

**How do entrepreneurs see the opportunities?**

**What intrinsic and extrinsic factors drive them and influence the opportunity discovering and commercialization process?**

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Pages: 74 (130.203 STUs)

Date: 17.01.2013

## Table of Contents

Executive Summary.....	2
Structure of the Thesis.....	3
Introduction.....	4
1. Methodology.....	5
1.1. Theory.....	5
1.2. Conclusion & Research Question.....	12
1.3. Research Strategy.....	14
1.3.1. Validity.....	15
1.3.2. Data Collection.....	15
1.3.3. Primary Data – Interviews.....	15
1.3.4. Secondary Data - Biographies.....	19
1.3.5. Overall Assessment of Methodology.....	20
2. Discussion.....	20
2.1. Changing Business Model.....	21
2.2. Uncertainty & Perception of Opportunities.....	42
2.3. Perception of Risk and Opportunity.....	45
2.4. Entrepreneurial Recruitment Processes.....	53
3. Conclusion.....	64
4. References.....	67
5. Appendices.....	73

## **Executive Summary**

The main purpose of this thesis is to understand how entrepreneurs see the opportunities and what intrinsic and extrinsic factors influence the journey from opportunity discovery to its commercialization. Entrepreneurs and their unique stories of business creation and development stand in the center of the analysis.

To answer the research question, three main conclusions have been made:

1. The key intrinsic challenge of entrepreneurs is the ability to apply and switch between the two different logics: causation and effectuation. The effectuation logic is more naturally applied on the startup stage by using the available resources at the very moment. Causal logic is more useful on the company's growth stage. The success of entrepreneurs is depending not only on the right choice of the logic from the beginning of the idea development process, but also on the entrepreneurial ability to switch from effectuation to causation and vice versa along with company's development.
2. Besides the intrinsic factors influencing the opportunities discovery and development process, entrepreneurs are in the constant interaction with key tangible and intangible extrinsic factors such as: uncertainty and risk, timing and relevant human resources. These factors are very often perceived by entrepreneurs differently compared to corporate managers. Entrepreneurs rely on their knowledge, experience and in many cases on their intuition in order to make sense out of the unknown and make risky decisions with an affordable loss estimates. Success is depending on the ability to persuade the relevant resources to take a chance on the opportunity.
3. The success of entrepreneurs is depending on their ability to encounter as many of these intrinsic and extrinsic factors as possible, in order to have as complete understanding of the situation as possible. But at the same time they need to be able to narrow the options down using gained experience, knowledge, effectual principles and intuition while staying true to their core individual values in live.

## Structure of the Thesis

**The Introduction** highlights the subjects of interest, which are the so called geniuses. It is done through folding out the discussion around the ‘secrets’ of their outstanding abilities that are explained in number of studies as the interconnectivity of creativity and intelligence factors.

**1. Methodology chapter** includes review of relevant theories and concepts. The discussion of the literature leads to the formulation of the research question. Further, the methodology which is used for answering the research question is discussed and main considerations and choices potentially influencing the findings are reviewed.

**2. Analysis of the business model change in entrepreneurial context** identifies main factors which have an influence on the business model change. First of all, two types of business model changes have been defined, one being the change over certain period of time, mainly used on the start-up stage of the business. The other, is an ‘instant’ change to the alternative business model existing in the industry, mainly used on the mature stage of the business. It has been found out that these two types of change depend on the two key factors such as time factor and the available human resources. Both types of business model change and factors that influence this change have been exemplified, analyzed and understood.

**3. Analysis of the uncertainty factor** identifies the entrepreneurial perception of uncertain situations, their ability to create meaning of the unknown and relying on their knowledge and the experience.

**4. Analysis of risk and opportunities** presents entrepreneurial perception of risk and the affordable loss principle as shortcuts in the idea implementation process.

**5. Analysis of the entrepreneurial recruitment process** discusses the different recruitment approaches and their limitations on different stages of business development.

## Introduction

How do geniuses come up with ideas? What is common between the mindset that created the 'Mona Lisa' and the mind that made the theory of relativity? What characterizes the thinking logics of the Einsteins, daVincis, Darwins, Picassos, Michelangelos, Freuds, and Mozarts?

This set of questions is reviewed in Creativity post by Michael Michalko (2012) known as contemporary creativity expert.

But who are the geniuses and what do they have in common? Many studies have been conducted in order to figure out similarities and patterns between them. For instance, scholars have tried to study geniuses by statistics, in a hope to discover the secret. English writer and psychologist Hevlok Ellis (1904) noted that most geniuses at the moment of their birth have fathers over thirty years, mothers younger than 25 and usually a lot of suffering in their childhood. Other researchers have noted that many have grown up without parents (Dickens) or mothers (Darwin). Eventually, it became clear though that the statistics do not clarify anything.

According to Michael Michalko (2012) academics also tried to find the similarities between intelligence of geniuses. But found out that intelligence only is not enough, what makes it a genius. As evidence to it, Marilyn vos Savant, has a highest IQ of 228 ever recorded, she did not made any contribution to science, instead worked as a columnist for Parade magazine. Also the regular physicists have a much higher IQs than Nobel Prize winner Richard Feynman, who is acknowledged to be the last great American genius (with IQ122).

After considerable debate initiated by psychologists J. P. Guilford in the sixties, it has been reached to the conclusion that creativity is not the same as intelligence. An individual can be far more creative than intelligent or vice versa (Michalko, 2012)

Michalko's article inspired to draw the lines between geniuses of the past centuries and the contemporary entrepreneurs and innovators in the field of business, people such as Richard Branson, Steve Jobs, Torben Majgaard and Dmytro Marchenko, who have been chosen to be examined for this thesis. They all, at different extent, have come up with unique solutions and

creative responses to variety of situations. But how do entrepreneurs generate all these ideas? How do they come up with the “unexpected” combinations which lead to unique and novel solutions? And what do they have in common? A number of scholars have come up with suggestions to these questions, based on extensive amount of individual interviews, and are giving some evidences on particularly common thinking logic, which enables entrepreneurs to create unique solutions and novel ways of doing business.

Further, two of such studies are reviewed, one made by Saras D. Sarasvathy’s (2008) on differences between ‘Causation vs. Effectuation’ representing the intrinsic forces of entrepreneurial activities. In addition, it should be stressed that Saras D. Sarasvathy studied effectuation factor on cases of serial entrepreneurs. The other study made by David B. Audretsch and Max Keilbach (2007) called ‘The theory of knowledge spillover entrepreneurship’ representing the extrinsic factors which have an influence on the opportunities creation.

## **1. Methodology**

The role of the methodology chapter is to present what was done, how it was done and why it was done in order to find the answer to the research question (Yin, 1994). At first, theories and concepts are reviewed in order to get inspiration and formulate the research question. Second, the overall research strategy applied in this project and the intentions behind are examined. Next, data collection methods are presented, describing the researcher’s role as interviewer, the particular interviewees and conducted interview questions. In the final part of this chapter, validity of the research project is discussed and an overall assessment of methodology conducted.

### **1.1. Theory**

To address the research question, it is necessary to draw from different stands of relevant literature and theoretical frameworks. The main objective of the theory paragraph is to address the research topic from different perspectives. First, in the introduction, the historical timeline of the different attempts to study commonalities between the people who were standing out from the crowd, also called geniuses, is briefly highlighted. In frame of this thesis that is echoing the contemporary studies aiming to understand entrepreneurs. Second, intrinsic principles which

entrepreneurs follow on the way of developing their ventures are highlighted. Third, the extrinsic principles that influence the decision making process are discussed.

