



# Lecture 1

Introduction to Entrepreneurship and Innovation

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# Entrepreneurship

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- There is more than one way to change the world. Some require masses of people, others depend on political consensus or ideology, and many call for vast amounts of capital. Almost all require a good dose of luck. Historically entrepreneurs (and their allies the venture capitalists) have had the most success changing the world – or at least disrupting an industry – when the necessary ingredients are large amounts of innovation and vision supported by moderate amounts of capital. Such situations are open to the application of “entrepreneurial energy”, allowing a focused team to have impact through creativity and skill – not brute force.

Source: Entrepreneurial Energy, Accel

**Not all great companies have entrepreneurial energy at their core, but almost all great venture capital investments do.**

The legendary venture-backed companies that dominate the NASDAQ today stand as testament to this.



# Entrepreneur

- An **entrepreneur** is a person who has possession of a new enterprise, venture or idea and is accountable for the inherent risks and the outcome.

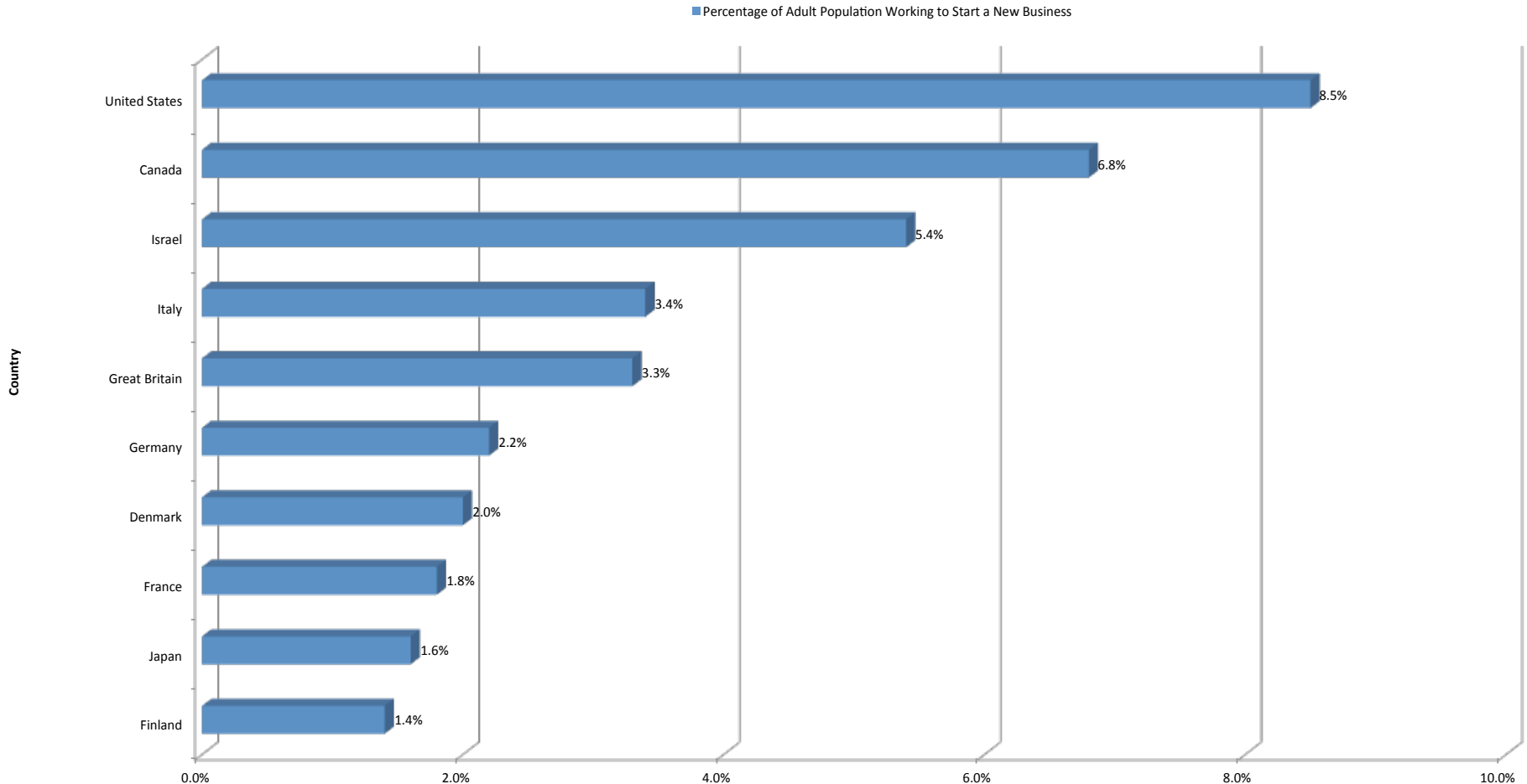


# The World of the Entrepreneur

- A new business is born every 11 seconds in the United States
- Study of influential Americans – *the* defining issue of the 21<sup>st</sup> Century: Entrepreneurship!
- One of 12 Americans is actively involved in trying to start a new business.



# Entrepreneurial Activity

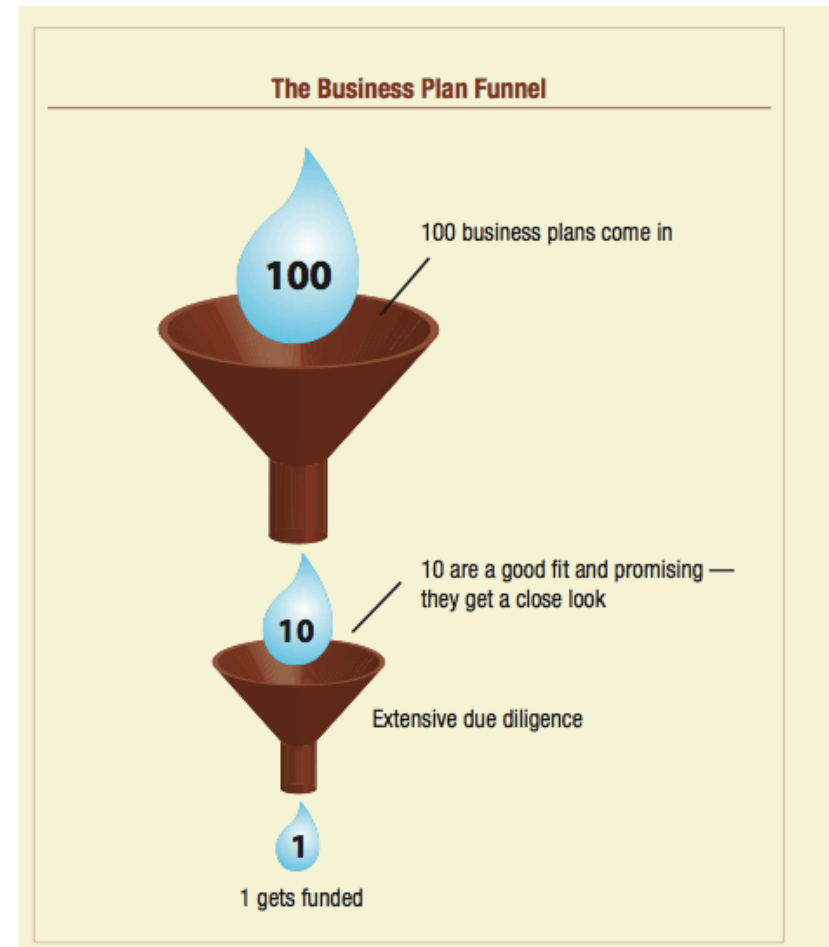




# Funding

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- Not every entrepreneur gets funding.





