job. When it is appropriate, they go to bat for their peers and subordinates, even when they know they cannot always win. An ability to make heroes out of other team members and contributors and to make sure others are in the limelight, rather than accept these things oneself, is another critical skill.

The capacity to generate trust—the glue that binds an organization or relationship together—is critical. The most effective leaders are perceived as trustworthy; they behave in ways that create trust. They do this by being straightforward. They do what they say they are going to do. They are not the corporate rumour carriers. They are open and spontaneous, rather than guarded and cautious with each word. And they are perceived as being honest and direct. They treat their associates with respect, as they would want to be treated. They share the wealth with those who help create it by their high performance.

Also, it is easy to envision the kind of track record and reputation these entrepreneurial leaders build for themselves. They have a reputation of getting results, because they understand that the task of managing in a rapid growth company usually goes well beyond one's immediate chain of command. They become known as the creative problem solvers who have a knack for blending and balancing multiple views and demands. Their calculated risk-taking works out more often than it fails. And they have a reputation for developing human capital (i.e., they groom other effective and capable individuals to lead growth).

Other Necessary Competencies

Entrepreneurial leaders need a sound foundation in what are considered traditional management skills. Interestingly, in a study of practising entrepreneurs mentioned earlier, no one assigned much importance to capital asset-pricing models, beta coefficients, linear programming, and so forth, the prevailing and highly touted "new management techniques."[35] The list below is divided into six areas.

Marketing

- *Market research and evaluation.* Ability to analyze and interpret market research study results, including knowing how to design and conduct studies and to find and interpret industry and competitor information, and a familiarity with questionnaire design and sampling techniques. One successful entrepreneur stated that what is vital "is knowing where the competitive threats are and where the opportunities are and an ability to see the customers' needs."
- *Marketing planning.* Skill in planning overall sales, advertising, and promotion programs and in deciding on effective distributor or sales representative systems and setting them up.
- *Product pricing.* Ability to determine competitive pricing and margin structures and to position products in terms of price and ability to develop pricing policies that maximize profits.
- *Sales management.* Ability to organize, supervise, and motivate a direct sales force, and the ability to analyze territory and account sales potential and to manage a sales force to obtain maximum share of market.
- *Direct selling.* Skills in identifying, meeting, and developing new customers and in closing sales. Without orders for a product or service, a company does not really have a business.
- *Service management.* Ability to perceive service needs of particular products and to determine service and spare-part requirements, handle customer complaints, and create and manage an effective service organization.
- *Distribution management.* Ability to organize and manage the flow of product from manufacturing through distribution channels to ultimate customer, including familiarity with shipping costs, scheduling techniques, and so on.
- *Product management.* Ability to integrate market information, perceived needs, research and development, and advertising into a rational product plan, and the ability to understand market penetration and breakeven.
- *New product planning.* Skills in introducing new products, including market testing, prototype testing, and development of price/sales/merchandising and distribution plans for new products.

Operations/Production

- *Manufacturing management.* Knowledge of the production process, machines, personnel, and space required to produce a product and the skill in managing production to produce products within time, cost, and quality constraints.
- *Inventory control.* Familiarity with techniques of controlling in-process and finished goods inventories of materials.
- *Cost analysis and control.* Ability to calculate labour and materials costs, develop standard cost systems, conduct variance analyses, calculate overtime labour needs, and manage/control costs.

- *Quality control.* Ability to set up inspection systems and standards for effective control of quality of incoming, in-process, and finished materials. Benchmarking continuous improvement.
- *Production scheduling and flow.* Ability to analyze work flow and to plan and manage production processes, to manage work flow, and to calculate schedules and flows for rising sales levels.
- *Purchasing.* Ability to identify appropriate sources of supply, to negotiate supplier contracts, and to manage the incoming flow of material into inventory, and familiarity with order quantities and discount advantages.
- *Job evaluation.* Ability to analyze worker productivity and needs for additional help, and the ability to calculate cost-saving aspects of temporary versus permanent help.

