



Cognitio – It's Different!!



Abhiyan presents Cognitio, a must read for those of you who dream of creating your own little enterprise some time in life ... hopefully pretty soon. We realize that you have probably gone through loads of material on preparing Business Plans; Business Plan in 24 hours ... Do it yourself kits ... What does the VC want ... there's no count to the number of such titles you might find! Cognitio is our attempt to bring to you what we feel is different and of importance to you. So without any further ado, here is the first edition of Cognitio ...

Business Planning – It's as much about the concept as it is execution

While there are dozens of books and web sites devoted to the “how tos” of business planning, they are often so bogged down with pages of lists and questions to be answered that you, the “aspiring” entrepreneur, can easily get overwhelmed in the details. Worse yet, you can diligently plod through the template only to discover that your business plan, which is often book length by the time it is finished, fails to capture the interest of potential investors. Leafing through the business plan manual and comparing it to your finished document you are left scratching your head and thinking “But I did everything I was supposed to do... where did I go wrong?”

Believe it or not, one answer might be that you paid too much attention to operational details and not enough attention to developing the underlying business concept. Before you embark upon the time-consuming task of developing a business plan, keep in mind that securing seed capital is about creating buy-in for your business concept. It is more an exercise in building credibility/ legitimacy for the idea, its market potential, the development process and the people behind it than it is about the operational details. This isn't to say that the finer grained details of locating a site, designing a promotional campaign or building detailed pro forma financial statements for the next five years aren't important. It's just that if potential investors aren't clear about the concept and its potential, then they'll tune out before you get to the operational details.

So, the big challenge is to create a business plan and/or “pitch” that gets investors to believe in you, your team and the concept. If you can hook them there, they'll work with you to iron out some of the finer points. Ironically, many business plan templates are so replete with lists and operational details, that your attention can easily get directed away from the bigger picture. Here are a few hints aimed at keeping you focused on making a compelling business case:

1. Start with a clear product concept

This is a big issue, particularly in technology-based ventures where the functionality of the product may be very different from items currently on the market. However, it holds true even for low tech or service businesses. The more you can do to present a “mock up” of the product (this can be anything from a good quality diagram/drawing to a proto-type), the easier it will be

for investors to get a clear handle on the concept and how/why it will create value for customers. Similarly, service businesses can “map” or visually depict their activity sets.

2. Provide strong evidence to support why customers would want it

Coupled with having something akin to a mock-up is the need for some primary market research aimed at getting feedback from potential users/buyers in order to validate the concept. Not only is this type of research invaluable for refining the concept, but it also gives credibility to your business plan if you get specific buyers to indicate an interest or intent to purchase the product/service as soon as it becomes available.

3. Show the growth potential and know what's driving it

“Due diligence” in the form of hard-hitting library research is also critical. Find key industry reports, surveys, and articles that allow you to attach tangible numbers to market size and growth potential. Avoid ambiguous statements. Back-up all your claims about the “huge” market size or “incredible” growth potential with real numbers; even if you find conflicting information and have to provide a range. Also, make sure to show an understanding of the forces fuelling growth, whether they are technological, social or economic.

4. Be very explicit about why you think you have a basis for a sustainable competitive advantage

Just because you are the first one to have an idea, doesn't mean it will stay that way. Articulating your basis for competitive advantage and developing a strategy to sustain it is an area of the business plan that is frequently underdeveloped if not neglected altogether. Yet, this is the piece that makes the strongest statement about why you have a great business opportunity. It is critical to acknowledge the key resources and capabilities that underlie your business assess competitors who are in a position to develop these quickly and explain the steps you will take to prevent or respond to imitation.

5. Develop a compelling business model

Business plans often spend a great deal of time demonstrating market need and growth potential and then skip over the model of how they will generate revenue and profit from their product/service. Ultimately, these two elements of the plan need to be tightly connected: be creative about how you will price and bundle the product/ service in order to overcome any barriers that may impact the buyer's “willingness to pay.”