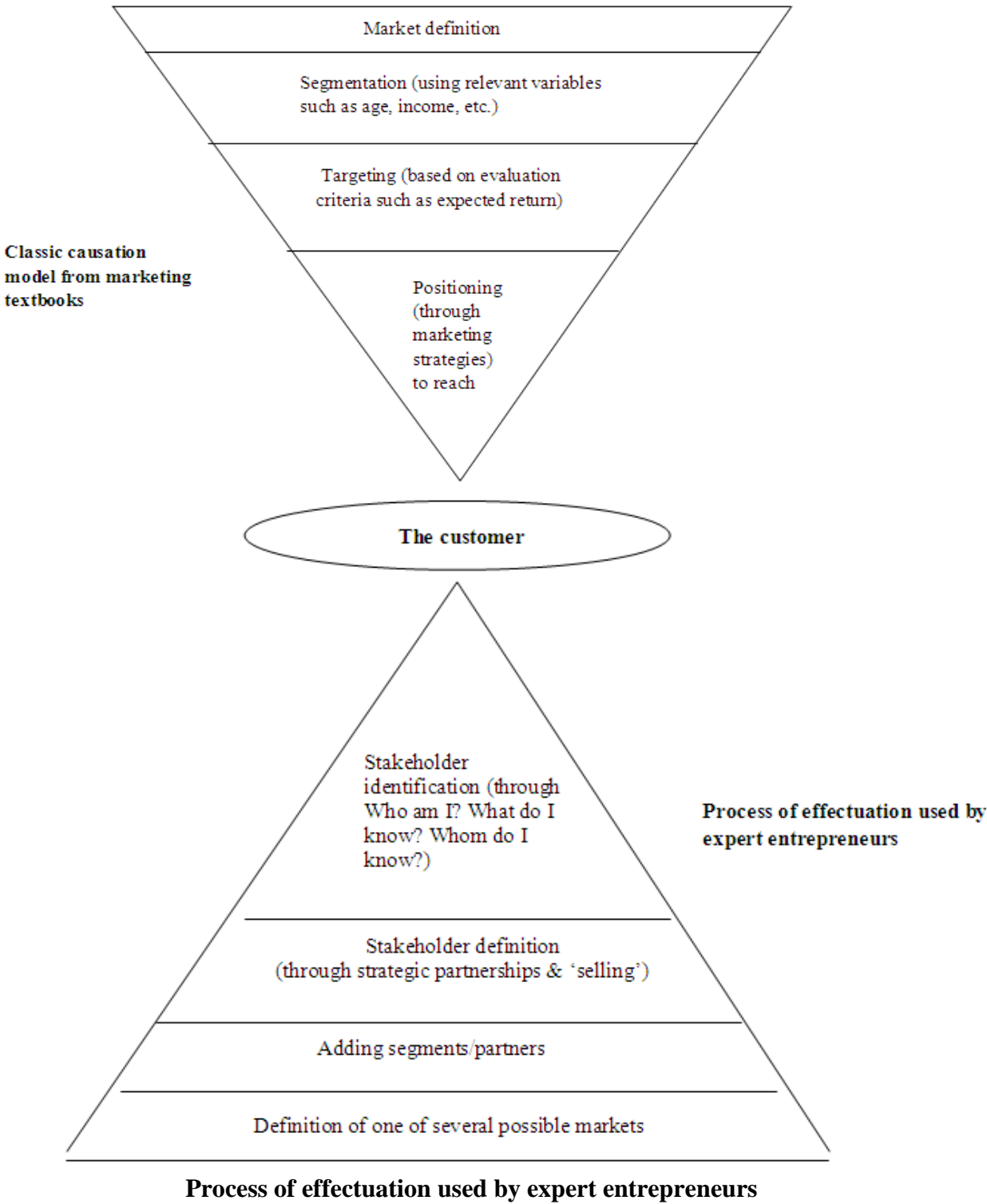
### **1.1.1. Intrinsic Factors Causation vs. Effectuation**

According to Saras D. Sarasvathy's research (2008) Elements of Entrepreneurial Expertise 'Effectuation', entrepreneurs follow a different logical path compare to managerial style. As shown in the Figure 1 the logical process of entrepreneurs is reversal in comparison to the classical marketing process, which goes in the following order: segmentation –targeting – positioning.

To begin with, entrepreneurs instead of starting identifying the market will try to define the means: who are the stakeholders, what they know and whom they know (Sarasvathy, 2008). The process takes shape as it goes along by adapting to circumstances and evolves by taking advantage of new opportunities. In most cases development of new business depends on stakeholders and not by reaching a clear goal with clear resources assigned to make it happen i.e. an emerging organization (Sarasvathy, 2008).

On the other hand, causation and rational planning was articulated by Kotler (1994) who defines segmentation - targeting - positioning (STP) as an essence of strategic marketing which starts with market definition and importance to include all potential customers for the product. Sales market is defined by relaying on the market research data, which is gathered using different techniques i.e. observation, surveys, focus groups interview etc. Afterwards the market is divided into segments, and the most profitable segments are targeted. And to complete the process, the product is positioned relaying on competitive analysis. Here business plans can be defined as one of the rational tools in entrepreneurial hands.

**Classic Causation model from marketing textbooks**



**Figure 1.** Contrasting the textbook (causal) model of marketing with effectuation

Source: Saracvathy (2008), p. 39



As the result of Saras D. Sarasvathy's research (2008) none of the entrepreneurs have followed segmentation, targeting and positioning model. Instead, the Effectuation process defines four principles which entrepreneurs tend to hold on to:

- Bird in Hand Principle – Start with your means
- Affordable Loss Principle – Set affordable loss
- Lemonade Principle – Leverage contingencies
- Crazy-Quilt Principle - Form partnerships

In the effectuation vs. strategic management section these principles are discussed further.

### **1.1.2. Perception of Risk and Opportunity**

As part of the intrinsic factors, in the section '2.2. Uncertainty factor' the topic is covered in depth, discussing around risks and uncertainties as integral factors in the context of opportunity discovering process by entrepreneurs. How do entrepreneurs perceive the risk, what consideration they have about it and how do they deal with it in practice?

Therefore, it is important to define risk and uncertainty, and start the discussion about why it is important to look at these factors as a framework in order to understand how they influence opportunity discovering process by entrepreneurs.

**Uncertainty:** is defined as the same as lack of certainty, when an entrepreneur have limited knowledge about a situation and cannot precisely define neither current state of things nor future outcome of the actions. This can be defined as part of chance and opportunity.

**Measurement of uncertainty:** is variety of possible scenarios, where a risk factor is assigned to each possible scenario or outcome.

**Risk:** can be seen as a state of uncertainty, where some possible scenarios have an undesired effect or significant loss.

**Measurement of risk:** is a set of measured uncertainties where some possible outcomes are losses (Hubbard, 2010).

Uncertainty factor and its influence on the entrepreneurial decision making process is looked deeper into in the discussion chapter.

It is important to understand how entrepreneurs perceive the risk and uncertainty factor since it is obvious, that their view is different from managers, who tend to deal with risk by rationally calculating and avoiding it. If managers and entrepreneurs would perceive the risk similarly, they would probably see similar opportunities and entrepreneurial role would be diminished or totally disappear. That is why it is important to discuss and understand entrepreneurial perception of risk and how it influence the opportunity discovering process. It is covered further in the discussion chapter 1.1.2. Extrinsic factors

According to Shane and Venkataraman (2000), existing studies of entrepreneurship are concentrated on ‘the sources of opportunities; the process of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them’. Just as Saras D. Sarasvathy (2008) focused on how entrepreneurs are seeing the opportunities and taking actions on them. But Audretsch and Keilbach (2007) have pointed out that the opportunities by themselves are taken as given and not much research has been made on where they are coming from. As next, the knowledge spillover theory is discussed which explains particular source of entrepreneurial opportunities, and why they can be different for different individuals. (Audretsch and Keilbach, 2007)

### **1.1.3. Knowledge Spillover Theory**

Knowledge spillover theory proposes to have a look at the following factors which influence the opportunity creation and its density (Audretsch and Keilbach, 2007):

- Regional growth
- Unemployment
- Agglomeration & Location attractiveness
- Social diversity

As we can see these factors at the greatest extent are macro oriented and there is not much space left for geniuses or the role of individual person – entrepreneur.

This sharp distinguishing between two frameworks opens up two different level of analysis: One made by Saras D. Sarasvathy (2008) concentrating on personal factors of entrepreneurs, and another analysis on the macro economical factors which influence the opportunity discovering process by entrepreneurs.

A closer look on each of these factors from the knowledge spillover theory is taken.

### **a. Regional Growth**

According to David B. Audretsch and Max Keilbach (2007) the number of entrepreneurs and their activities are much larger in the regions with dynamic economical growth in comparison to the regions with less growth. Meaning, that it is more likely that entrepreneurs will succeed for instance in big cities, rather than small villages, due to the existing infrastructure, culture and all the life going on around. And vice versa by taking advantages over the opportunities entrepreneurs themselves become a part of the infrastructure and represent potential opportunities and partnerships possibilities for others. So the dynamic of a region has a self-enhancement effect and bares in itself potential opportunities for entrepreneurs.

### **b. Knowledge**

Knowledge spillover theory suggests that the regions rich on knowledge are richer on new ideas and entrepreneurial opportunities.

Furthermore, the theory implies that the new ideas generated in the corporate or university context, due to different factors such as uncertainty, lack of resources or similar, stay un-commercialized and by itself represent a high density of entrepreneurial opportunities (Audretsch and Keilbach, 2007) It is suggested that close interrelations between entrepreneurs and universities bare a high potential of venture creation.

### **c. Unemployment**

Unemployment rate in the particular regions has also an impact on entrepreneurial activities. According to Storey (1991), unemployment factor has a dual impact. On the one hand, it stimulates willingness to act due to lower cost to market and on the other hand, it reduces entrepreneurial opportunities.

### **d. Agglomeration & Location Attractiveness**

According to Audretsch and Stephan (1996) and Feldman and Audretsch (1999) density of population stimulates the flow of opportunities and entrepreneurial ideas, compared to less agglomerated regions. It is also easier to build the network of subcontractors and provide additional services, get inspiration and additional input to the core business.