Finance

- *Raising capital.* Ability to decide how best to acquire funds for start-up and growth; ability to forecast funds needs and to prepare budgets; and familiarity with sources and vehicles of short- and long-term financing, formal and informal.
- *Managing cash flow.* Ability to project cash requirements, set up cash controls, and manage the firm's cash position, and the ability to identify how much capital is needed, when and where you will run out of cash, and breakeven.
- *Credit and collection management.* Ability to develop credit policies and screening criteria, and to age receivables and payables, and an understanding of the use of collection agencies and when to start legal action.
- *Short-term financing alternatives.* Understanding of payables management and the use of interim financing, such as bank loans, factoring of receivables, pledging and selling notes and contracts, bills of lading and bank acceptance; and familiarity with financial statements and budgeting/profit planning.
- *Public and private offerings.* Ability to develop a business plan and an offering memo that can be used to raise capital, a familiarity with the legal requirements of public and private stock offerings, and the ability to manage shareholder relations and to negotiate with financial sources.
- *Bookkeeping, accounting, and control.* Ability to determine appropriate bookkeeping and accounting systems as the company starts and grows, including various ledgers and accounts and possible insurance needs.
- *Other specific skills.* Ability to read and prepare an income statement and balance sheet, and the ability to do cash flow analysis and planning, including breakeven analysis, contribution analysis, profit and loss analysis, and balance sheet management.

Entrepreneurial Management

- *Problem solving.* Ability to anticipate potential problems; ability to gather facts about problems, analyze them for real causes, and plan effective action to solve them; and ability to be very thorough in dealing with details of particular problems and to follow through.
- *Communications.* Ability to communicate effectively and clearly—orally and in writing—to media, public, customers, peers, and subordinates.
- *Planning.* Ability to set realistic and attainable goals, identify obstacles to achieving the goals, and develop detailed action plans to achieve those goals, and the ability to schedule personal time very systematically.
- *Decision making.* Ability to make decisions on the best analysis of incomplete data, when the decisions need to be made.
- *Project management.* Skills in organizing project teams, setting project goals, defining project tasks, and monitoring task completion in the face of problems and cost/quality constraints.
- *Negotiating.* Ability to work effectively in negotiations, and the ability to balance quickly value given and value received. Recognizing onetime versus ongoing relationships.
- *Managing outside professionals.* Ability to identify, manage, and guide appropriate legal, financial, banking, accounting, consulting, and other necessary outside advisors.
- *Personnel administration.* Ability to set up payroll, hiring, compensation, and training functions.

Law and Taxes

- *Corporate and securities law.* Familiarity with the commercial codes, including forms of organization and the rights and obligations of officers, shareholders, and directors; and familiarity with securities regulations, and other provincial and federal laws concerning the commercial activity of your firm, both registered and unregistered, and the advantages and disadvantages of different instruments.
- *Contract law.* Familiarity with contract procedures and requirements of government and commercial contracts, licences, leases, and other agreements, particularly employment agreements and agreements governing the vesting rights of shareholders and founders.
- *Law relating to patent and proprietary rights.* Skills in preparation and revision of patent applications and the ability to recognize a strong patent, trademark, copyright, and privileged information claims, including familiarity with claim requirements, such as intellectual property.
- *Tax law.* Familiarity with provincial and federal reporting requirements, including specific requirements of a particular form of organization, of profit and other pension plans, and the like.
- *Real estate law.* Familiarity with leases, purchase offers, purchase and sale agreements, and so on, necessary for the rental or purchase and sale of property.
- *Bankruptcy law.* Knowledge of bankruptcy law, options, and the forgivable and nonforgivable liabilities of founders, officers, and directors.

Information Technology

- Information and management systems tools from laptop to Internet: sales, supply chain, inventory, payroll, etc.
- Business to business, business to consumer, business to government via the Internet.
- Sales, marketing, manufacturing, and merchandising tools.
- Financial, accounting, and risk analysis and management tools (e.g., Cognos's business intelligence software).
- Telecommunications and wireless solutions for corporate information, data, and process management.

As has been said before, not all entrepreneurs will find they are greatly skilled in the areas listed above, and if they are not, they will most likely need to acquire these skills, either through apprenticeship, through partners, or through the use of advisors. However, while many outstanding advisors, such as lawyers and accountants, are of enormous benefit to entrepreneurs, these people are not always businesspeople and they often cannot make the best business judgments for those they are advising. For example, lawyers' judgments, in many cases, are so contaminated by a desire to provide perfect or fail-safe protection that they are totally risk averse.