# Venture Capital Returns

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<u>Index</u>	<u>One Quarter</u>	<u>Year To Date</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>	<u>Fifteen Year</u>	<u>Twenty Year</u>	<u>Twenty Five Year</u>
<b>U.S. Venture Capital Index®<sup>1</sup></b>	<b>3.75</b>	<b>4.80</b>	<b>8.20</b>	<b>(2.06)</b>	<b>4.25</b>	<b>(4.64)</b>	<b>36.90</b>	<b>25.61</b>	<b>18.74</b>
Barclays Capital Gov't/Credit Bond Index	3.28	8.95	8.73	7.46	6.15	6.52	6.44	7.30	7.83
Dow Jones Industrials Average	11.13	5.57	14.12	(5.38)	3.12	2.52	7.90	10.28	11.66
Dow Jones U.S. Small Cap Index	11.65	9.73	15.23	(2.62)	3.16	5.40	8.46	NA	NA
Dow Jones U.S. TopCap Index	11.66	4.29	10.68	(6.69)	1.04	(0.37)	6.49	NA	NA
Nasdaq Composite*	12.30	4.38	11.60	(4.29)	1.94	(4.29)	5.62	10.12	8.91
Russell 1000®	11.55	4.41	10.75	(6.79)	0.86	(0.21)	6.64	9.38	10.23
Russell 2000®	11.29	9.12	13.35	(4.29)	1.60	4.00	6.72	10.28	9.10
S&P 500	11.29	3.89	10.16	(7.16)	0.64	(0.43)	6.45	9.05	10.17
Wilshire 5000 Total Market	11.50	5.00	11.08	(6.46)	1.11	0.29	6.58	9.36	10.03

The index is an end-to-end calculation based on data compiled from 1,290 U.S. venture capital funds, including fully liquidated partnerships, formed between 1981 and 2010.

<sup>1</sup> Pooled end-to-end return, net of fees, expenses, and carried interest.

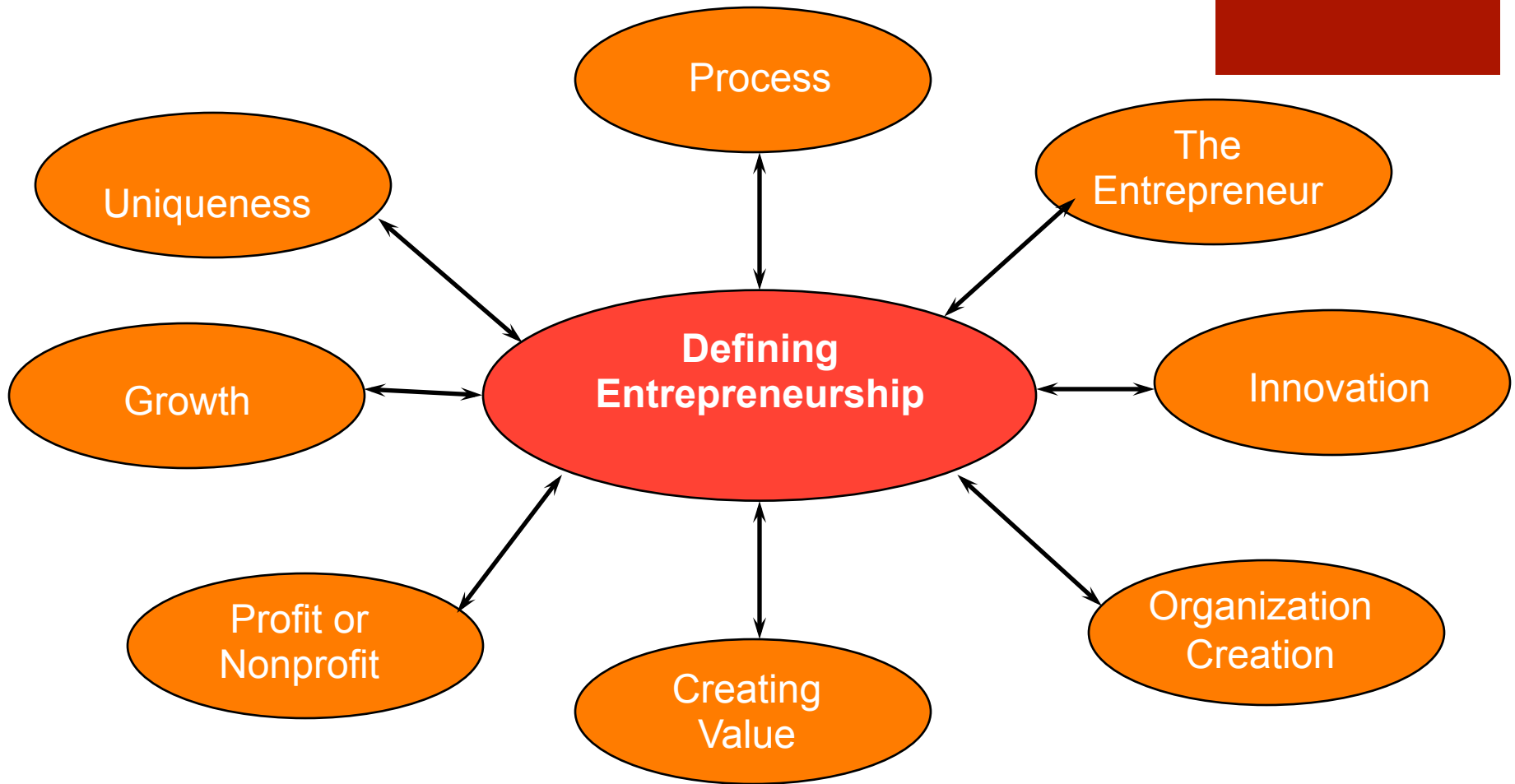
Sources: Barclays Capital, Bloomberg L.P., Cambridge Associates LLC U.S. Venture Capital Index®, Frank Russell Company, Standard & Poor's, Thomson Datastream, The Wall Street Journal, and Wilshire Associates, Inc. \*Capital change only.