According to the theory, agglomeration measured by the number of hotel beds in the area in relation to the size of the region, has a positive effect on the amount of entrepreneurial opportunities expected. The knowledge spillover theory exposes some evidence that together with agglomeration factor, location attractiveness comes along and has a positive impact on entrepreneurship as well.

### **e. Social Diversity**

The level of social diversity has a significant impact on the idea generation process, since people with different backgrounds see things from different perspective, thus it increases chances for entrepreneurial activities (Jacobs, 1979). It is also suggested that the number of entrepreneurs should be higher in areas with more diverse population, because of more opportunities are identified due to different points of views.

Different ways of measuring the diversity are suggested. First, the diversity of human capital, which evaluates the level of education in the following way: no formal education, high, and intermediate level of vocational education. The diversity of human capital, also measured by

labor skills, is found to have a significant impact on entrepreneurship opportunities. (Audretsch and Keilbach, 2007)

Second way of measuring diversity, is by social factors (race, culture, religion, age and disabilities). It reflects in the entropy index which shows the state on the scale from zero to one, where zero indicates absence of the diversity and one means maximum extend of diversity.

These extrinsic factors and their significance are explored further in the case studies of four entrepreneurs.

It is relevant to mention, that the economical background of the theory authors and maybe even their country of origin may have an influence on their suggestions – David B. Audretsch is from the United States of America, where in many cases diversity is measured in race, gender, religion and similar factors, and Max C. Keilbach is from Germany, where historically preciseness and planning was/is a big part of the culture. These authors do not speak much about the role of the social diversity with the focus on various human skills: education, qualification, competencies, networks, not to mention that it could be also seen as an emerging factor which could be developed, shaped and changed over the time.

## **1.2. Conclusion & Research Question**

Due to the vast amount of theories available on entrepreneurship and innovation, in this thesis contemporary was chosen as being the most relevant to the research question. My primary goal was to collect as much information as necessary avoiding heavy theoretical impact on the gained insides. The main role of theories in this paper is to help to categorize the data collected via interviews and literature; to gain better understanding throughout analysis.

On the one hand, when working with empirical data I realized that it is very complex and the way it is served (whether it is an interview or autobiography) is influenced by contents and purpose.

On the other hand, theories are based on generalized knowledge and have no place for the details and specifications, especially it can be seen in economically related ‘Knowledge spillover theory on entrepreneurship’. That is why in the analysis some of the aspects of the theories are not used and the focus is on the ones applying directly to the cases.

In order to balance human and economical factors that influence the process of entrepreneurial opportunity discovering process, I have chosen two opposite frameworks, which opens up two different level of analysis: the one presented by Saras D. Sarasvathy 2008 folding out the personal factors of entrepreneurs and their practical principles which help them to discover opportunities called Effectuation and another point of view arguing that opportunities created by external – macro-economical factors, called Causation.

In light of the two different points of view, the research question for the theses is the following:

*How do entrepreneurs see the opportunities? What intrinsic and extrinsic factors drive them and influence the opportunity discovering and commercialization process?*

In order to answer the research question, my analysis consists of several sub- questions:

1. What is the role of the business model in entrepreneurial contents? What factors have an influence on business models creation and their change over the time?
2. What role the Uncertainty factor plays, and how entrepreneurs respond to it?
3. How entrepreneurs perceive the risk and opportunities? Are there any tradeoffs?
4. How does entrepreneurial recruitment process look like? How different stages of business development influence the recruitment process?

## **1.2. Research Strategy**

The following section has a clarifying function and it determines the ways the data has been collected to make sure to deliver successful accomplishment of the objectives.

There are two opposite opinions on scientific design of empirical study from Rudolf Carnap and Karl Popper - two Austrian philosophers from 1930s. Where Carnap states that verifications come from 'bottom up', meaning, that there is only one need to make some observations, and by adding them together piece by piece, as the result, we can confirm more general statement. Whereas, Popper claims the opposite approach of 'top down', meaning, first there is a need to create a theoretical assumption and then by different methods of testing it, can be seen if it responds to the reality (Hacking, 1983).

In this research, the inductive method, mentioned as the first one, is used as a research approach. It is applied in order to move from specific individual case studies of entrepreneurs towards general knowledge. Yin (1994) defines the case study research method 'as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used'. Eisenhardt (1989) adds that inductive approach based on the chosen cases is performed in order to come up with the learning which can develop, add to or confirm the theory. Secondly, this research applies qualitative method of data collection, which is divided into prospective and retrospective case studies. Prospective cases are represented in form of conducted interviews with two less known entrepreneurs and used in the discussion section in combination with two very well known case studies which are presenting retrospective approach of the research.

The main role of theoretical framework in this paper is to help to categorize the data collected via interviews and literature and through analysis gain knowledge and better understanding about the topic.

### **1.3.1. Validity**

It is important to track whether I measure what my research question wants to answer i.e. if the measurements are valid. Having in mind that there is no perfectly accurate research exit which could provide an answer to all questions, it is attempted to create a high level of validity by combining different sources for data collection and tools for its classification, analyzing and deeper understanding. The considerations of how the data was selected for the relevant concepts and the analysis process is described as next.

### **1.3.2. Data Collection**

In this study two methods were used in order to gather empirical material:

- Two interviews were conducted
- Two biographies were used to gain the necessary information.

Firstly, primary data was collected and reviewed, followed by secondary data review. It was chosen to combine different types of empirical material in order to see the situation from different perspectives and see how it complements or contrasts with each other. (Jenkins, 2002)

### **1.3.3. Primary Data – Interviews**

The primary data represents the information gathered by the researcher in order to get first hand information and be able to compare different perspective and knowledge in relation to the existing data in the particular area of research (Jenkins, 2002). The outcomes of the research can be beneficial to the existing knowledge in the research area, besides getting a better understanding of the reality of the research area.

Primary data in this research is represented by two qualitative interviews. Two entrepreneurs with different cultural, educational and business backgrounds were interviewed. One was obtained through a personal face to face interview and another one through Skype. The outcome of interviews was representing the basis for elaborating on main principles of effectuation process.

More details on collection of primary data are provided in further sections.



## **a. The Role of the Interviewer**

The interviews with entrepreneurs were one of the main parts of collection of primarily data.

Therefore it is important to reflect on the role of the interviewer since the way I was perceived by the interviewees influences the process, results and interpretation of the interviews.

When being a student, I'm not representing any possible competitors or any official organizations, which could influence the outcome of the interview, and once entrepreneurs agreed to talk, they were opened and engaged in the conversation.

One of the entrepreneurs was from Ukraine which was in my advantage, that we both could speak Russian - our mother tongue. Besides the fact, that it is naturally easier for a person to express themselves in their native language, it made possible to captivate more dimensions and details of the answers.

In case of the Danish entrepreneur and the fact that his company has tight connections to Ukraine, my cultural backgrounds and knowledge of the market conditions helped to interpret the data and fit the outcome of the interview into the real life circumstances, helping me to acquire deeper understanding of the data.

## **b. The Interviewees**

Two entrepreneurs representing different cultural backgrounds with the main business activities outside their home country were selected for the interviews.

The following criteria for selecting interviewees were used: it should be a person who is doing business in Denmark and Ukraine. This criterion was set, since I share my mental and physical presence between these two countries and would like to better understand entrepreneurs from this environment.

The two interviewees were:

- One Danish entrepreneur in Ukraine - Torben Majgaard, founder and owner of Ciklum
- One Ukrainian entrepreneur in Denmark Dmytro Marchenko co-owner of Spard

The first entrepreneur Torben Majgaard is from Denmark. Since 2002 he is a founder and CEO of software development outsourcing company in Ukraine.

Dmytro was the second entrepreneur I talked to. He is from Ukraine and right now in a process of establishing a sister company of Ukrainian based business in Denmark.

The thing these two entrepreneurs have in common is that they both started doing business in their home country and with time expanded it to another markets.

### **c. Personal Interviews**

Keeping in mind that interview is an artificial situation, I was responsible to make it as natural as possible. The following section will highlight how personal interviews were conducted and some of the issues that occurred in the process: from establishing contact to carrying out the interviews.

### **d. Establishing Contacts**

By using my network I got in touch with Dmytro. I met him in one of the network arrangements for entrepreneurs at CBS and after e-mail follow-up he agreed to give me an interview.

The second interviewee is a person discussed and covered a lot in media. He is from Denmark and during the last ten years has been successfully leading an outsourcing company in Ukraine.

Unfortunately there was no chance to pre-establish in person certain level of trust with Ciklum CEO prior to the interview. But it was made to some extent, through 22 emails which we have been writing back and forth in order to arrange the meeting. There were also two meetings cancellations, one after I had already showed up in Ciklum Copenhagen headquarter. While waiting I had a chance to see company's premises and to have a little chat with the office manager – the CEO assistant, who encouraged me to look forward to interview by saying: "Once you reach Torben, you will receive a good deep answers... he is a great speaker!"