Chapter Summary

1. The growing enterprise requires that the founder and team develop competencies as entrepreneurial leaders.
2. Founders who succeed in growing their firms beyond $5 million in sales learn to adapt and grow quickly themselves as leaders, or they do not survive.
3. Founders of rapidly growing firms defy the conventional wisdom that entrepreneurs cannot manage growing beyond the start-up.
4. Ventures go through stages of growth from start-up, through rapid growth, to maturity, to decline and renewal. Leaders are also expected to evolve and go through transitions.
5. The largest single factor that increases the complexity and difficulty of leading a young company is its rate of growth in orders and revenue.
6. The faster the rate of growth, the more difficult and challenging are the issues, and the more flexible, adaptive, and quick learning must be the organization.
7. Entrepreneurs create and invent new and unique approaches to organizing and leading teams.
8. As ventures grow, the core competencies need to be covered by the team.

Study Questions

1. What is the difference between an entrepreneurial leader and a manager?
2. What must founders and teams do to grow their ventures? What leadership skills and abilities are necessary?
3. Define the stages that most companies experience as they grow, and explain the leadership issues and requirements anticipated at each stage.
4. What drives the extent of complexity and difficulty of management issues in a growing company?

Mind Stretchers *Have you considered?*

1. It is often said, "You cannot hire an entrepreneur." What are the implications for large companies today?
2. How would you characterize the attitudes, behaviours, and mind-sets of the most effective leaders and managers you have worked for? The worst? What accounts for the difference?
3. What would be your strategy for changing and creating an entrepreneurial culture in a large, nonentrepreneurial firm? Is it possible? Why, or why not?

EXERCISE Leadership Skills and Know-How Assessment

Name: _____

Venture: _____

Date: _____

Part I—Competency Inventory

Part I of the exercise involves filling out the Competency Inventory and evaluating how critical certain competencies are either (1) for the venture or (2) personally over the next one to three years. How you rank the importance of competencies, therefore, will depend on the purpose of your assessment.

Step 1 Complete the Competency Inventory on the following pages. For each competency, place a check in the column that best describes your knowledge and experience. Note that a section is at the end of the inventory for **unique skills** required by your venture; for example, if it is a service or franchise business, there will be some skills and know-how that are unique. Then rank from 1 to 3 particular competencies as follows:

1 = Critical

2 = Very Desirable

3 = Not Necessary

	Competency Inventory				
	Rank	Thorough Knowledge & Experience (Done Well)	Some Knowledge and Experience (So-So)	No Knowledge or Experience (New Ground)	Importance (1–3 Years)
MARKETING					
Market Research and Evaluation Finding and interpreting industry and competitor information; designing and conducting market research studies; analyzing and interpreting market research data; etc.					
Market Planning Planning overall sales, advertising, and promotion programs; planning and setting up effective distributor or sales representative systems; etc.					
Product Pricing Determining competitive pricing and margin structures and breakeven analysis; positioning products in terms of price; etc.					
CUSTOMER RELATIONS MANAGEMENT					
Customer Service Determining customer service needs and spare-part requirements; managing a service organization and warranties; training; technical backup, telecom and Internet systems and tools; etc.					
Sales Management Organizing, recruiting, supervising, compensating, and motivating a direct sales force; analyzing territory and account sales potential; managing sales force; etc.					
Direct Selling Identifying, meeting, and developing new customers, suppliers, investors, brain trust and team; closing sales; etc.					
Direct Mail/Catalogue Selling Identifying and developing appropriate direct mail and catalogue sales and related distribution; etc.					
Electronic and Telemarketing Identifying, planning, implementing appropriate telemarketing programs; Internet-based programs; etc.					
SUPPLY CHAIN MANAGEMENT					
Distribution Management Organizing and managing the flow of product from manufacturing through distribution channels to customers; knowing the margins throughout the value chain; etc.					
Product Management Integrating market information, perceived needs, research and development, and advertising into a rational product plan; etc.					
New Product Planning Planning the introduction of new products, including market testing, prototype testing, and development of price, sales, merchandising, and distribution plans; etc.					