# Characteristics of Entrepreneurs

- Desire for responsibility
- Preference for moderate risk
- Confidence in their ability to succeed
- Desire for immediate feedback
- High level of energy
- Future orientation
- Skilled at organizing
- Value achievement over money







# Entrepreneurship Theory

## 18th Century

Early 1700s

Late 1700s

Richard Cantillon: Coins  
term entrepreneur

("go-between" or "between  
taker")

Entrepreneur bears risks  
and plans, supervises,  
organizes, and owns  
factors of production



# Entrepreneurship Theory

## 19th Century

*Early 1800s*

Jean Baptiste Say:

Proposed that profits from entrepreneurship were separate from profits of capital ownership

*Late 1800s*

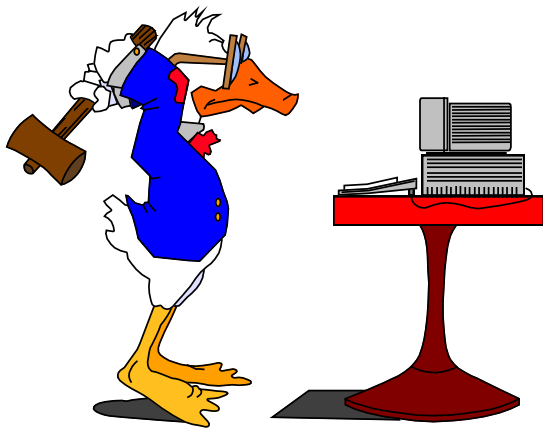
Distinction made between those who supplied funds and earned interest and those who profited from managerial abilities



# Entrepreneurship Theory

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20th Century



1934

Joseph Schumpeter:

Described the entrepreneur as someone who is an innovator and someone who "creatively destructs"

1964

Peter Drucker:

Described the entrepreneur as someone who maximizes opportunity



# Ingredients of Entrepreneurship?

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## ■ subjectivity

- Hard working
- Agility
- Team building
- Funding
- Idea
- ...