### **e. Conducting the Interviews**

Before agreed time of the interviews, prepared questions were sent to the interviewees, in order for them to have an idea what my research is about and what questions will be asked. The

questions were customized for each interviewee so they could naturally fit into the nature of business and stage of its development in order to secure the flow of conversation. There were general contextual questions, open ended questions and some opened questions on a personal attitude to entrepreneurship. Additionally, planned questions in the process were supplemented with elaborating questions which came up naturally in the conversation. This helped to stay within the research area while having a free flow of conversation.

Regardless of good results of the interview, I found it quite difficult to communicate through Skype. Due to the technical circumstances there was no opportunity to use a video camera during the Skype interview. It was quite difficult without seeing the person react in the conversation and follow up on what being said, compared to face to face conversation.

I could also observe that entrepreneurs are indeed very open when talking about their previous businesses experience. But as long as conversation turned towards current business activities the flow was not that free anymore.

#### **f. Choice of Language and other Practical Details**

Questions for the interviews were prepared in English, but I chose to translate them in Russian for my interview with the Ukrainian entrepreneur, even though the interviewee could speak English. I believe one can much faster break the ice in the beginning of conversation and establish certain level of trust in their own language. However, I found myself using English key words and even once reading a question in English since the meaning of the question could be changed if it would have been translated into Russian. Just to mention, it was not a problem for Dmytro, since he speaks English fluently and is taking an MBA program in Denmark. The specific business expressions in English were perceived by him as a natural part of the conversation.

In case of the Danish entrepreneur, the interview was carried out in English, since my Danish language could have been not good enough for free conversation flow.

The location for interview in one case was a meeting room at CBS and in another case through Skype. All the conversations were recorded on iPhone. Using a recorder could somehow influence the conversation flow and make interviewees more restrictive in answers. But since the

questions were very open, it was always up to the entrepreneurs what kind of situation they used as an example.

It was thought to make some notes on paper or PC during the conversation but in the process I found it very difficult to stay in charge of the conversation, follow up on what was said and be a good listener at once. It was somehow risky not to back up the recorder, which could possibly fail, but I consciously prioritized to be a good listener, and the recorder worked.

#### **1.3.4. Secondary Data - Biographies**

Throughout the research secondary data was used. Secondary data was gathered using books, biographies of entrepreneurs, official fan page of entrepreneur, video interviews and business articles. It was attempted to prioritize well recognized online resources. The desk research played an important role in backing up and underpinning data collected from primary sources. The disadvantages of secondary data were questionable validity, context in which it was originally collected and initial purpose of the data creation and publishing. Therefore it needed to be applied with a critical sense (Eisenhardt, 1989).

The biographies had a primarily role as a source of secondary data, and in the frame of this thesis I used quotes in order to discuss and answer the research question.

### **1.3.5. Overall Assessment of Methodology**

The reasoning behind and explanation for use of the given research method is always subjective and based on the specific research situation; it applies to any other research as well as to my thesis.

The approach chosen for this project has given as much freedom as possible to shape the analysis and the results of the research independently from the certain theoretical frameworks and theories.

The choice of the specific research methods in this project has been done on the basis of the aim of the research. They apply because they were perceived to be the most appropriate methods in order to gain understanding of the research question.

## **2. Discussion**

By the following discussion chapter the findings are highlighted and supported by theories.

The theory is playing an assisting role and helps to discuss the research question, reach to valid conclusion and answer the research question.

Throughout the analysis better understanding of entrepreneurs is intended to be achieved in relation to various factors:

In '2.1. Changing business model' different academic perspectives on business models, their truthfulness and usefulness and analysis on how and why entrepreneurs developed and changed their business models over the time is discussed. It is found out how entrepreneurs are leveraging contingencies and use their experience and knowledge in order to succeed.

It will be followed by section '2.2. Uncertainty factor', where more specifically the entrepreneurial response to the uncertainties are looked into.

In '2.3. Perception of risk & opportunities' which start with the literature review, also the Affordable Loss Principle discussion based on entrepreneurs' experience is discussed.

The last section evolves around '2.4. Entrepreneurial personality and recruitment'. Based on key concepts and studies in the literature and in relation to the entrepreneurs discussed, different perspective such as network utilization as strategic response to resource limitations, the strategic

partnerships principle and organizational legitimacy issues are looked into, finishing the section with the discussion about organization fit and recruitment through network.

The content presented is not giving the complete picture of all the factors entrepreneurs get in touch with during their careers, but it can be seen as strong insights into the main entrepreneurial principles.

## **2.1. Changing Business Model**

It is interesting to look into the entrepreneurial way of dealing with business model change and innovation, because even though entrepreneurs are not buried in layers of bureaucracy, set of previously established rules and expectations, it is in many cases a matter of surviving on very personal and professional levels with no ‘safety net’ attached. Besides having high motivation, it is relevant to look into how entrepreneurs are ‘hands on’ changing business models.

Before the further analysis of entrepreneurial activities, different author’s definitions of what the business model is, and what purpose does it serve, are presented.

According to Chesbrough (2002), it is a well known fact that companies use business models in order to commercialize innovative ideas. But sometimes in the light of existing processes and various investments, companies often have very little ability to innovate the business model itself, which is crucial to secure more efficient infrastructure, through which new ideas will be realized. In order to develop ideas and technologies, companies have to strive to develop and innovate their business models.

Business model experimentation is a key factor in order to keep up with the dynamic competitive environment, but in many cases it is not clear, what the eventual ‘new’ business model will turn out to be. Would it be profitable in the very end and how many resources are needed to be invested before it pays back. That is hard to know in advance. Only experimentation can help identify new business models and create the data needed to justify it, just as Sarasvathy’s (2008) effectuation concept suggests.

In reality, businesses face significant barriers to business model experimentation. These may often conflict with the existing way of doing things, as well as managers can likely resist experiments, which might threaten their existing processes and bottom line results.

### **2.1.1. Perspectives on Business Models**

In the heart of any business lays a business model, whether it is proven and fixed, temporary, in transition or in the stage of development. In order to analyze and understand how and why entrepreneurs change their business models, it is important to build the knowledge and awareness on different perspective on the topic and understand its purpose by reviewing most relevant studies done.

The term business model became broadly in use since 1990s during the ‘dotcom’ boom which shortly ended up in a failure. Sometimes the ‘dotcom’ failure is being explained by ambiguity of the business model which ‘seems to refer to a loose conception of how a company does business and generates revenue’ (Porter, 2001) and lacks an official and precise definition in the management literature (Alt and Zimmermann, 2001). As a response to the situation, scholars have come up with various definition of what a business model is.

Some authors define the business model broadly as a description of company’s logic of value creation (Ghaziani and Ventresca, 2005). It ‘spells out how a company makes money by specifying where it is positioned in the value chain’ (Chesbrough and Rosenbloom, 2002) and ‘depicts the design of transaction content, structure and governance so as to create value through the exploitation of business opportunities’ (Amit and Zott, 2001). It answers managerial questions such as: ‘who is the customer?’, ‘what does the customer value?’, ‘how do we make money in this business?’ and ‘what is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?’ (Magretta, 2002).

This broad definition is broken down in many studies into more details. Hereby, three of the main areas are emphasized.

First, the value proposition clarifies what value is embedded in the offerings of the firm (Afuah and Tucci et al., 2000). Second, the architecture of value lists the partners and channels through which value is produced and delivered (Hamel, 2000; Hedman and Kalling, 2003). Finally, the revenue model is the bottom line of the business model: it translates the two former dimensions in costs and revenue flows (Dubosson-Torbay et al., 2002).

All of the aforementioned definitions of what business model is have a descriptive character in common. By describing what the reality beyond the firm is, it raises a question on truthfulness.

### **2.1.2. Truthfulness and Usefulness of Business Models**

In opposite to the aforementioned definitions, entrepreneurship scholars instead of addressing the question ‘what are business models?’, look into ‘what do business models do?’. This point of view has a prospective character looking into functionality and is perceived as part of a planning. Business model of a new venture describes ‘how the firm plans to make money long-term’ (Afuah and Tucci, 2000). It articulates the value proposition, identifies the market segment, estimates the cost structure and profit potential, etc. (Chesbrough and Rosenbloom et al., 2002).

Besides the efficiency of components, scholars look into the aspect of business model performance: do modeling and planning make the new venture more robust or more profitable? On the contrary, Honig and Karlsson (2004) put emphasis on the weakness of business planning as a monitoring tool by showing that, once written, business plans are never used by entrepreneurs for internal management purposes.

In connection to, it can be useful to mention Sarasvathy’s (2008) theory of effectuation, where she points out the emergent businesses structures. Unlike causal structures which are created through planning and step - by - step execution, effectuation depends on execution itself. Based on that, plans can be created and changed on the way, depending on circumstances, taken actions and people involved in actions - the set of which is also under constant development. Nevertheless, there is always a common meaningful vision which keeps the team together and brings more stakeholders to map out new ways - new business models. Through the time, actions and set of means are changing, consequently, the effects are also changing and eventually these effects unite into clear and achievable goals (Sarasvathy, 2008).