	Competency Inventory				
	Rank	Thorough Knowledge & Experience (Done Well)	Some Knowledge and Experience (So-So)	No Knowledge or Experience (New Ground)	Importance (1–3 Years)
OPERATIONS/PRODUCTION					
Manufacturing Management Managing production to produce products within time, cost, and quality constraints; knowledge of manufacturing resource planning; etc.					
Inventory Control Using techniques of controlling in-process and finished goods inventories; etc.					
Cost Analysis and Control Calculating labour and materials costs; developing standard cost systems; conducting variance analyses; calculating overtime labour needs; managing and controlling costs; etc.					
Quality Control Setting up inspection systems and standards for effective control of quality in incoming, in-process, and finished goods; etc.					
Production Scheduling and Flow Analyzing work flow; planning and managing production processes; managing work flow; calculating schedules and flows for rising sales levels; etc.					
Purchasing Identifying appropriate sources of supply; negotiating supplier contracts; managing the incoming flow of material into inventory; etc.					
Job Evaluation Analyzing worker productivity and needs for additional help; calculating cost-saving aspects of temporary versus permanent help; etc.					
FINANCE					
Accounting Determining appropriate bookkeeping and accounting systems; preparing and using income statements and balance sheets; analyzing cash flow, breakeven, contribution, and profit and loss; etc.					
Capital Budgeting Preparing budgets; deciding how best to acquire funds for start-up and growth; forecasting funds needs; etc.					
Cash Flow Management Managing cash position, including projecting cash requirements; etc.					
Credit and Collection Management Developing credit policies and screening criteria, etc.					
Short-Term Financing Managing payables and receivables; using interim financing alternatives, managing bank and creditor relations; etc.					

	Competency Inventory				
	Rank	Thorough Knowledge & Experience (Done Well)	Some Knowledge and Experience (So-So)	No Knowledge or Experience (New Ground)	Importance (1–3 Years)
Public and Private Offering Skills Developing a business plan and offering memo; managing shareholder relations; negotiating with financial sources deal structuring and valuation; etc.					
ENTREPRENEURIAL LEADERSHIP					
Problem Solving Anticipating problems and planning to avoid them; analyzing and solving problems; etc.					
Culture and Communications Communicating effectively and clearly, both orally and in writing, to customers, peers, subordinates, outsiders, etc. Treating others as you would be treated, sharing the wealth, giving back; etc.					
Planning Ability to set realistic and attainable goals, identify obstacles to achieving the goals, and develop detailed action plans to achieve those goals.					
Decision Making Making decisions based on the analysis of incomplete data; etc.					
Ethical Competency Ability to define and give life to an organization's guiding values; to create an environment that supports ethically sound behaviour; and to instill a sense of shared accountability among employees.					
Project Management Organizing project teams; setting project goals; defining project tasks; monitoring task completion in the face of problems and cost/quality constraints; etc.					
Negotiating Working effectively in negotiations; etc.					
Personnel Management Setting up payroll, hiring, compensation, and training functions; identifying, managing, and guiding appropriate outside advisors; etc.					
Management Information Systems Knowledge of relevant management information systems available and appropriate for growth plans; etc.					
Information Technology and the Internet Using spreadsheet, word processing, and other relevant software; using email, management tools, and other appropriate systems.					
INTERPERSONAL TEAM					
Entrepreneurial Leadership/Vision/ Influence Actively leading, instilling vision and passion in others, and managing activities of others; creating a climate and spirit conducive to high performance; etc.					

	Competency Inventory				
	Rank	Thorough Knowledge & Experience (Done Well)	Some Knowledge and Experience (So-So)	No Knowledge or Experience (New Ground)	Importance (1–3 Years)
Helping Determining when assistance is warranted and asking for or providing such assistance.					
Feedback Providing effective feedback or receiving it; etc.					
Conflict Management Confronting differences openly and obtaining resolution; using evidence and logic; etc.					
Teamwork Working with others to achieve common goals; delegating responsibility and coaching subordinates; etc.					
Build a Brain Trust Connecting with experts and seeking advice and value.					
LAW					
Corporations Understanding business law, forms of organization, and the rights and obligations of officers, shareholders, and directors; etc.					
Contracts Understanding the requirements of government and commercial contracts, licences, leases, and other agreements; etc.					
Taxes Understanding provincial and federal reporting requirements; understanding tax shelters, estate planning, fringe benefits, and so forth.					
Securities Understanding regulations of the provincial/territorial securities commission and agencies; etc.					
Patents and Proprietary Rights Understanding the preparation and revision of patent applications; recognizing strong patent, trademark, copyright, and privileged information claims; etc.					
Real Estate Understanding agreements necessary for the lease or purchase and sale of property; etc.					
Bankruptcy Understanding options and the forgivable and nonforgivable liabilities of founders, officers, directors, and so forth.					
Unique Skills List unique competencies required. 1. 2. 3.					

Part II—Competency Assessment

Part II involves assessing strengths and weaknesses, deciding which areas of competence are most critical, and developing a plan to overcome or compensate for any weaknesses and to capitalize on strengths.

Step 1 Assess leadership strengths and weaknesses:

- Which skills are particularly strong?

- Which skills are particularly weak?

- What gaps are evident? When?