You will see how subjective it is during the lectures as well as during the guest talks.

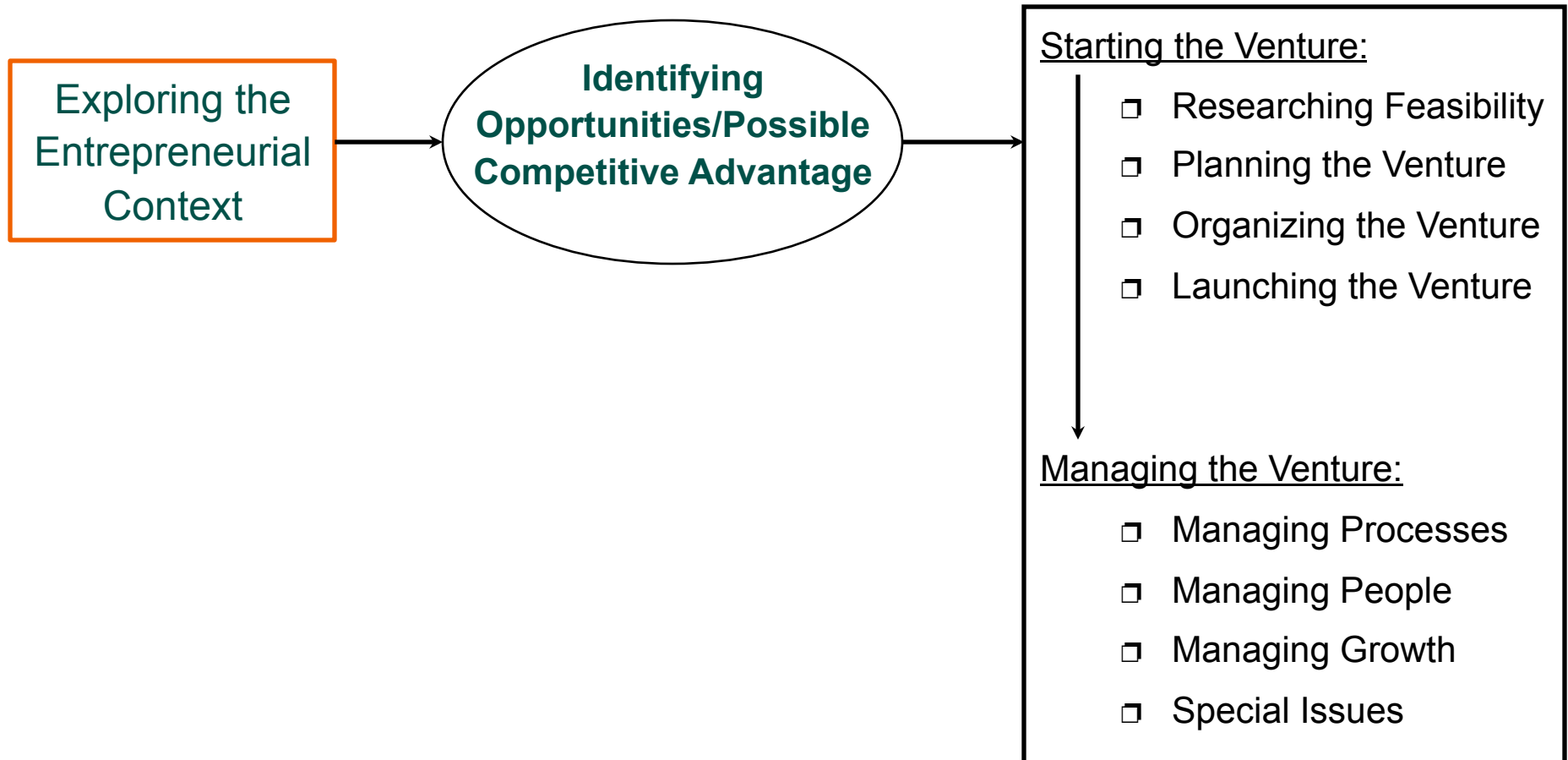


1. Successful entrepreneurship takes only a great idea.
2. Entrepreneurship is easy.
3. Entrepreneurship is a risky gamble.
4. Entrepreneurship is found only in small businesses.
5. Entrepreneurial ventures and small businesses are identical.



