

## **ELEMENTS OF ENTREPRENEURIAL SUCCESS**

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### **Abstract**

This paper proposes an analytical framework to help entrepreneurs understand the need to adapt and change their management perspective over the normal growth phases of a business. Our observations confirm that as businesses grow, there are normal phases of business growth. Within those phases, the entrepreneur faces different challenges and the managerial focus changes as the company grows. Product, customer, and product delivery initially consume the entrepreneurs during the startup phase. The management process is informal and for many entrepreneurs the satisfaction level is highest during the startup phase. During the growth phase of the business, management processes and procedures must be developed and formalized. At this equilibrium point, entrepreneurs must commit to management process and delegation or risk losing their businesses. It is at this equilibrium point that many entrepreneurs decide to sell and start another venture.

### **Introduction**

There is a constant debate regarding the true nature of a “successful entrepreneur”. Research has focused on identifying common characteristics shared by entrepreneurs who have started successful new ventures. Most entrepreneurship textbooks and scholarly publications focus on the “entrepreneurial perspective”, the creation and financing of new ventures, or the management of new ventures. While entrepreneurial businesses exhibit great commonality during their startup phase, the relationship between the textbook content and the critical points found in scholarly publications lack a continuous thread linking successful entrepreneurial startups as they mature.

Hirich and Peters define entrepreneurship as “the process of creating something new and assuming the risk and rewards”. They further indicate that “in almost all definitions of entrepreneurship, there is agreement that we are talking about a kind of social and economic behavior that includes: (1) initiative, (2) a mechanism to turn resources and situations to practical account, (3) the acceptance of risk of failure”. While these definitions build a common foundation for most entrepreneurial activities, they fail to explain why as businesses mature these characteristics alone are insufficient to explain long-term viability. To better understand the workings of a true entrepreneurial business, 24 new venture businesses were selected for review over an extended period of time. All of the businesses were founded since 1985 and are located in similar socio-economic regions. The businesses represent a diversity of industry segments ranging from metal fabrication to sign service. Every attempt was made to maintain a homogeneous sample given a non-laboratory setting.

Analysis of the data indicates that during the normal changes associated with product life cycle, and the corresponding maturation of these businesses, management processes needed to be modified and the focus of the entrepreneur must embrace these modifications if the business is to prosper and survive. The need for this management refocus seems to be the agent that generates eventual discontent and lack of interest by many entrepreneurs. Each new venture began with a focus on product, customer, product delivery, and management process during their startup phase. Most of the companies devoted maximum effort on product, customer, and product delivery and market with minimal effort on the development of management processes for the company. During this first phase, the startup phase, entrepreneurs were most satisfied and content with the work environment. As the companies moved from phase one to the second phase, or the “growth phase”, management had to shift its primary focus to the management process. During this growth phase of entrepreneurial development, an “equilibrium point” was reached. At this point, the focus on product, customer, and product delivery was equal to the need for management expertise regarding process improvement.

If the high level of satisfaction and achievement associated with entrepreneurial business endeavors is to be maintained, the entrepreneur must decide whether to assume greater management responsibilities, secure expert management assistance (and relinquish some control), or slow/halt the growth of business. It is at this equilibrium point where many entrepreneurs decide to sell and start new businesses. (This fact helps explain why the average entrepreneur will initiate and develop seven companies during a career) Failures of entrepreneurial business occur in phase three, the maturity phase, if the founders do not refocus on more traditional management needs.