Step 2 Circle the areas of competence most critical to the success of the venture, and cross out those that are irrelevant.

Step 3 Consider the implications for you and for developing the venture management team.

- What are the implications of this particular constellation of strengths and weaknesses?

- Who in your team can overcome or compensate for each critical weakness?

- How can you leverage your critical strengths?

- What are the time implications of the above actions? For you? For the team?

- How will you attract and fill the critical gaps in your weaknesses?

Step 4 Obtain feedback. If you are evaluating your competencies as part of the development of a personal entrepreneurial strategy and planning your apprenticeship, refer back to exercise "Crafting a Personal Entrepreneurial Strategy" in Chapter 1.

CASE MED-ENG SYSTEMS INC.

Preparation Questions

1. What would you do if you were Mr. L'Abbé?
2. How will you satisfy investor demand for growth? Are there new markets on the horizon (e.g., space suits, underwater suits, bear-proof suits)? Are you the best candidate to lead Med-Eng into the future?
3. Where will this industry, this company, and you be in two to three years and in 10-plus years?

A World of Terror

On July 11, 2006 a series of seven explosions within 11 minutes tore through commuter trains in Mumbai, India. The death toll reached 200 with hundreds more injured—four suspects were eventually apprehended. Were these bombings a precursor to the coming G8 summit? Was this '7/11' event tied into others?

9/11, Bali, Madrid, 7/7, Istanbul, Riyadh, and numerous other bombings by fundamentalist organizations increasingly against Westerners caught the attention of the media and changed the mood of the world. In the explosive post-9/11 environment, police forces and militaries had an extraordinary new need to deal with the threat of explosive ordnances. The human tragedy of violent incidents was remarkable and provided impetus for governments throughout the world to take measures necessary to discourage or prevent future occurrences.

Proven Protection for a Dangerous World™

Fortunately, many firms were actively attempting to address the need for better security and had developed products aimed at protecting police and civilians from the growing threat of global terrorism. One such enterprise was Med-Eng Systems Inc. based in Ottawa, Ontario; a leader in the research, design, and manufacture of a plethora of personal protective systems aimed at helping police forces and militaries confront explosive ordnances in a way that ensured the safety of their personnel.

For this privately held venture the key to developing cutting-edge products and staying on top was to "do the right things right every time, through the collaboration of its clients, vendors, and employees."[1] This stakeholder-driven approach to product development and marketing led Med-Eng to be on the receiving end of numerous awards, both for the company's competitive strength and international posture. Superior technologies had also led to superior profit margins. Although at inception the firm manufactured protective helmets solely, Med-Eng went on to garner over 95 percent of the bomb disposal suit market worldwide—a market that the firm was forced to enter in 1991 after Med-Eng fought off a takeover attempt from a U.S.-based competitor.

Even after giving up on testing Med-Eng suits himself—after a noteworthy call from his life insurance agent—L'Abbé's attitude toward the company and its products was steadfast. What had changed, however, was the security environment internationally. Terrorism and escalating conflict in many parts of the world led Med-Eng equipment to markets in over 140 countries worldwide.

Products

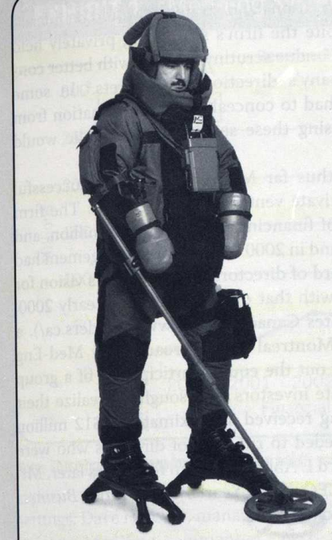
Med-Eng Systems did not just produce equipment for the war on terrorism. Med-Eng produced a variety of interrelated wares that were used for other purposes; however, most purchases were for police forces and defence organizations.[2] The firm produced most of its 'gear' with a mix of sourced and in-house components and tried to integrate the ideas and concerns of stakeholders into the process. Med-Eng was reputed for its top-notch research activities (often conducted with the input of customers, suppliers, and users of its equipment). Products sold by Med-Eng were subdivided into six main areas of application:

