

# A NEW LANDSCAPE FOR ENTREPRENEURS



HARVARD  
BUSINESS  
SCHOOL

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100  
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1908-2008

Launching New Ventures: Jump-Starting Innovation for Entrepreneurs and Business Owners

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Today's entrepreneurs, along with small and midsize business owners, face a host of challenges as they work to harness promising opportunities and avoid local and global threats. In this interview, **LYNDA M. APPLGATE**, Henry R. Byers Professor of Business Administration at Harvard Business School (HBS), discusses the issues central to her recent research on building new ventures and leading radical business innovation in the face of significant market, technological, and regulatory turbulence.

**Q: What are some of the external factors that today's entrepreneurs and business owners need to consider in their funding strategies?**

The pace of innovation, a significantly more complex business environment, and globalization have raised the bar for entrepreneurs and business owners. The window of opportunity, for instance, is smaller today. Entrepreneurs are under incredible time pressure: they must act quickly before a competitor moves in. Those competitors may be large firms or private equity financed firms with access to significant resources; they also may be firms in developing markets with access to labor markets at a fraction of the cost of those in developed markets.

Indeed, in the past, entrepreneurship was a local phenomenon—companies started small and grew slowly. But today, a company may be global from the start: it might launch in Massachusetts; source technology or procurement services in India; outsource manufacturing in China; and seek customers worldwide with the help of the Internet.

Another key factor is the regulatory environment, which has created a greater need for financial transparency and for professionalism in governance and accounting. These were once primarily the concerns of public companies, but now even small companies are coming under scrutiny.

**Q: How has the funding environment changed in recent years?**

When starting new ventures or taking a small business to the next level, entrepreneurs and business owners must consider multiple financing options, from self-funding to strategic investors to venture capital and other forms of private equity. They must choose a mix that best suits a specific venture at a certain point in its evolution, always keeping in mind whether they intend to keep their new business independent or to sell it at a later date.

I have seen two major changes begin to influence how entrepreneurs and business owners think about the financing realm. The first change is the recent increase in money slated for private equity expansion—especially later-stage financing for small established firms. To create new value, savvy financial investors and large established players are buying niche players in fragmented industries. This consolidation play is becoming increasingly popular. An investor might take several smaller niche businesses and put them together with an infusion of capital to create a new entity with expanded potential. In one recent class, I asked 165 business owners whether a strategic investor or a private equity investor had ever offered to buy their company as part of an expansion deal. The majority raised their hands—this is dramatically different from just five years ago.

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The second major change in how new ventures and small businesses are financed is that angel investing has become more institutionalized. In the United States last year, the amount of angel capital for funding new businesses was greater than the funding from venture capital (VC).

Angel investors are active investors. In fact, they typically are experienced entrepreneurs and business owners who have built successful businesses in the past. As a result, they can contribute their experience to the business. In addition, most angel investors are investing their own money. Therefore, they have more flexibility than the typical VC investor in the amount of money they invest and in the type of exit strategy they expect.

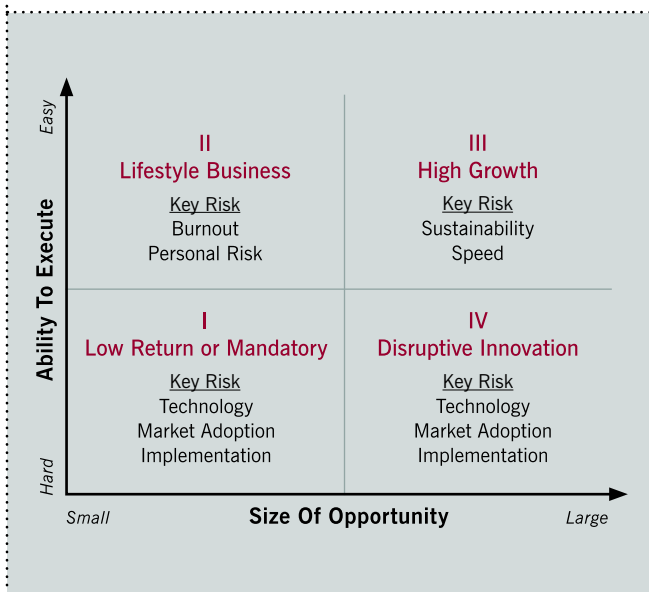
**Q: In light of these changes, how should entrepreneurs and business owners approach their financing strategies?**

I always advise entrepreneurs and business owners to consider the type of business they wish to build before they make decisions regarding financing. Do they plan to build a high-growth firm or a lifestyle business? The size of the overall opportunity, and how easy or difficult it will be to build the business, influences the amount and type of financing you need.

These factors also influence the risk you face and how it is managed. Will the new business serve as a disruptor to established players in the industry or to the customers they serve? Disruptive innovations often require more capital and take more time to build and implement. Risk levels are often high and may include technical, market, resource, and implementation risk, which must be managed closely. As such, financial investors can syndicate and minimize the risk of disruptive innovations to any one party.

“Personal leadership is important, but teams build companies.”