# Process

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# Reward

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- High degree of independence — freedom from constraints
- Get to use a variety of skills and talents
- Freedom to make decisions
- Accountable to only yourself
- Opportunity to tackle challenges
- Feeling of achievement and pride
- Potential for greater financial rewards





# Feeding the Entrepreneurial Fire

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- Entrepreneurs as heroes
- Entrepreneurial education
- Demographic and economic factors
- Shift to a service economy
- Technological advancements
- Independent lifestyles
- E-Commerce and the World Wide Web
- International opportunities



# Challenges

- Must be comfortable with change and uncertainty
- Must make a bewildering number of decisions
- May face tough economic choices
- Must be comfortable with taking risks
- Need many different skills and talents
- Must be comfortable with the potential for failure



# The Cultural Diversity of Entrepreneurship

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- Young entrepreneurs
- Women
- Minority-owned enterprises
- Immigrant entrepreneurs
- Part-time entrepreneurs
- Home-based businesses
- Family businesses
- Copreneurs
- Corporate castoffs
- Corporate dropouts



# Nine Deadly Mistakes of Entrepreneurship

1. Management incompetence
2. Lack of experience
3. Poor financial control
4. Failure to develop a strategic plan
5. Uncontrolled growth
6. Poor location
7. Improper inventory control
8. Incorrect pricing
9. Inability to make the “entrepreneurial transition”



# Power of Co-founders



**Google, 1998**

**Met at Stanford's PhD program in 1995. Worked on a research project together, web search engine.**



**Apple, 1976**

**Met at summer job in 1970. Woz was busy building a computer, and Steve Jobs saw potential to sell it.**



**Twitter, 2006**

**Evan Williams had been working at Blogger when it was sold to Google. Under Google's new reign, Williams hired Stone.**



**Microsoft, 1975**

**Bill Gattess and Paul Allen were childhood friends from Lakeside private school.**



# Power of Co-founders

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**Hewlett-Packard, 1939**

**Bill and Dave were classmates in Stanford's engineering program.**



**eBay, 1995**

**Skoll and Omidyar were casual acquaintances when Omidyar built the code for eBay.**



**Intel, 1968**

**Moore and Noyce were rebels. They were two of the "traitorous eight", a group that left Shockley Semiconductor**

.



**Yahoo, 1995**

**Jerry Yang and David Filo met at Stanford's PhD program in 1994.**



# Take a co-founder

- Not pinpointing roles: Clearly lay out each person's roles and responsibilities beforehand
- Failing to discuss long-term goals: Discuss your specific long-term goals open
- Not stipulating how to make decisions or resolve disputes: Introduce a formal method for making decisions and addressing disagreements.
- Giving short shrift to your partnership agreement: Create a clear agreement upfront.



# Small Business vs Entrepreneurial Ventures

## Small Business

- ❑ Independently owned, operated, and financed
- ❑ Less than 100 employees
- ❑ Doesn't emphasize new or innovative practices
- ❑ Little impact on industry

## Entrepreneurial Ventures

- ❑ Innovative practices
- ❑ Goals are profitability and growth
- ❑ Seeks out new opportunities
- ❑ Willingness to take risks





# Benefits of Small Business Ownership

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The opportunity to:

- create your own destiny
- make a difference
- reach your full potential
- reap unlimited profits
- contribute to society and be recognized for your efforts
- do what you enjoy and have fun at it