- Bomb suits and helmets represented the firm's core competency and the firm had upwards of 95 percent of global market share in this area. From the period 2002 to 2005, this segment moved from 80 percent of Med-Eng's overall sales revenue to 20 percent. While sales for this segment had remained steady, efforts to diversify were proving fruitful.
- Remote handling devices known as 'hook and line kits' to move explosive devices.
- Demining visors, helmets, hand protection, and footwear, including the company's trademark Spider boot. With millions of anti-personnel landmines still buried and thousands falling victim each year to landmines left from past wars, Med-Eng made it a priority to manufacture suits to safeguard those removing landmines. This line of business arose from a C$2 million injection of venture capital in 1997, the year that Princess Diana took up the cause and thus influenced the signing, after her death, of the international treaty to ban the use of landmines.
- Force protection outfits were used to equip soldiers facing the threat of being hit by blast, fragmentation, flame, ballistics, and electronic (radio wave) weaponry. These suits were engineered to provide military personnel the best possible protection when faced with serious threat. This segment was pursued as it showed great promise in fulfilling U.S. military need.
- Crowd management solutions included gear for prison riots and public demonstrations where items such as Molotov cocktails, stones, and glass bottles posed a threat to the safety of a security force. Gloves, shin guards, helmets, and suits were tailored to this purpose. The outfits came in a variety of configurations and colours—depending on application. They could be worn 'armour out' to look tough or could be covered by loose clothing to look less intimidating.
- Personal climate systems such as cooling vests, specialized garments, and chillers were designed and built for use in high temperatures, but recent battlefield reviews from Iraq and Afghanistan were mixed.

This case was written by Nicholas P. Robinson, Faculty of Law, McGill University, and Prescott C. Ensign, for purposes of classroom discussion.

[1] www.med-eng.com/.

[2] Med-Eng products could be ordered by a government body for official use; no products were available to the public. This was in contrast to companies that 'cashed in' on the public's fear to sell bullet-proof vests, stab-proof clothing, and armour plating for residences and vehicles.



Competition and New Entrants

In addition to the public mood shift leading to lower sales, the number of companies offering riot-type protective gear exploded, with many firms offering suits of varying degrees of quality throughout the world. Given the comparably low degree of technological complexity involved in manufacturing and building riot gear, firms from South America, China and other regions of Asia, and Eastern Europe all competed in the market.[3] Whereas the development of a bomb suit required a notable amount of R&D investment and advanced materials engineering,[4] in contrast, designing and building a riot suit was an accomplishable task for a company without the same degree of technological sophistication as Med-Eng.

Med-Eng's problems were further compounded as competitors chose to copy the company's superior product design. This was a sizeable issue in countries where local authorities wanted to buy suits from local companies, and also had little respect for the concept of intellectual property. Resultantly, Med-Eng's designs were replicated and sold throughout the globe—illegally, under different brand names. Roughly seven or eight clones of Med-Eng's product emerged on the world market and the firm twice successfully challenged and won injunctions against companies that stole Med-Eng's product design.

Ultimately, lagging sales, intense competition, and copycat products led Med-Eng to believe that their entry into this market would prove to be relatively unprofitable. The firm's attempts to diversify its product line by entering the body temperature control market yielded similar lessons. After buying Delta Temax Inc.—a Pembroke, Ontario, body cooling system maker—in January 2001, Med-Eng focused on marketing its new acquisition's line of refrigerated vests to industrial workers by presenting the idea to unions, management, and workers themselves. Med-Eng believed that this approach would open up considerable opportunity and lead to new orders from an entirely new market—thereby diversifying the company and steadying sales.

Closing One Door, Opening Another

The firm's sales in the industrial sector flopped and by summer 2004, Richard L'Abbé decided to "pull the plug" on selling cooling apparel to the industrial market. Coinciding with this let down was a spark—the U.S. Army began to face a dilemma in Iraq: troops located there were having difficulty tolerating the extreme heat of the Middle Eastern climate while driving often un-air conditioned vehicles and wearing several pounds of thick personal body armour and other heavy gear that acted as insulators trapping body heat.

"This was expected to be a very profitable new market for Med-Eng," remarked L'Abbé, "we hoped to see sales of our cooling devices to the U.S. Armed Forces go into the stratosphere." Med-Eng put to use some of Delta Temax's sewing facilities to start manufacturing different items such as the bomb disposal

[3] V-Top's guards for ankles, shins, knees, hips, and thighs had even been marketed to crash-prone downhill mountainbikers prior to Med-Eng's acquisition of the company.