Others, such as Delmar and Shane (2004), are talking about the next logical step of business models - after being transformed from the emerging structure into the stable one, business plans are viewed as a legitimizing means by which the entrepreneur renders the new venture to be more reliable for investors and thus facilitate access to external resources.



This theoretical statements and definitions about what business models are and what function do they serve have a steady character, but can business models be also steady in practice? This is found out in the following section on dynamics of business model.

### **2.1.3. Business Model Development: A Dynamic Perspective**

Even though scholars have had a lot of discussions and definitions of what business models are, Osterwalder et al., (2005) pointed out that ‘the relationship between business models and time is little discussed’. Chesbrough and Rosenbloom (2002) note that successful businesses often change their initial models created during the start-up phase, while Linder and Cantrell (2000) describe four different categories of ‘change models’, depending on the degree to which a firm’s core logic changes. They are suggesting that firms should adopt a very active approach in pursuing business model changes. Morris, Schindehutte and Allen (2005) envision ‘a business model life cycle involving periods of specification, refinement, adaptation, revision, and reformulation. An initial period during which the model is fairly informal or implicit is followed by a process of trial-and-error, and a number of core decisions are made that delimit the directions in which the firm can evolve’. To make this argument even stronger, it is backed up by Sarasvathy’s (2008) research on effectuation, which is all about emerging organization and business model change, over the time, due to different internal and external factors and actions on them by entrepreneurs.

Baden-Fuller and Stopford (1992) find that making progress along a successful business path requires managers to experiment and discover what can work and what fails. Besides, communicate and institutionalize learning mechanisms and further utilize new knowledge and skills into systems, and structures across all departments of the organization.

#### **2.1.4. Assessment**

There are many ways for businesses to stay in front of competition. Product or service innovation through design, technology, or even invention, is probably the most common approaches (Appendix B. Types of change). But since there are so many businesses and industries which have been in operation for many years without mentioned product or service innovations, they can eventually face a slowdown, if not totally going out of business. Sometimes it happens due to near-sighted managers who diligently act upon the short-term goals, deliver ‘good’ results, and switch to the new position where they will do the same ‘correct work’, underestimating the aspects under which the new technologies are emerging and customer demands are shifting. Business model innovation is an interesting phenomenon in business, because even with a regular product, company can increase revenues depending on the business model innovative set up, or change over the time.

According to Guy Kawasaki (2004) recommendations, entrepreneurs should start with two questions: ‘Who has your money in their pockets?’ and ‘How are you going to get it into your pocket?’

Further a discuss is taken on how entrepreneurs managed to change their business model’s replacing the ‘business as usual’ to something unique and profitable, as never before.

### 2.1.5. Virgin Record Label

In the following section the Virgin Record label business model creation process is discussed, where certain circumstances, which demanded unique and creative approach, triggered a new business model creation.

When Virgin overnight became an established record label, with limited human resources (seven people), Branson had no ability to distribute records to all record shops across the country.

As Figure 2 illustrates, there were two options of business model to build the business around:

Regular BM	Virgin BM
Licensing	“Pressing and Distribution”
<p><b>Virgin role:</b> Receive upfront royalties (16 %)</p> <p><b>Partner role:</b> Manufacturing Promotion Distribution Keep the rest of the profit</p>	<p><b>Outsource:</b> - Pressing - Distribution</p> <p><b>Virgin role:</b> - Promotion - Carry all the risk if the record failed - Keep all the profit if succeed</p>

**Figure 2.** Business Model Innovation - Virgin Record Label

Source: Branson, 1998, p.119

First option was the traditional licensing agreement, with had practically no risk involved, but offered a limited sixteen percent of royalties, and would have been the natural way to operate the company with only seven people in the team.

Instead, Branson choose to change the business model and think out of the box, he outsourced the press and distribution of CD’s. This move resolved the missing people issue. Consequently, company changed the channels and the volume of the income flow – instead of stable 16 percent of royalties, Branson, after paying all variable cost for the press and for distribution, could keep all of the remaining income. It added a higher risk factor, but also promised a good upside in case of the success.

*“It was a bold move, but even then I knew that it is only by being bold that you get anywhere. If you are a risk-taker, then the art is to protect the downside. It seemed to us that Tubular Bells was so good that we could promote it ourselves. I felt sure that it would sell enough copies to pay back our investment”*(Branson, 1998, p.117)

Besides the confidence in the ‘product’, an important argument of why Branson felt comfortable with the little team and build the business model around it, were the competencies they possessed. For instance in the choice of music, Branson was one hundred percent relying on Simon’s unique and outstanding skills.

*”If I (Branson) heard a record, I knew whether I liked it or not, but I couldn’t compare it with some other band or recognize that it had been influenced by the Velvet Underground. It seemed to me that Simon had listened to every record released by every band. He didn’t just casually enjoy the latest Doors album: he thoroughly understood what they were doing, how they had developed from a whole catalogue of music. He had hosted his own half-hour show on Natal Radio, and I soon realized that he knew more about music than anyone I’d ever met.”*  
(Branson, 1998, p.94)

Living the promotion and marketing ‘in house’ was also not a coincidence. Branson was totally relying on John Varnom, who delivered an outstanding promotion campaigns and was ‘our other genius’ (Branson, 1998, p.96). Further discussion on the importance of the human resources is following in the section 2.5. Entrepreneurial recruitment processes on page 52.

In this example we can see the different business model Branson’s record label was adopting. The amount of people on board and competencies of the existing team members triggered Branson to think creatively and come up ‘naturally’ with the innovative solutions in form of the new business model, which was matching the resources and product available at that particular time.

### 2.1.6. Virgin Airlines

Although budget airfares had been available for some time in the USA, it was quite a new value proposition for European airline back in 1984. After receiving the proposal to buy an airline, Branson did a little research of competitors.

*“The only airline that was offering cheap fares across the Atlantic in 1984 was People Express. I (Branson) picked up the phone and tried to call them. Their number was engaged. It was impossible to get through on their reservation line all morning. I reasoned that either People Express was very poorly managed, in which case they would be an easy target for new competition, or that they were so much in demand that there was room for new competition.”* (Branson, 1998, p.193)

That was a supportive knowledge to decide upon the customer demand for a cheap fare on the London – New York route and the decision on Virgin Airlines positioning in the airlines industry as a cheap fare carrier.

Next step was a research (a phone call) on the upstream value chain i.e. the availability of the aircrafts and the possibilities to get them in operation for a start-up airline.

*“Boeing was rather bemused to hear Englishman asking what kinds of deals were available on a jumbo... They told me that Boeing did lease aircrafts, and that they had a second-hand jumbo that they would seriously consider taking back after a year, if things didn't work out. ”* (Branson, 1998, p.194)

With this basic knowledge about customer demand and inbound logistic, Branson faced his current partners Simon and Ken to discuss the company move into new industry and the amount of risk it will bear for the company. The risk perception by entrepreneurs is discussed further in the chapter 2.2. Uncertainty & Perception of opportunities, in a section of 2.3.3. Affordable Loss Principle.

And of course, besides approval from current partners', recruitment of a new team with new competencies needed to be in place, which is discussed in chapter 2.5. Entrepreneurial recruitment processes.

To move further, customer segmentation was under the revision since the airlines Branson was about to buy just went bankrupt from having economy class only. It was not an option this time, but the initial proposal was 'all-business-class airline'. Branson consideration about it was following:

*"I worried about what would happen on the holidays, the entire Thanksgiving week. I thought that we would have to have holiday-makers to fill the plane in those weeks."* (Branson, 1998, p.192)

On the other hand, competitors had first, business and economy classes, so in order to differentiate his airlines Branson sticks to only two: business and economy.

*"I wondered what the implication of that could be. We'd get both business man and tourist –who would we miss?"* (Branson, 1998, p.192)

To confirm this idea and receive a lot of inside knowledge, Branson asked for help from previous owner of airlines Sir Freddie Laker who very willingly shared all his experience about 'the mechanics of an airline industry'. Laker confirmed Branson's suspicions about the limitation of starting an airline, which was exclusively business class.

*"And you (Branson) don't want to be all no-frills economy service either, that was my (Laker's) mistake. You'll be vulnerable to the simple cost-cutting attack which put me out of business"* (Branson, 1998, p.196)

A low fare airline for business and economy class passengers was a new set up of a business model. Where business class passengers will have 'an upgrade' and receive first class service for business class or fewer prices. But beyond basic transportation passengers could choose to pay

separately for individual services they might need. This included: schedules for reservations, baggage, amenities and upgrades. So it was entirely up to the customers how much they are willing to spend on their flight, if they wanted to stick to the basics it can be a low fare, if they wanted to increase their comfort – sky is the limit, all range of additional services were there:

*“We (Branson and Laker) began a discussion on the philosophy of the business class services... We talked about offering a first-class service at business-class fares, and building in all kinds of extra services for the cost. Two of the best ideas that came out of the meeting were to offer a limousine pick-up as part of the service and offer a free economy ticket to anyone who flew business.” (Branson, 1998, p.196)*

For instance passengers could make their flight more comfortable by paying 10 dollars for pillows and blankets, even in business class, or passengers could make a phone call reservation for a charge of 20 dollars.

