



**Universität
Zürich** UZH

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

Prof. Dr. Ulrich Kaiser

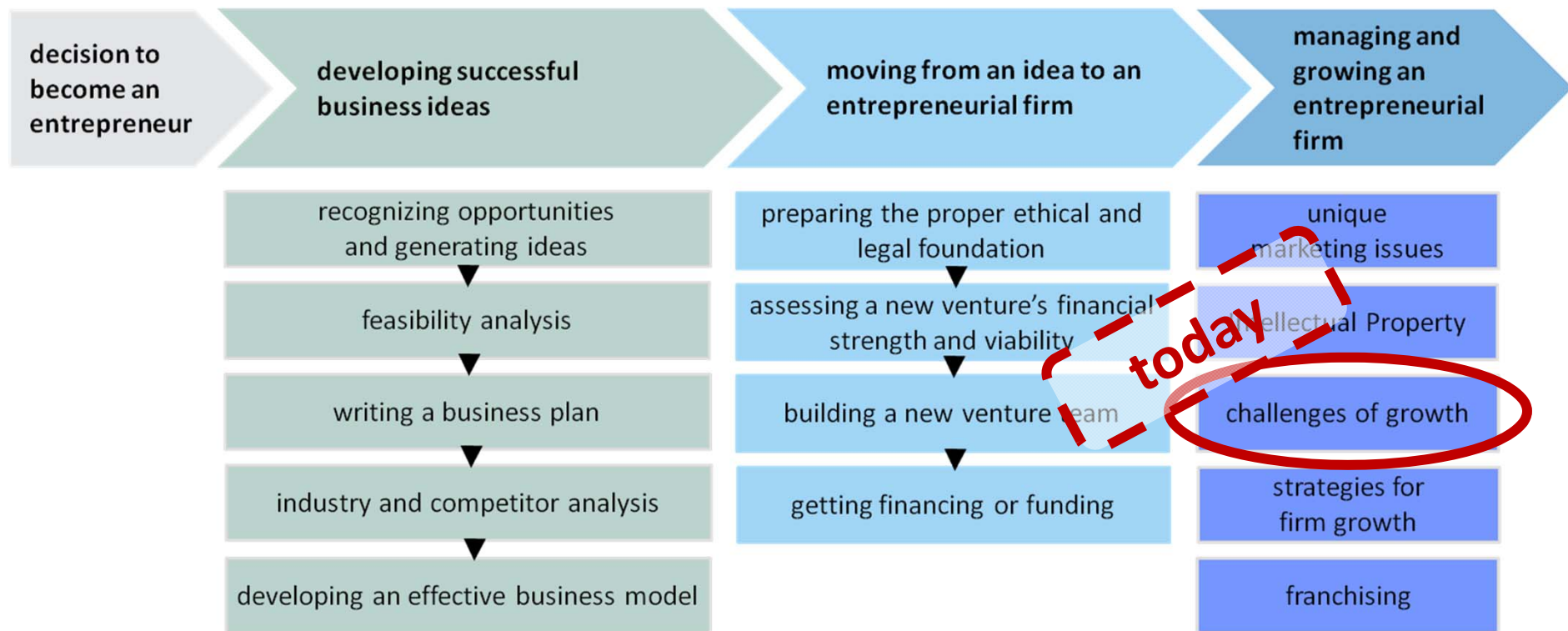
Chair of Entrepreneurship

Universität Zürich

Fall 2014



Content





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A Primer in Entrepreneurship

Part IV Managing and Growing an Entrepreneurial Firm

Lecture 13

Preparing for and Evaluating the Challenges for Growth

Prof. Dr. Ulrich Kaiser
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Agenda

1. Preparing for Growth

- 1.1 Reasons for Firm Growth
- 1.2 Benchmarking Against Successful Growth Firms

2. Challenges of Growth

- 2.1 Managerial Capacity
- 2.2 Typical Challenges of Growing a Firm
- 2.3 Developing and Maintaining Professional Business Practices
- 2.4 Typical Challenges of Growing a Firm

3. Attributes of Successful Growth Firms



Questions

? Why do many firms want to grow?

? What are typical challenges of growth?

? What are attributes of growth firms?