[4] Certainly Med-Eng's R&D efforts had put the company sufficiently ahead that competitors were barely recognizable for much of the company's product offerings. And Med-Eng did not rest on its laurels, more and more money was ploughed into product development every year. On several occasions Med-Eng has availed itself of help from the National Research Council's Industrial Research Assistance Program.

suits. On the redeployment of resources L'Abbé commented: "So, despite an unsuccessful bid at selling cooling systems in the industrial market, we managed to acquire a new skill set that could be used more generally in the manufacture of other products."

Selling "Made In Canada" in the USA

Med-Eng's Canadian identity had several interesting impacts on the firm's ability to sell its products in the U.S. and elsewhere internationally. The fact that Canada, under the leadership of Prime Minister Jean Chrétien, had decided in 2002 not to join the U.S.-led 'Coalition of the Willing' to invade Iraq made the company an obvious target for criticism that it was not playing on the right team to do business with the U.S. In the past, the Canadian aura had generally served Med-Eng well; Med-Eng benefited from the popular conception worldwide that Canadians were peacekeepers, polite, friendly, and a good dependable neighbour.

After contemplating several bids for substantial contracts, Med-Eng discovered that, for the most part, lucrative U.S. Government contracts were awarded to large U.S. companies with good connections and a strong presence in the U.S. This meant that, as a medium-sized Canadian company with revenues below the US$100-million mark, chances of single-handedly succeeding in a bid for a sizeable U.S. contract were slim. For this reason, the company pursued partnering with large U.S. firms for larger contracts (over US$20 million). These contracts for military equipment for the U.S. foray into Iraq were often widely publicized and criticized by political pundits; fearful of this, few elected officials wanted to hand out a contract of this nature to a foreign company. Avoiding this dilemma through partnerships while securing big contracts with U.S. defence contractors in need of equipment was a promising avenue for Med-Eng. Furthermore, according to CEO Richard L'Abbé, "getting with the right partner could mean receiving additional support in other areas—it could be a new source of knowledge and skills."

IPO Potential

As Med-Eng grew, those on both the outside and inside began to ask whether a company with revenues in excess of C$50 million would be better served as a publicly held firm. L'Abbé and many others in the firm were convinced that the volatility of the company's revenues would disappoint analysts and create an element of instability. L'Abbé knew that because of their client base and trends in police and defence spending, revenues could not be steadied to the extent that investors would tolerate and that fickle investors would not appreciate the company's business structure. According to L'Abbé, "sometimes, you have to have a bad year before you can have a great year." Besides, L'Abbé felt Med-Eng would not want to have to "drop its pants in front of analysts every quarter just to make them happy." The firm's CEO was convinced that being privately held meant that the company could operate free of the rhetoric and pressures of investors looking for a steady return. The nature of the company's product also meant that publicly announcing new innovations and strategies would be infeasible. Altogether, despite the firm's size, being privately held meant freedom from undue scrutiny coupled with better control over the company's direction and secrets.[5] In some instances, Med-Eng had to conceal certain information from employees so disclosing these secrets to the public would never be an option.[6]

On top of that, thus far Med-Eng had been successful in getting enough private venture capital to grow. The firm received one round of financing in 1997 of C$2 million, and received a second round in 2000 when upper management had a run-in with the board of directors. Management's vision for Med-Eng conflicted with that of the board, so in early 2000, Schroders & Associates Canada Inc. (www.schroders.ca/), a buyout group from Montreal was approached by Med-Eng management "to buy out the equity participation of a group of four inactive private investors who sought to realize their investment." Med-Eng received approximately C$12 million in venture capital needed to rid itself of directors who were critical of CEO Richard L'Abbé. Less than four years later, Mr. L'Abbé was named 'CEO of the Year' by the *Ottawa Business Journal* as revenues skyrocketed.

Afghanistan, Iraq, and Beyond

Leaning back at his desk in his Ottawa office, Richard L'Abbé, CEO and co-founder of Med-Eng Systems, looked out the window as employees streamed into the parking lot on a cold autumn morning. It was October 2006 and maple leaves were changing colour from green to yellows, oranges, and reds. The U.S. Department of Homeland Security threat advisory colour schema was currently at the midpoint of the scale: Yellow "Elevated: Significant risk of terrorist attacks." The next higher level of terrorist threat was Orange, which was divided into two degrees of severity and had been activated eight times in the four years since the scale was introduced. The first Red alert—the highest likelihood of terrorist attack—occurred in mid-August 2006. Military operations in Afghanistan and Iraq seemed likely to continue. Med-Eng products were increasingly playing a protective role in active combat.