6. Map out the key steps involved in technical and market development and understand the resource requirements associated with each

Points 1-5 really address the question of what is the concept and why it represents an attractive business opportunity. Points 6-9 talk about how you are going to execute. This means being clear about the key milestone activities involved in moving from concept to commercialization. It involves articulating the financial, human and physical resources needed to develop the product/service and build market awareness, acceptance and adoption. Providing a timeline which shows the key activities,

their time frame for completion and the costs associated with each is a good way to link your request for seed capital with a tangible plan for business development.

7. Be honest about the strengths and weaknesses of the management team and use external resources to fill-in the gaps

First time entrepreneurs, especially those with limited business experience, often feel pressured to overstate their credentials in an effort to look appealing to investors. It doesn't take a very long conversation for this to become transparent. Be clear about the expertise and passion you bring to the enterprise, but don't be afraid to acknowledge your shortcomings and off-set these by forming an advisory board of people who support your concept and have the experience and contacts needed to help move it forward. This adds credibility to the concept and shows that you know your limitations.

8. Identify the key assumptions/risks and have contingencies in mind to address them

If a business plan seems "too good to be true," it is probably because it emphasizes the upside without acknowledging the downside. To make a compelling business case, you need to articulate the critical assumptions and risks and offer a contingency plan for how you will respond. Acknowledging the downside isn't a sign of weakness. It shows that you have thought critically about what can go wrong and won't easily be blindsided.

9. Have an explicit strategy for growth and for exit

Business plans spend a great deal of time addressing what the venture is, why it represents a good business opportunity and how you will go about executing/exploiting that opportunity. They often spend too little time addressing what comes next. Potential investors will have greater confidence in the idea if they know that it is more than a "one trick pony." So, you need to show the opportunities to leverage the product or technology or service into other applications. You also need to think about when and under what conditions you will exit the venture. Do you plan to take this to IPO? Will you merge with or sell-out to a larger player when you reach a certain critical size? Which companies are most likely to be attractive targets when this time comes?

10. Know how much capital you want, what you will give up to get it and who is most likely to give it to you

After making a tight case for the financial resources required to launch the venture, you need to be explicit about the "deal" you are proposing to potential investors. This means clearly stating what you are putting in, in terms of cash and "sweat equity." It also means specifying the amount of capital you will require from investors and what you are willing to give-up in terms of equity/control in order to secure this funding. In making your pitch, you have to be mindful that different types of investors (VCs, angels, banks, etc.) have different requirements in terms of the size of investment they are willing to make, the rates of return they expect and the time horizon over which this return must be realized. Target your business plan to the audience that is most likely to find it attractive (often, this ends up being your friends and family).

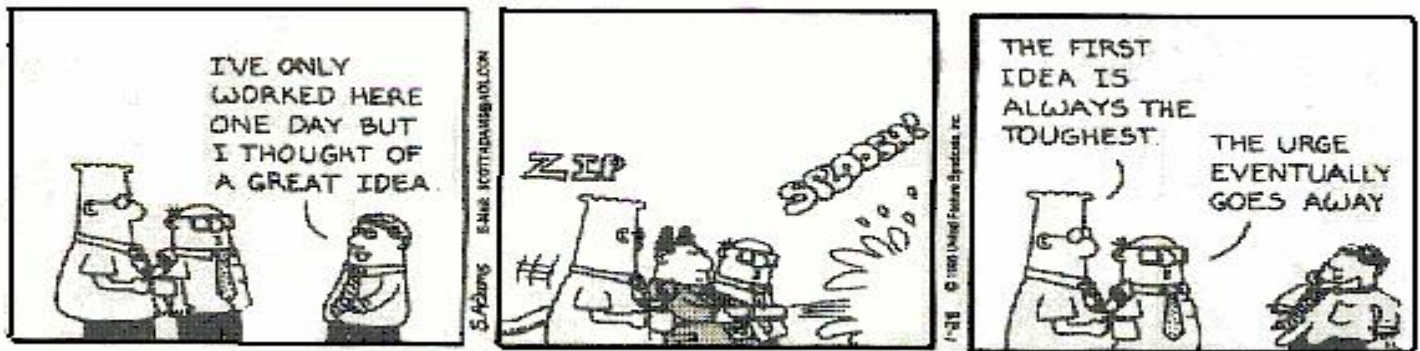
Supporting Innovation and Venture Development in Established companies

Rosabeth Kanter

The objective of this article is to suggest methodologies and practices that can be utilized by large and traditional organizations for successfully encouraging innovation and intrapreneurship.