The airport choice is not discussed in the Richard Branson’s autobiography, but out of the mentioned route which flew from London to New York using Gatwick and Newark airports (which is second largest after Heathrow and John F. Kennedy airports) we can assume that it was not a coincidence, but more a part of cost saving strategy. Besides, as British Airways had a total monopoly in the Heathrow, it would have been extremely difficult to get free time slots over there.

The competition (with time, even not fair) from British Airlines side around mentioned time slots became a big part of the battle for the market share, which was resolved over the exhausting court cases and government intervention in form of law creation and control in face of fair competition.

To build an outstanding brand image, Virgin was dedicated to provide a top level entertainment on board of aircraft, and ever since was on the top of competitive bench marking, when it came to onboard entertainment. More details are provided in the Appendix A: Competitive spider index. For the first inaugural flight, entertainment went over all limits:

*“We had loaded seventy cases of champagne on board. This number is proven to be just right for what turned into an eight-hour party. People danced in the aisles as we played Madonna’s new hit ‘Like A Virgin’ and Phil Collins. For a quiet interval we showed the movie Airplane, and the cabin crew started a Virgin tradition by giving out choc ices (ice-cream) in the middle of the film” (Branson, 1998, p.207)*

Figure 3 shows Virgin as budget Airlines that created a business model which involves targeting the right customer segmentation with low ticket price and premium price for all kind of extra services. The second biggest airports were chosen to fly from due to the direct cost savings and exit barriers. The overall affordable loss was also estimated as part of the business model. This aspect is discussed further in the affordable loss chapter.

Initial proposal	Richard Branson BM low-cost carriers	Competitors BM (British Airlines )
Customer Segmentation		
- All-business-class	- Business class - Economy class	- First class - Business class - Economy class
Individual services		
	Schedules for reservations Baggage Amenities Upgrades	
Exit Barriers		
Ongoing contracts	One year limited contracts - Employment - Aircraft Leasing - Exchange exposure	Ongoing contracts
Affordable loss:		
	2 million pounds third of current year profit	
Choice of airports		
	Second largest: Gatwick and Newark	Heathrow and John F. Kennedy

**Figure 3.** Business Model Innovation - Virgin Airlines

Source: Branson, 1998, p.190



When looking into the Virgin airline business model from the industry perspective, it can be said that the business model was not changed over the time, but was chosen as an alternative to the existing one. It could be explained in the following way, since the airline business itself has a complex structure, (Appendix C. British Airways Value Chain) and demands huge financial investments, a wrong business model choice from the beginning could be either very costly or shortly lead to the bankruptcy. It can happen before an entrepreneur could manage to undertake any actions to change the business model, as it happened with Branson's predecessor.

But there are different market situations and different needs for core competencies in the business, which could have an influence on the nature of business model change. The 'Lemonade Principle – Leverage contingencies' discussed by Sarasvathy (2008) is one of the supporting arguments for the fact that the change of business model can happen over time and is further looked into in the next section

### **2.1.7. Lemonade Principle – Leverage Contingencies**

The 'lemonade principle' is the heart of effectuation process – the ability to turn uncertain situations into a profitable business. As Majgaard puts it:

*“What makes a great entrepreneur is an ability to adapt, ... a small company, when you start out, and the business has not yet proven itself and you don't know exactly yet, how you will make money and you don't know how the market will react to your product or your service, you need to be extremely open minded to change and you need to be able to change quickly”* (Majgaard, 2012, int., 45:00 - 45:40)

It is totally contradictory to managerial way of acting, which seeks to avoid uncertainties through planning and prediction. Managerial leaders proceed into action when their goals are clearly evaluated and defined (Sarasvathy, 2008). Majgaard is pointing out the inflexibility of big companies, by saying the following:

*“Everything becomes more like sailing a big oil tanker, it takes forever to turn around a corner”*  
(Majgaard, 2012, int., 46:00 – 46:05)

But is it a coincidence that contingencies turn into opportunities in entrepreneurial hands? Or do entrepreneurs prepare themselves and are getting ready to act on circumstances in a form of the collected experience and knowledge? The research gave a clear answer that entrepreneurs prepare themselves by gaining the practical experience and knowledge throughout their career.

During the interviews, the entrepreneurs’ message was very clear - nothing comes easy and every step they did, can be seen as a practical lesson, regardless if it was with the positive or negative outcome.

*“I think luck doesn’t fall from heaven. If you’re trying to do something, it will come, if you’re sitting and waiting for something to happen... (stammers). Well, it probably happens sometimes, but very rarely. I personally know nobody, who’s been sitting and doing nothing, and then – bang! It’s all about making efforts.”* (Marchenko, 2012, int., 20:40 – 21:50)

Majgaard is looking back to all the years of his entrepreneurial career, and divide it into two periods, first, where he worked hard with no big successful outcome in terms of money, and describes it in the following way:

*“There was a famous person, who said: ‘The harder I work, the luckier I get’ ... I think I have probably set up ten companies. And in these 10 companies, at least 7 or 8 of them, I kind of worked hard, but didn’t make much money or got away without much money. I made very good money in 1994 when I sold these 5 retail shops. But one of my Danish partners and friend basically stole all my money from me, so I lost everything within 12 months from that date.”*  
(Majgaard, 2012, int., 19:20 – 19:49)

Second entrepreneurial period for Majgaard was when he started with Ciklum. Using plenty of experience and knowledge gained over the years, he managed to convert them into successful business. In addition, two more profitable companies emerged and were managed simultaneously.

If it could be compared with the world of art, it might be echoed with the period of renaissance.

*“Now I’m financially what you call ‘very successful’. So the question is: was I lucky this time? Or, had I learned enough from the previous times I tried? But I do think there is a connection between me getting more experienced, more mature, and maybe more lucky.”*

(Majgaard, 2012, int., 20:03 – 20:10)

To continue the discussion regarding differences between managerial way of thinking and effectuation, it is pointed out that typically managers think reproductively, meaning base their decisions on the already known or experienced. So when they meet a challenge, they think ‘What have I been taught in life, education or work, on how to solve the problem?’. Then they analytically choose the most promising solution based on the experience and work towards it excluding the rest of approaches. It contrasts to entrepreneurs that think productively. When trying to achieve a new goal, they ask ‘How many different ways can I look at it?’, ‘How can I rethink the way I see it?’, and ‘How many different ways can I solve it?’, instead of ‘What have I been taught by someone else on how to solve this?’. They tend to come up with many different solutions, some of which can turn out being innovative and unique. (Sarasvathy, 2000)

Figure 4 and 5 graphically illustrate the managerial vs. entrepreneurial way of thinking.