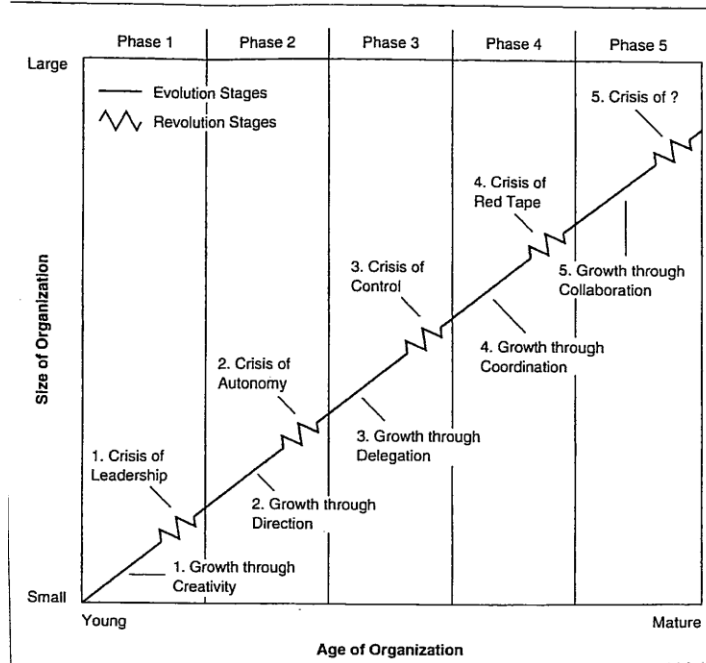
This article will present our observations supporting the above mentioned conclusions. It will describe the relative importance of the four managerial foci during the three phases of normal entrepreneurial growth. A figure depicting these relationships will be presented with detailed explanations regarding the driving managerial focus observed in each phase.

### **THREE PHASES OF ENTREPRENEURIAL GROWTH**

Many other authors have developed models for examining the growth of businesses over a period of time based on different phases of growth (Greiner, 1972; Churchill & Lewis, 1983). Greiner proposed a model of growth whereby companies move through five stages of growth starting from a young company to a mature one (See Exhibit I). The periods of growth are characterized by evolutionary growth periods followed by revolutionary periods, leading to the next phase of growth. During these revolutionary periods of time, management practices are changed to meet the needs of the growing company. This model uses the dimensions of company size (characterized primarily by sales) and years of existence as its analytical framework.

## EXHIBIT I

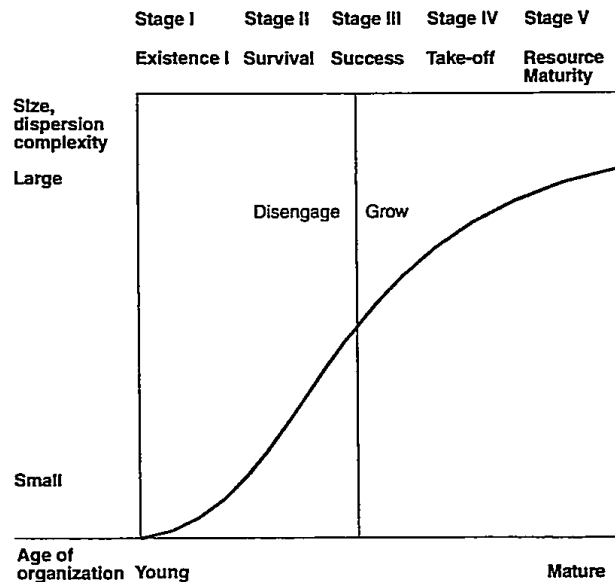
*The Five Phases of Growth.*



Churchill & Lewis developed a five phase of growth model that would apply more specifically to a “small business” (See Exhibit II). This model also uses the dimension of company size and years of existence as its analytical framework. When measuring company size, this model uses a number of factors besides sales volume such as diversity of product lines, complexity, and rate of technological change.