Main dilemma

The organization structure of a traditional company is designed to manage the existing activities and to ensure continuity and adherence to the established practices. However, innovation requires risk taking and visionary leadership. The companies need both these types of management to survive. Hence, the main concern is to find a way to achieve a balance between these two, which will be in congruence with the needs and the nature of the business.



Features of innovation management

Uncertainty

The innovation process involves little or no precedent or experience to use to make forecasts about results. Hoped-for timetables may prove unrealistic, and schedules may not match the true pace of progress.

Knowledge-Intensivity

The innovation process is knowledge-intensive, relying on individual human intelligence and creativity. New experiences are accumulated at a fast pace, the learning curve is steep. The knowledge that resides in the participants in the innovation effort is not yet codified or codifiable for transfer to others. Efforts are very vulnerable to employee turnover because of the loss of this knowledge and experience.

Competition with alternatives

In the innovation process, there is always competition with alternative courses of action. (The pursuit of the air-cooled engine at Honda Motor, for example, drew time and resources away from improving the water-cooled engine.) Furthermore, sometimes the very existence of a potential innovation poses a threat to vested interests-whether the interest is that of a salesperson receiving high commissions on current products or of the advocates of a competing direction. Sometimes, "political" problems are the primary cause for the failure of corporate new venture departments.

"Boundary" Crossing

The innovation is rarely, if ever, contained solely within one unit. First, there is evidence that many of the best ideas are interdisciplinary or interfunctional in origin-as connoted by the root meaning of entrepreneurship as the development of “new combinations”-or they benefit from broader perspectives and information from outside the area primarily responsible for the innovation, Second, regardless of the origin of innovations, they inevitably send out ripples and reverberations to other organizational units, whose behavior may be required to change in light of the needs of innovations or whose cooperation is necessary if an innovation is to be fully developed or exploited.

Solutions

1. Broaden the job design. Job design should be such as to give the employee a feel of most of the processes in the business. Such design cultivates broader perspective among the employees.
2. In order to get the kind of inter-functional or interdisciplinary integration that innovation requires, close relationships are required-working teams or venture teams that are functionally complete, on which every necessary function is represented. This is why the idea of dividing into smaller but complete business units is so appealing to organizations seeking continual innovation. All the players are right there, to be linked closely in the innovation process.
3. High innovation organizations have in common the high value they place on people and their potential-what can be called a “culture of pride” that expects and rewards high levels of achievement and assumes that investments in people pay off.
4. Innovation requires three power tools- Information, top management support and resources. These tools can be easily provided through empowerment through information sharing, cross area teams, personal involvement of top managerial cadre and financial and technical resources.

Special Programs for Encouraging Corporate Entrepreneurship

1. Reduction in unnecessary bureaucracy with a view to removing the levels through which the proposal has to pass for approval
2. Reducing segmentation and encouraging integration across departments and functions
3. Changing internal budgeting and accounting procedures so as to provide a separate budget mechanism for innovative ideas and solutions.
4. Internal venture capital funds for innovative ideas and products(3M)
5. Performance review and compensation linked to innovation

Conclusion

All companies need both to manage ongoing activities and to create new ones-with the proportions of each depending on the nature of the business. They need to strike a balance between administrative and entrepreneurial management. The problem of venture development in established corporations occurs when administrative management comes to dominate and innovation is not valued sufficiently. The command system of administrative management needs to be replaced by a mutual adjustment system. High innovation companies build mutual adjustment into their design. They allow flexibility to move into an entrepreneurial mode and reward good ideas.

Strategic leadership – It could make all the difference !!