## RISK PROFILE OF INNOVATIONS BY TYPE



**Q: What are some of the key skills needed by entrepreneurs today?**

At the highest level, entrepreneurs must know how to assess opportunities critically and dispassionately. Once a good opportunity has been identified, entrepreneurs must be able to develop effective plans for building the “go-to-market” product or service, putting the right organization and partnerships in place, acquiring the necessary funding, and engaging market adoption.

Over the past several years, the qualities of a successful entrepreneur have definitely changed. In the past, entrepreneurs had the luxury of taking their time in developing the skills required to build a sustainable business. Now, however, they often are required to evolve their strategy and build organizational capabilities much more quickly. This requires that their personal leadership capabilities and the governance model of the business keep pace. Smart entrepreneurs realize this and ensure that they have the necessary mentors and development opportunities well before they are put to the test.

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## Q: What leadership capabilities do firms need to build?

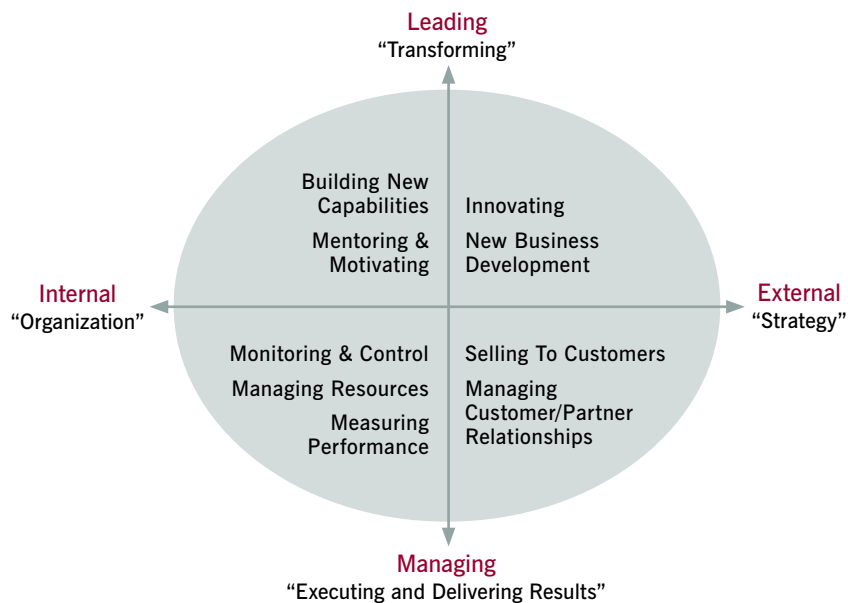
John Kotter, leadership guru and Konosuke Matsushita Professor of Leadership, Emeritus at Harvard Business School, calls on executives to ensure that their firms focus on both leadership and management. Leadership activities are all about transforming—innovating the strategy of a firm or developing new capabilities required to take a company to the next level. Management activities, on the other hand, ensure that the company can execute today’s strategy—setting challenging goals and delivering results. As such, these leadership and management capabilities may be focused on stakeholders and processes inside or outside the firm.

At various points in the company’s development, the emphasis on leadership and management, as well as the focus on external or internal stakeholders, may differ. The savvy entrepreneur and business owner, however, knows how to assemble a team with complementary outlooks and skills so that all of these areas receive the right amount of attention today—and for the long term. Personal leadership is important, but teams build companies.

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### WHAT % OF TIME DO YOU SPEND DOING THE FOLLOWING LEADERSHIP ACTIVITIES?

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### A team approach to creating successful new ventures

True innovators are focused on the long-term improvements that they can make to the company and in the industry at large. By establishing a strong team spanning all four quadrants, entrepreneurs can create a foundation for success as the company evolves.

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**Q: How do entrepreneurs and business owners acquire the necessary skills and insights to help their companies succeed?**

While it is true that some people have more of an entrepreneurial spirit, the truth is that the ability to launch and build a successful new company in this fast-paced and complex world also requires a disciplined, strategic outlook.

That is why HBS Executive Education recently created a program to meet the specific needs of entrepreneurs and business owners of small and midsize companies. *Launching New Ventures: Jump-Starting Innovation for Entrepreneurs and Business Owners* helps you to understand how to evolve strategy—as well as the capabilities required to execute that strategy—in order to deliver superior business value in a rapidly changing world. This new program is an outgrowth of a previous HBS Alumni program entitled, *The Entrepreneur's Toolkit*, which was sponsored by Ed Hajim (HBS MBA '64), serial entrepreneur and current chairman and CEO of MLH Capital.

Over the past decade, we have seen a number of business “disruptors”—such as the Internet, new business models, and globalization—which create not only great opportunities, but also unique challenges. Launching New Ventures will provide the practical insights, skills, and tools that you need to leverage disruptive opportunities and address new challenges.

**LYNDA M. APPLGATE** is the Henry R. Byers Professor of Business Administration at Harvard Business School, where she teaches courses in entrepreneurial management and in technology and innovation. An active international consultant, Applegate has served on the boards of directors and advisory boards of public and privately held companies, and as a policy adviser to the World Bank, the NASDAQ Stock Exchange, and governments around the world. She currently chairs the HBS Executive Education Owner/President Management (OPM) Program and a new program, *Launching New Ventures: Jump-Starting Innovation for Entrepreneurs and Business Owners*.

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