...to be answered in today's lecture.



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1.1 Reasons for firm Growth

Sustained growth

Growth in both revenues and profits over an extended period of time.

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Strategy ▾

- Fundamentals of Growth**
- Business Unit Strategy
- Corporate Strategy
- BothBrain® Innovation
- Emerging Markets

For a business to survive, growth is an imperative, not an option. But only one in ten companies succeeds in achieving sustained growth. We help companies grow by driving their core business to full potential and pursuing adjacencies that strengthen the core.



1.1 Reasons for firm Growth

Sustained growth

Despite these numbers, most firms try to grow,
and see it as an important part of their ability to remain successful.



1.1 Reasons for firm Growth

Why growth?

Economies of scale

Economies of scope

Market leadership

Influence, Power, and Survivability

Growth of Key Customers

Employee retention



1.1 Reasons for firm Growth

Why growth?

Economies of Scale

Increasing production lowers the average cost of each unit produced.

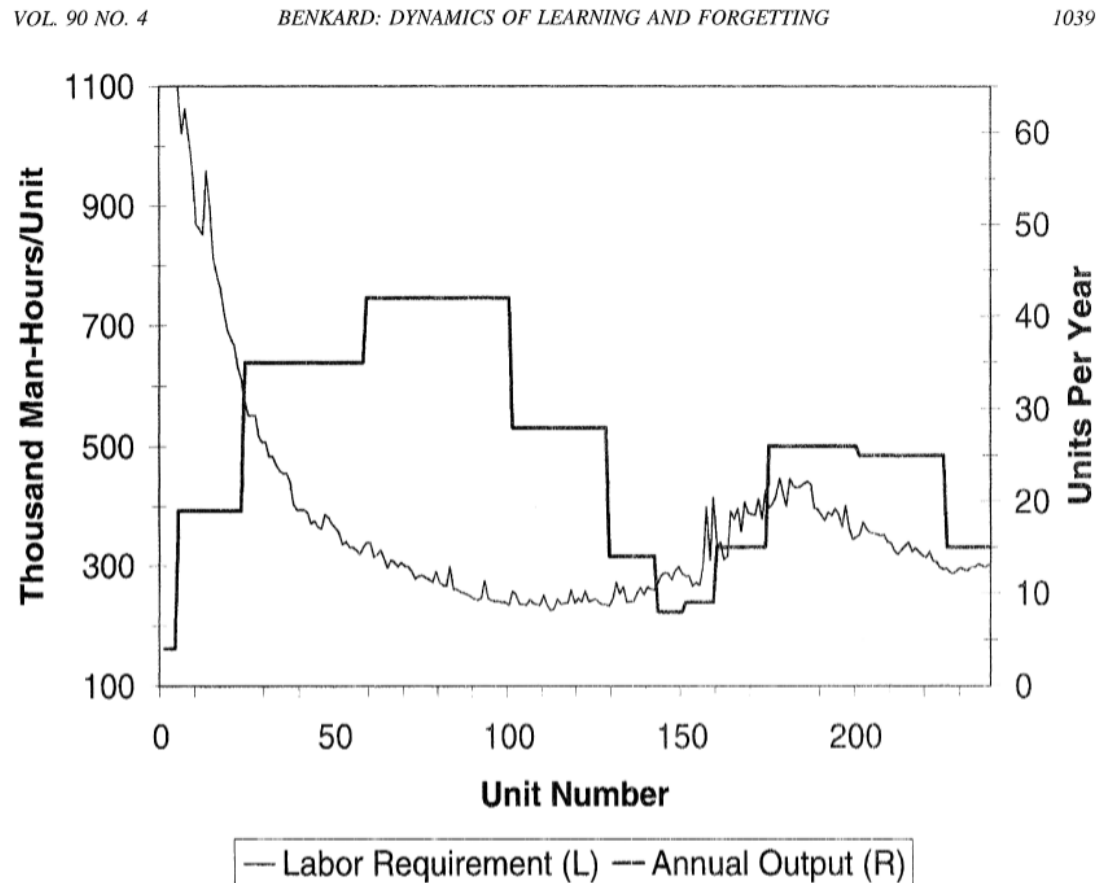
Economies of Scope

Advantage comes through the scope (or range) of a firm's operations rather than from its scale of production.