Visionary leadership

Most entrepreneurs are visionary leaders who influence the opinions and attitudes of others within the organization. They are concerned with insuring the future of an organization through the development and management of people. Their task is multi-functional, more complex and integrative. Visionaries are more likely to make value-based decisions and are more willing to invest in innovation, human capital, and creating/maintaining an effective culture to ensure an organization's long-term viability. Not only is visionary leadership future-oriented, but it is concerned with risk-taking. Furthermore, visionary leaders are not dependent on their organizations for their sense of who they are. Under these leaders, organizational control is maintained through socialization and the sharing of, and compliance with, a commonly held set of norms, values, and beliefs. It is imperative that entrepreneurs exercise visionary leadership to ensure the long-term viability of the organizations they lead. However, organizations that are led by visionaries without the constraining influence of managerial leaders are probably more in danger of failing in the short-term than those led by managerial leaders. Since visionary leaders are willing to risk all, they may inadvertently destroy the organization and destroy wealth.

Managerial leadership

Some entrepreneurs exercise managerial leadership. As managerial leaders they influence only the actions/decisions of those with whom they work and are involved in situations and contexts characteristic of day-today activities. They may make decisions that are not subject to value-based constraints. This does not mean that they are not moral or ethical people, but that as entrepreneurs they may not include values in their decision-making because of certain pressures such as enhancing profitability. These leaders are driven by bottom-line agendas that affect financial performance in the short-term. They want to maintain stability and to preserve the existing order. They are more comfortable handling the day-to-day activities, and are short-term oriented. Managers will, at best, maintain wealth that has already been created and may even be a source for future wealth destruction as they are generally unwilling to invest in long-term investments such as, human resource training and if you are an entrepreneur, you are already in a leadership position. An important question you need to ask is: what type of leadership do I exercise? Answering this question may determine how your business will perform in the future. This article describes three types of leadership and the expected consequences of each on future business performance.

“Strategic leadership presumes that entrepreneurs and their employees have a shared vision of what your organization is to be.”

Strategic leadership

Strategic leadership is defined as the ability to influence your employees to voluntarily make decisions on a day-to-day basis that enhance the long-term viability of the organization while at the same time maintaining the short-term financial stability of the organization. Entrepreneurs and employees make decisions every day as they interact with their firm's stakeholders, customers, suppliers, the communities in which they operate, and each other. What needs to be addressed is: are these

decisions in accordance with the strategic direction of the organization? Will these decisions enhance the future viability of the organization, as well as the short-term financial stability? The answer is absolutely!

It makes sense to suggest that if you can count on employees to voluntarily make decisions that benefit the organization, entrepreneurs will not have to expend as much effort on monitoring and controlling their employees. Further, entrepreneurs will have more capacity to examine what the organization needs to do, both in the short- and long-term.

On the other hand, if employees do not know the strategic direction of the organization they may inadvertently make decisions that damage it. Influencing subordinates to voluntarily make decisions that enhance the organization is the most important part of strategic leadership. Noel Tichy argues that, “When you can’t control, dictate or monitor, the only thing you can do is trust. And that means leaders have to be sure that the people they are trusting have values that are going to elicit the decisions and actions they want.” As presented above, the definition of strategic leadership presumes an ability to influence one’s employees. It further presumes that the entrepreneur understands the emergent strategy process given that it has a greater impact on performance than the intended strategic planning process. This is related to understanding the importance of voluntary decision-making.

The decisions voluntarily made and the actions voluntarily taken by employees on a day-to-day basis eventually determine what strategy will emerge. Entrepreneurs who are strategic leaders understand and utilize this emergent process to ensure the future viability of their organizations. Strategic leadership presumes that entrepreneurs and their employees have a shared vision of what the organization is to be so that day-to-day decision-making or emergent strategy process is consistent with this vision. It presumes agreement between entrepreneurs and their employees on the opportunities that can be taken advantage of, and the threats that can be neutralized, given the resources and capabilities of their organization.

Entrepreneurs need to develop the skills and abilities that are required to exercise strategic leadership. Those few who have managerial capabilities in nature need to develop their visionary side and those who are visionaries need to develop their managerial side.

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