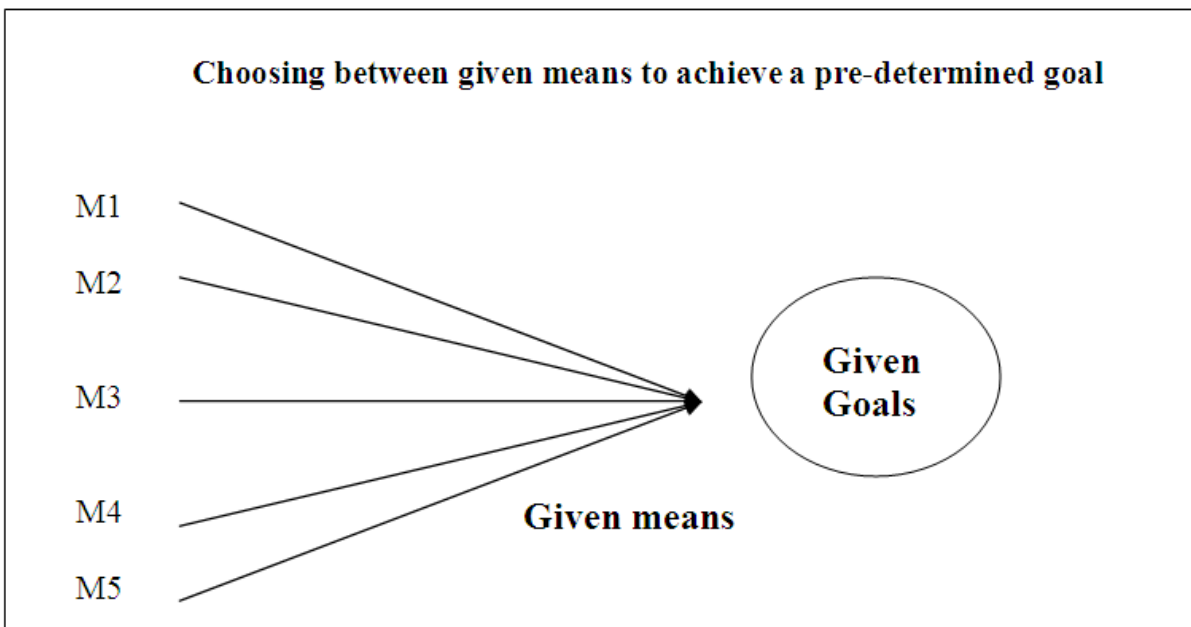
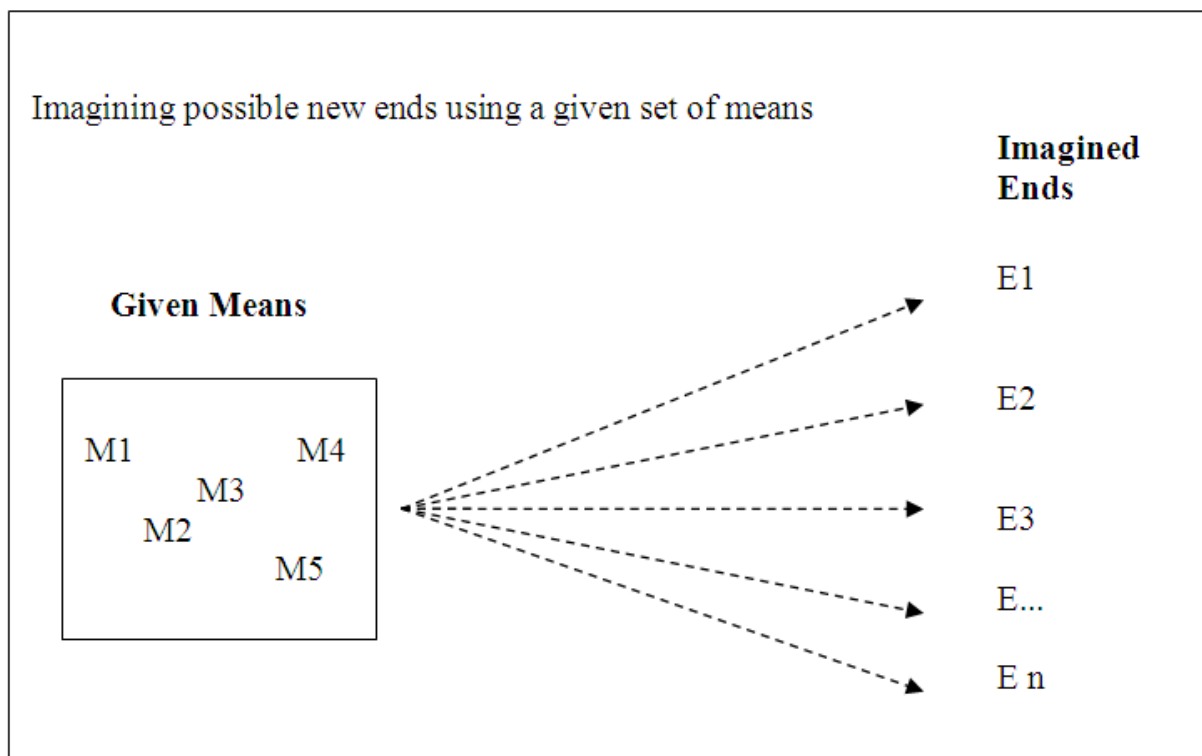


Figure 4. Managerial Thinking – Causal Reasoning

Source: Sarasvathy (2009). p. 6

In the Sarasvathy's research (2008) one of the entrepreneurs comes up with the example: 'I always live by the motto of *Ready-fire-aim*. I think if you spend too much time doing ready-aim-aim-aim-aim, you're never going to see all the good things that would happen, if you actually start doing it and then aim. And find out where your target is.' (Sarasvathy, 2009 p.6) Success of entrepreneurs in most cases can be seen as an outcome of contingencies.

As it is illustrated in the Figure 5, companies' core competencies, culture, and structure is everything what is created by a particular person who strives to fulfill certain aspirations by proactively acting on circumstances, they find themselves in. (Sarasvathy, 2008)



**Figure 5.** Entrepreneurial Thinking – Effectual Reasoning

Source: Sarasvathy (2009). p. 6

When looking into the activities of entrepreneurs over the long period of time, it can be noticed that they have been involved in many different businesses. Both Majgaard and Marchenko mentioned in their interviews, that they begin their first businesses since they were 12 years old.

Ever since, when the environment changed, entrepreneurs changed their core business, sometimes completely, and sometimes partly, taking another perspective, shape and scope of the business.

*“Well my first business was renting out cartoons, when I was 12 years old. Then I had business, which I started when I was 16, where I actually employed 3 people and I was selling accessories for IT. ... Then the next business was probably while I was in the army, where I made a fantastic business out of importing chocolates and different kinds of sodas from Germany.”* (Majgaard, 2012, int., 01:30 – 02:04)

*“Well, I started trading when I was twelve: I was selling beer on the bus station during my school break in Russia. When I was selling beer, I saw people coming from Ukraine with toys produced in my town. So I rushed back home, bought those toys and brought them too. Later it was juicers. There was a difference in prices, and there was no border as such. That’s why by the time I entered the University, I had even got some money of my own.”*

(Marchenko, 2012, int., 01:20 – 02:05)

Any conditions such as being around school friends, army friend, and having school break trips, were utilized as a potential market or customers. That signalizes the flexibility and readiness to act proactively on the circumstances seen by entrepreneurs as opportunities.

Reviewing Richard Branson’s career as entrepreneur, it can be seen that he managed to see opportunities in a number of non-related industries (i.e. publishing, music record label, books and CDs’ distribution chain, airline, railway and so on). Even his closest partners got surprised over next big opportunities, he saw.

*“In February 1984 a young American lawyer called and asked me whether I was interested in operating an airline. Since it was far from the existing core competencies of the company, which at the moment was in an entertainment industry, his partners were not happy about it, saying that the idea of combining a record company with an airline was the worst thing he can do, called him crazy and persuaded to come off the idea.”* (Branson, 1998, p.193)

Branson with his ability to ‘jump across’ the industries, saw the opportunities regardless what the core of the business was. It can be related to the Sarasvathy (2008) effectuation principles about entrepreneurs using a technique to come up with new ways of doing business and manifest the results.

Further the role of the knowledge and the process of organizational learning is discussed, to see how entrepreneurs adopt new knowledge and how it influences the business concept over time.

### **2.1.8. Practice and Experience as Basis for Business Model Change**

*“In 6 months I changed the business concept into something entirely different, because that was what worked.”*

(Majgaard, 2012, int., 30-18 – 30:26)

This quotation from Majgaard highlights the process of organizational change through continuous adjustments and revision of business concept over the time.

Here we can mention that even though Majgaard defined the framework as a ‘*business concept*’, in this analysis, it is referred to as a business model since the elements which Majgaard mentioned can be fitted into both - business concept as well as into the business model.

According to Nelson (1984) environmental changes can be interpreted and perceived differently by managers and their reaction to changes will always be influenced by the existing processes, routines and business models.

*“It happened when I started a company in 93 (in Denmark) with second hand computers. Back then I was working at TV and computer department of Kvickly and later in Bilka. And I decided to start my own company”* (Majgaard, 2012, int., 02-05 – 02:27)

Nelson (1984) is arguing that the starting point of trial-and-error experimentation is a theory held by individual - which does not need to be academically thought through, but could simply be based on prior experience.