1.1 Reasons for firm Growth

Why growth?



Benkard, L. (2000), Learning and Forgetting: The Dynamics of Aircraft Production, American Economic Review, 90:4, 1034-1054.



1.1 Reasons for firm Growth

Scalable business models

A scalable business model is one in which increased revenues cost less to deliver than current revenues, so profit margins increase as sales go up.

Example

Computer software – development very costly, but delivering software program to consumers inexpensive.

Catch

Sufficient demand for the product needed to continually drive revenues up.



GENEVA MOTOR SHOW

Auto Overcapacity Gives Leaders Another Issue to Ponder



Denis Balibouse/Reuters

The auto show in Geneva. Europe's luxury car companies have weathered the recession better than mass-market makers.

By JACK EWING

Published: March 7, 2012



1.1 Reasons for firm Growth

Scalable business models

Market Leadership

Number one or two firm in industry/niche in terms of sales (→ economies of scale & brand leadership)

The larger → the more influence & power (standard setting/"foot in the door"/prestige)

Influence, Power, and Survivability

Accommodate Growth of Key Customers

Promotional opportunities for employees

Attract and Retain Talented Employees



1.2 Benchmarking Against Successful Growth Firms

Benchmarking

Improving the quality of an activity by identifying and copying the methods of other successful firms.

1. Facilitates the setting of goals;
2. Motivates staff by showing what is possible;
3. Provides early warnings of competitive disadvantages.

Benchmarking advantages



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2.1 Managerial Capacity

Managerial Capacity Problem

Growth is limited by the managerial capacity (i.e., personnel, expertise, and intellectual resources) that a firm has available to implement new business ideas.

Administrative framework

1. Entrepreneurial services.
2. Managerial services.

Entrepreneurial services

New market, product, and
service ideas

Managerial services

Administer the routine functions of the firm;
facilitate the profitable execution of new
opportunities.



2.1 Managerial Capacity

Adverse selection

As the number of employees a firm needs increases, it becomes increasingly difficult for it to find the right employees, place them in appropriate positions, and provide adequate supervision.

Moral hazard

New hires typically do not have the same ownership incentives as the original founders
→ not as motivated. may even try to avoid hard work.

Informational asymmetry



2.2 Typical Challenges of Growing a Firm

Cash Flow Management

Growth usually increases rather than decreases the challenges involved with cash flow management, because an increase in sales means that more cash will be flowing into and out of the firm.

Price Stability

If firm growth comes at the expense of a competitor's market share, a price war can result.



<http://www.entrepreneur.com/article/222528>



2.2 Typical Challenges of Growing a Firm

Quality Control

Growing firms must handle more service requests and paperwork, and contend with more customers,



Toyota Recalls 5,850 Cars, Mostly In U.S., For Possible Steering Issue

REUTERS | NOV. 4, 1:37 PM | 181

<http://www.businessinsider.com/category/toyota>

Capital Constraints

Growth → more pressing capital constraints.



2.3 Developing and Maintaining Professional Business Practices

Formal management systems Need to implement formal management systems or procedures.

Speed \neq control

Right balance between (i) moving quickly and seizing market opportunities and (ii) the need for a well-managed growth plan and professional business practices.



2.4 Myths about growth

Growth companies
= technology companies

Many, but no dominance.

Rapid-growth in rapid-growth
industries only

Many, but no dominance.

Must have: first-mover
advantage

Not a must.



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3. Growth-Related Attributes

Growth-Oriented Vision

Helps firms crystallize the importance of growth for its stakeholders and ensure that its major decisions are made with growth in mind.

Commitment to Growth

The extent to which a firm is committed to pursuing growth.

Business Growth Planning

Process of setting growth-related goals and objectives; then mapping out a plan to achieve those goals and objectives.

Business Partnerships

Participation in business partnerships also spurs growth.



Do you know the answer ?



Reasons for growth: returns to scale and scope; employee retention.



Typical challenges of growth: managerial capacity; employee selection.



Attributes of growth firms: growth-oriented vision; partnerships.

...test yourself.



References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching New Ventures, Pearsons Prentice-Hall.



Outlook