A number of defence contractors were working on personal microclimate cooling systems. There were those worn by the dismounted warfighter—as such, the cooling vest was typically a heat activated cold pack that would absorb the wearer's heat; alternatively there might be a source of power circulating air around the torso to provide cooling. For the mounted warfighter—weight and power were less of a concern. The soldier could be hooked up to a system that cycled refrigerated fluid through a vest. According to one soldier returning from Iraq "You kind of get used to being shot at but you never get used to being hot."[7]

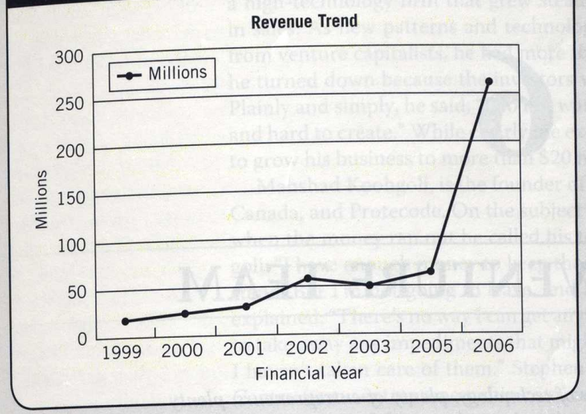
Med-Eng's cupola protective ensemble (CPE) was an integrated system combining both personal safety and cooling. The CPE was worn by the gunner exposed on top of an armoured HUMVEE. The CPE's cooling system might also serve in other

[5] This is not to say the company received little critical feedback. On the contrary, a board of advisors was often scathing, asked serious questions, and kept L'Abbé and the entire organization in check. L'Abbé was quick to give credit to the advisors for their positive influence, "this was certainly not a group of 'yes men'."

[6] Many business directories listed Med-Eng as a manufacturer of "surgical appliances and supplies," "clothes," or "safety helmets." Little effort was made to correct these inaccuracies, even the company Web site listed the names of no employees, only job titles; email addresses contained neither first names nor last names merely job descriptions (e.g., sales, R&D, recruiting, etc.).

[7] Scott R. Gourley, "Chill Out," www.special-operations-technology.com/.

EXHIBIT 1 Med-Eng Systems Inc.'s Revenues



Note: These figures are approximations from public sources.

settings. Dave Hatcher, manager of strategic business development at Med-Eng commented, "we're looking at numerous other applications. If you look at the Abrams, the Stryker, or the Bradley, any one of the vehicles could take that type of cooling system to cool the individuals inside of the vehicle."[8] While the cooling system portion of the ensemble had multiple applications and competitors; the defence portion of the CPE seemed to have at least one more competitor than it did applications. A CROW (common remotely operated weapons station) could replace the exposed gunner. A turret with camera and weapons permitted the soldier to remain inside a vehicle to view a computer screen with one hand on a joystick. At between US$200,000 to US$250,000 per fitting, they were an expensive alternative.

What Next?

Med-Eng needed to increase its markets and find new ways of ensuring sustained revenue growth. The simple fact was that the world had a finite number of police departments and new growth would have to emerge from somewhere. War was becoming a foreseeable constant. There would likely always be a need for manned weapons and the CPE could play a role in protecting gunners in Stryker interim armoured vehicles and up-armoured trucks. Because the CPE was derived from the EOD suits, the product met U.S. Department of Defense approval in just 10 weeks in 2005, including blast tests at Aberdeen Proving Ground. Med-Eng's CPE had been in service with U.S. troops in Iraq since January 2006. With much on his mind, L'Abbé reclined in his chair and pondered the future—both his and MedEng's.

The company had been through 'growing pains.' A decent cadre of middle managers was in place and L'Abbé was confident that his marketing and sales teams were taking initiative. It took some time for them and him to get used to changing roles and responsibilities—things now ran smoothly; freedom, independence, experimentation, and exploration were the norm. While these had always been strengths of engineering and design within Med-Eng Systems, moving these characteristics from the lab to the market had taken effort. Cutting-edge science was not enough; there needed to be similar thinking in approaching the marketplace. Getting entrepreneurial traits to migrate was not easy; sometimes the solution had been to replace rather than remould an employee. L'Abbé recognized that he could no longer hold onto everything, but he still knew about—even if not first hand—everything that was going on. If he had to go on vacation, the place could run without him. He had given his teams room to fail—and they had—but they got it right most of the time. The 'Midas touch' had spoiled them in the past, but at this point only hard work and logic were responsible for their ongoing success.

[8] Scott R. Gourley, "Chill Out," www.special-operations-technology.com/.