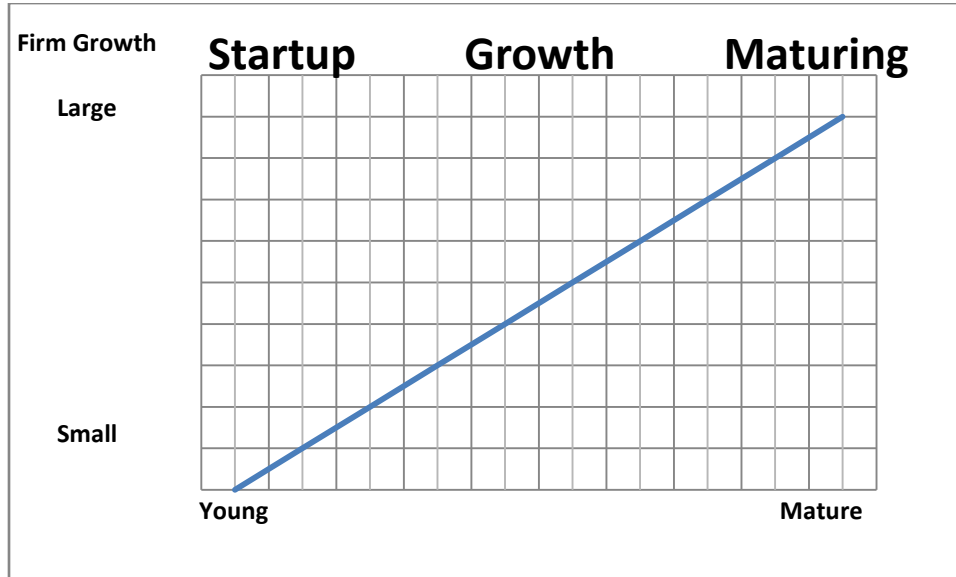
## EXHIBIT II

**Growth Stages**



To develop a better framework for analyzing a small business in relation to entrepreneurial satisfaction, we relied upon a combination of experience, the above models and a number of other models from our literature search. The framework developed is a three phase growth model (See Exhibit III). The Phases are characterized by the organizational focus on company product, customer, product delivery, and managerial processes.

**EXHIBIT III – Growth Phases**



We also developed the three phases to reflect a better alignment with how entrepreneurs develop management processes during the three phases of growth. We summarized the managerial factors characterizing each of the phases on the chart below (See Exhibit IV), and describe them further in more detail.

**EXHIBIT IV**

**Organizational Focus For Each Phase of Growth**

| <b>Organizational Focus</b>                 | <b>Startup Phase</b>           | <b>Growth</b>   | <b>Maturing</b>               |
|---|--------------------------------|---|-------------------------------|
| <i>Product Focus</i>                        | Developing and Refining        | Quality and Consistency   | Maintaining                   |
| <i>Customer Focus</i>                       | Development of New Customers   | Mixed with Development of New and Service of Existing Customers | Service of Existing Customers |
| <i>Product Delivery and Support Systems</i> | Developing and Reactive Driven | Development of Capacity and Product Consistency                 | Well Defined and Organized    |
| <i>Management Processes and Systems</i>     | Informal and Reactive          | More Formal and Developing                                      | Well Defined                  |

**Phase 1: Startup Phase**

During the startup phase of the businesses, the entrepreneurs that we observed focused primarily on product, customer, and product delivery. While the development of management processes and infrastructure was important, it was not the driving force during the startup phase. Survival of the business was the paramount focus and product, customer, and delivery were essential components of that focus. We observed the following managerial focus by the entrepreneurs during this phase:

*Product Development and Support* – The entrepreneurs spent significant time redefining their products to make them marketable to a defined customer base. Often times, the initial product did not satisfy customer needs and the entrepreneurs made the necessary product modifications in order to attract the new customers. This refining of the product was a driving force during the startup phase and the entrepreneurs' satisfaction levels were higher because of it.

*Customer Development and Support* – During the startup phase, demand for their products was relatively low with few customers. The entrepreneurs spent a significant amount of time developing customer base during the startup phase. Keeping customers happy was paramount, and entrepreneurs interacted regularly with customers. Most customer problems were solved by the entrepreneurs. This interaction with customers was an important factor in driving the startup phase of the businesses. Most entrepreneurs enjoyed this interaction with customers and developed solid and lasting relationships with customers.

*Product Delivery and Support System* – During the startup phase, the businesses observed developed basic product delivery systems. These systems could handle demand if orders occurred on a level basis. However, in most cases, product demand during the startup phase was volatile and a large order could create a serious backlog in the production process. The businesses observed were driven by a reactive product delivery system. The capacity to produce and deliver products was more a function of entrepreneurial will and determination than proactive planning. Entrepreneurs spent a significant amount of time developing the product delivery systems during the startup phase.