# Drawbacks of Small Business Ownership

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- Uncertainty of income
- Risk of losing your entire investment
- Long hours and hard work
- Lower quality of life until the business gets established
- High levels of stress
- Complete responsibility
- Discouragement



# Small Businesses

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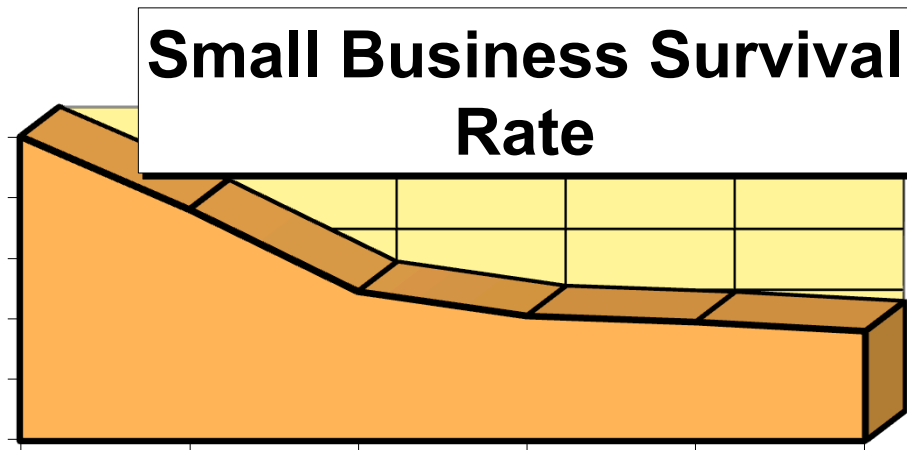
- Make up 99% of all businesses in the United States.
- Employ 53% of the nation's private sector workforce.
- Create more jobs than big businesses.
- Are leaders in offering training and advancement opportunities to workers.
- Produce 51% of the nation's private GDP.
- Account for 47% of business sales.
- Create 4X more innovations per R & D dollar spent than medium-size firms and 24X as many as large companies.



# The Small Business Failure Record

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- 24% of new businesses fail after two years.
- 51% fail within four years.
- 63% fail within six years.





# Avoiding the Pitfalls of Small Business Failure

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- Know your business in depth
- Develop a solid business plan
- Manage financial resources
- Understand financial statements
- Learn to manage people effectively
- Keep in tune with yourself



## Book to read 1/4

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- “The Fountainhead” by Ayn Rand
- “Out of the Crisis” by W. Edwards Deming
- “Extreme Programming Explained” by Kent Beck
- “The Four Steps to the Epiphany” by Steven Gary Blank
- “Reality Check” by Guy Kawasaki
- “Peak” by Chip Conley
- “The Happiness Hypothesis” by Jonathan Haidt



## Book to Read 2/4

- “Against The Odds” by James Dyson
- “How To Get Rich” by Felix Dennis
- “Transparency: How Leaders Create a Culture of Candor” by Warren Bennis, Daniel Goleman, and James O'Toole
- “The Future Arrived Yesterday” by Michael S. Malone
- “Switch: How to Change Things When Change is Hard” by Chip Heath and Dan Heath



## Book to Read 3/4

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- “The Entrepreneur’s Guide to Business Law” by Constance Bagley and Craig Dauchy
- “Crossing the Chasm” by Geoffrey A. Moore
- “Boyd: The Fighter Pilot Who Changed the Art of War” by Robert Coram
- “The Innovator’s Dilemma” and “The Innovator’s Solution” by Clayton Christensen
- “Influence: The Psychology of Persuasion” by Robert B. Cialdini





## Book to Read 4/4

- “Maverick!” The Success Story Behind the World’s Most Unusual Workplace” by Ricardo Semler
- “Blink” by Malcolm Gladwell
- “Lucky or Smart? Secrets to an Entrepreneurial Life” by Bo Peabody
- “Zen and the Art of Motorcycle Maintenance” by Robert M. Pirsig