*Management Process and Systems* – Product refinement, customer development, and product delivery were all driving forces during the startup phase and correspondingly demanded significant amounts of the entrepreneurs' time and effort during the startup phase. The focus on management process was reactive and not proactive. Few formal management processes were in place. Most entrepreneurs relied upon a basic accounting system for information and control purposes. Entrepreneurs met daily with managers and employees so decisions could be made quickly with little formality. The financial focus was not planning based, but reactive to the cash flow needs of the businesses. The process of managing labor was informal and entrepreneurs had significant interaction with employees.

## **Phase 2: Growth Phase**

Once businesses moved into the growth phase, survival was no longer the paramount goal. The shift to sustainability and profitability changed the managerial focus. Managerial process and infrastructure became more important and demanded more of the entrepreneurs' time and effort. Less time was spent on product, customer development, and product delivery. We observed the following managerial focus by the entrepreneurs during this phase:

*Product Development and Support* – The entrepreneurs no longer spent significant amounts of time redefining products. Products and product lines were established and the focus during the growth phase was on product quality and consistency as well as customer support. Product support was delegated and performed by an increasing number of support staff. Entrepreneurs

were involved in the development of new product lines, but this no longer had the focus as it did during the startup phase.

*Customer Development and Support* – Demand for products during the growth phase became more predictable and consistent. Yearly increases were planned so that new customer development diminished in importance and support of existing customers became the focus. The entrepreneurs spent less time interacting with customers, and delegated responsibility for sales to other and customer support to managers.

*Product Delivery and Support System* – Companies built infrastructure and support systems during the growth phase to meet the increasing demand for product. Companies were better able to manage demand but that required a proactive approach by management with long term planning and budgeting. Oversight of product delivery was delegated and overall management of company became more of the focus.

*Management Process and Systems* – During the growth phase, the development of management process and systems became essential to sustaining growth. The focus on management changed from being reactive to being more proactive. Entrepreneurs spent more time away from product, customer development, and product delivery. Instead they spent more time managing people and process. Meetings with managers and employees changed from a daily basis to weekly or longer periods of time. Decisions no longer could be processes immediately and had to move through layers of management. The financial focus became profit based, requiring the use of more planning tools such as budgets and pro-forma financial statements.

### **Phase 3: Maturing Phase**

Once businesses moved into the maturing growth phase, long term growth and profitability become the paramount goal. The companies were large enough that they had adopted decentralized management systems. We observed the following managerial focus by the entrepreneurs during this phase:

*Product Development and Support* – Product lines had matured and the focus was on protecting and increasing market share. Reacting to competitors drove product changes and new product decisions. The focus on R&D was more formal and delegated to a department and skilled individuals within the organization. Product delivery had become logistic driven and process oriented.

*Customer Development and Support* – Demand for products during the maturing phase became very predictable and consistent. Maintaining market share drove customer development and the support systems for existing customers were well defined.

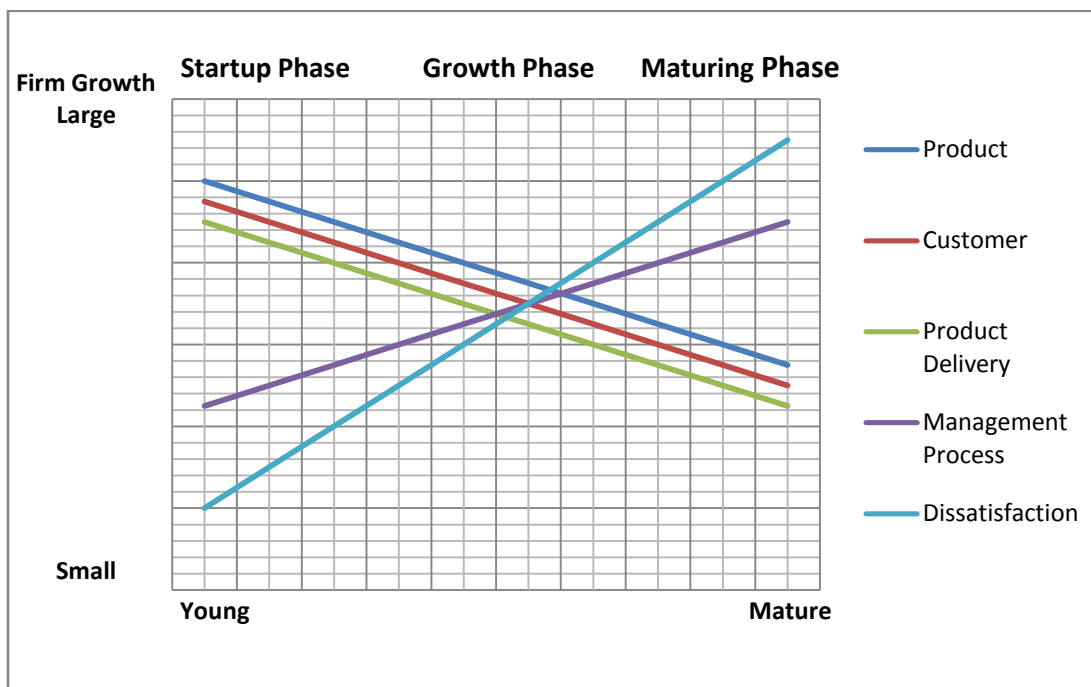
*Product Delivery and Support System* – Infrastructure and support was well developed with a corresponding ability to meet customer demand. Capacity was more than adequate and well planned in advance. Processes and procedures focused on efficiency and consistency.

*Management Process and Systems* – During the maturing phase, the management processes and systems were well developed. The management process was formal with multiple layers of management. Upper level managers oversaw the overall process and seldom met with lower level management and staff.

## ENTREPRENEURIAL EQUILIBRIUM POINT

We observed that the organizational focus on company product, customer, product delivery, and managerial processes changed as the companies grew. More specifically, was the observation that the managerial focus of entrepreneurs changed over the same period of time. Initially, entrepreneurs focused more on product, customer, and product delivery than in building managing processes and procedures. As the companies grew, more time was spent on developing management processes by the entrepreneurs. In addition, as the managerial focus changed, the dissatisfaction level of many of the entrepreneurs also rose. At some point during the growth phase, the focus on product, customer and product delivery intersected with the focus on management process to reach an “equilibrium point”. Entrepreneurial dissatisfaction also intersected at this point, as the distaste for managerial process reached a boiling point for many of the entrepreneurs. This equilibrium point is displayed graphically below (See Exhibit IV).

**EXHIBIT IV – Equilibrium Point**



This equilibrium point is a critical point where the entrepreneur must make a decision. If they want the company to continue to grow, more time must be dedicated to developing management processes and delegating operations to others. If the entrepreneur can recognize and accept this change in focus, the company can continue its growth to maturity. If the entrepreneur cannot be satisfied with this changing role, then he or she should consider selling the business. Without the commitment to building the management processes, the company may not survive.

## CONCLUSION

Our observations confirm that entrepreneurial businesses move through normal phases of business growth. Within those phases, the entrepreneur faces different challenges and the managerial focus changes as the company grows. Product, customer, and product delivery initially consume the

entrepreneur during the startup phase. The management process is informal and for many entrepreneurs the satisfaction level is highest during the startup phase. During the growth phase of the business, management processes and procedures must be developed and formalized. At this equilibrium point, entrepreneurs must commit to management process and delegation or risk losing their businesses. It is at this equilibrium point that many entrepreneurs decide to sell and start another venture.

For further study, we plan to develop a questionnaire to help entrepreneurs recognize growth phases and their overall satisfaction level. This will give entrepreneurs a better understanding regarding the actions that will enhance the success of their businesses. In addition, we plan to accumulate more quantitative data for further analysis and validation of the observation and conclusions made in this paper.

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