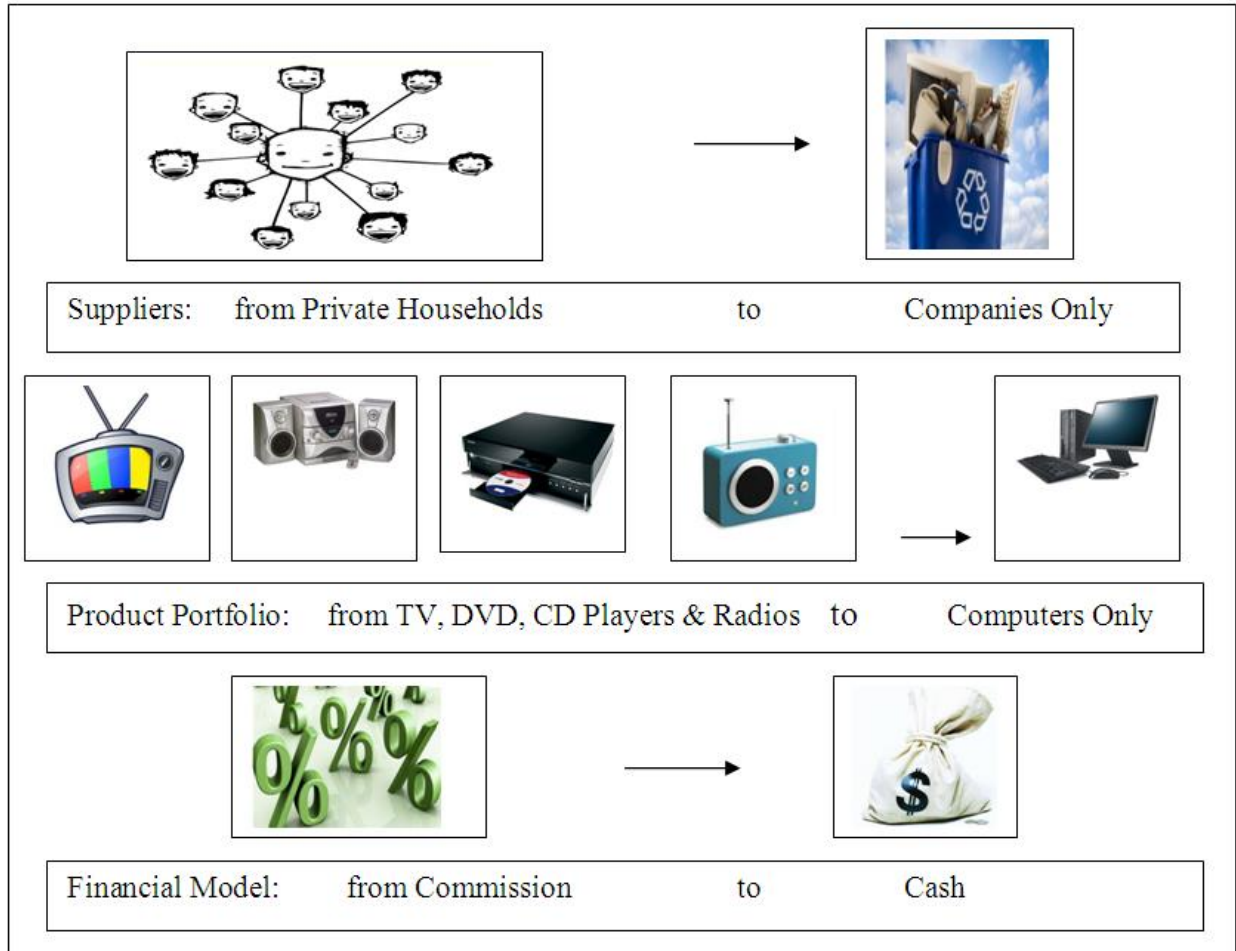
Such ‘theories’ can be conceptualized as cognitive maps of managers’ perceptions of environmental conditions plus their own prior knowledge, playing an important role in what Gavetti and Levinthal (2000) call ‘seeding and constraining the process of experiential learning’. Nelson and Winter (1984) claim that ‘organizations remember by doing’, their routines and beliefs tend to support the existing way of doing things. More than that, it keeps changes out of organization’s strategy and structure.

But in entrepreneurial context, it could work differently as we can see on the example of Majgaard and one of his business ideas. Namely, it can be seen how the idea adopts the trial and error process in practice, the entrepreneur opens a shop starting with one business concept and in 6 months he ends up with completely different one. The entrepreneur is the main decision maker, with his experience, knowledge and interpretation of the situation he provides the most important input into the initial business concept design process.

*“So in less than 6 months after I opened the shop, I had changed the business concept, from selling TVs, stereos and so on, to being only computers’ shop. I didn’t get them from private people as I would have expected, I got them from companies. And I didn’t pay commission, I paid cash.” (Majgaard, 2012, int., 40:15 – 40:57)*

Due to the fresh knowledge and not that stable organizational rules and non-existing processes, entrepreneurs can adopt to the environmental changes and uncertainties by acting upon new knowledge.

*“What I found out quite quickly was that the videos, TVs etc. weren’t selling very well. On the other hand the PCs sold very well... Two or 3 months later I completely stopped with TVs and stereos etc. I only focused on computers.” (Majgaard, 2012, int., 44:10 – 48:55)*



**Figure 6.** Business Model Innovation in Majgaard's Electronic Shop

Source: (Majgaard, 2012, int.)

The business model of second hand electronic shop was totally changed over the time. The changes happened in three dimensions: starting with the response to the customer demand and natural adaptation to it. The product portfolio changed from five different entries: TV, DVD, CD players and radios, to only one – computers. In parallel with shifted demand, the suppliers' channels were also changed from private households to companies, simply because the offer from companies came first and was more convenient and more simple way than the one earlier envisioned.

As a response to the suppliers' suggestion, payment for the product was made in cash instead of the commission, which meant that certain amount of money needed to be invested in the product stock instead of operating with the commissions, where much smaller amount of financial



resources would have been needed to start up the business. But on the other hand, it gave a full stock of goods which could have a positive influence on the customer flow.

This business model transformation can be called incremental, when the company is doing business as it planned to do, just in a more efficient way. An important role is played by an entrepreneur itself, by being flexible and responsible to the new knowledge or so called contingencies.

Another important aspect to be discussed is, whether it is a coincidence that contingencies turn into opportunities in entrepreneurial hands? Or do entrepreneurs prepare themselves to get ready to act on circumstances in form of the collected experience and knowledge? From the information gathered through interviews and biographies it can be concluded that entrepreneurs gaining their practical experience and knowledge throughout all career and since each entrepreneur studied was a serial entrepreneur, they had many situations to learn from. Therefore, by using gained experience and knowledge, they enhance the probability of succeeding with the next opportunity.

### **2.1.9. Conclusion**

In the process of business model change the central role is played by an entrepreneur as a leader, decision maker and risk taker, who leads the processes to results and has an influence on innovative and game changing business model creation.

#### **Factors which influence Business model change:**

To sum up from the discussion of the business cases, two different points can be added to the research. First, a relevant external factor influencing business model change is the time factor. Second, human resources play an important role.

About the time factor it can be said that on the one hand an entrepreneur can use time as an advantage, in order to adjust or totally change business model over a certain period of time. This is illustrated by Majgaard's case of second hand radio shop. Where he by testing business model in practice, remained flexible, and as soon as new knowledge became available, it was reviewed and implemented - forming a new business model.

On the other hand, operating a business can be extremely time sensitive, as discussed in Virgin airline's case, wrong business model can be extremely costly and even end up in bankruptcy. In this case, the role of entrepreneur is to come up with an alternative business model to the existing one. It can be done by from the very beginning using the professional network to gather industry insides and human resources to build competitively strong business model.

The analysis of Virgin record label case study can contribute to the research on business model change by defining the importance of the human resources availability for entrepreneurs at the particular point of time, since a business model emerges around these resources and forms the unique solution which could be difficult to replicate.

The implication of the findings of this chapter from the theoretical point of view is that the changes of business models cannot be predefined. Two conflicting approaches of business model change were defined in these studies: the effectual way and the casual way. What needs to be stressed is that neither of these approaches are right or wrong, much more important is the ability of entrepreneurs to choose the most suitable approach from the beginning and remain flexible, keeping in mind that if the circumstances will change, they have to be able to switch from one to another quickly. The consequences of staying true to the primarily business model can make the company vulnerable and on the long run have negative implications.

In the organizational contexts business model innovation is vitally important, and yet very difficult to achieve. One of the biggest barriers is to make a change in the existing processes. The way forward is to adopt an effectual attitude towards business model experimentation. At the same time, the organization's culture must find ways to embrace the new model, while maintaining the effectiveness of the current business model until the new one is ready to take over completely. Some experiments fail, but failure creates new approaches and understanding within the constraints of affordable loss, this is to be expected - even encouraged.

As it has been mentioned previously, the essential part of business model innovation includes the 'affordable loss' principle which will be further analyzed on the examples of the business cases used. But before that, not less important is to discuss uncertainty, since it can give us more clear and complete understanding of why entrepreneurs use the 'affordable loss' principle.

## 2.2. Uncertainty & Perception of Opportunities

Entrepreneurs can operate in the economy only if the environment is uncertain. It is explained in the following way: if all actors had correct answers for all question and the economy was transparent, then all opportunities would be utilized instantly and there would be no further entrepreneurial role (S Gifford, 2010). Majgaard defines three different profiles of people by saying the following:

*“There are people out there who feel they need to know everything from 0 to 100% before they make a decision. There are people out there who need 90 to 95 % of available information. And there are people who maybe only have 50% of the information and are able to make the decision based on that. I’m in the last category, I don’t need that much information before I am able to make a decision and take the risks.”* (Majgaard, 2012, int., 11:14 – 14:36)

The serendipity element has been deeply discussed by Stacey (1992), he argues that in many cases entrepreneurs make their decisions based on serendipity. Meaning they move forward even when the necessary knowledge is not yet available, by assuming that entrepreneurs use previous experience of venture creation which serves as a basis for further achievements and strategies in the way as if situation was more predictable.

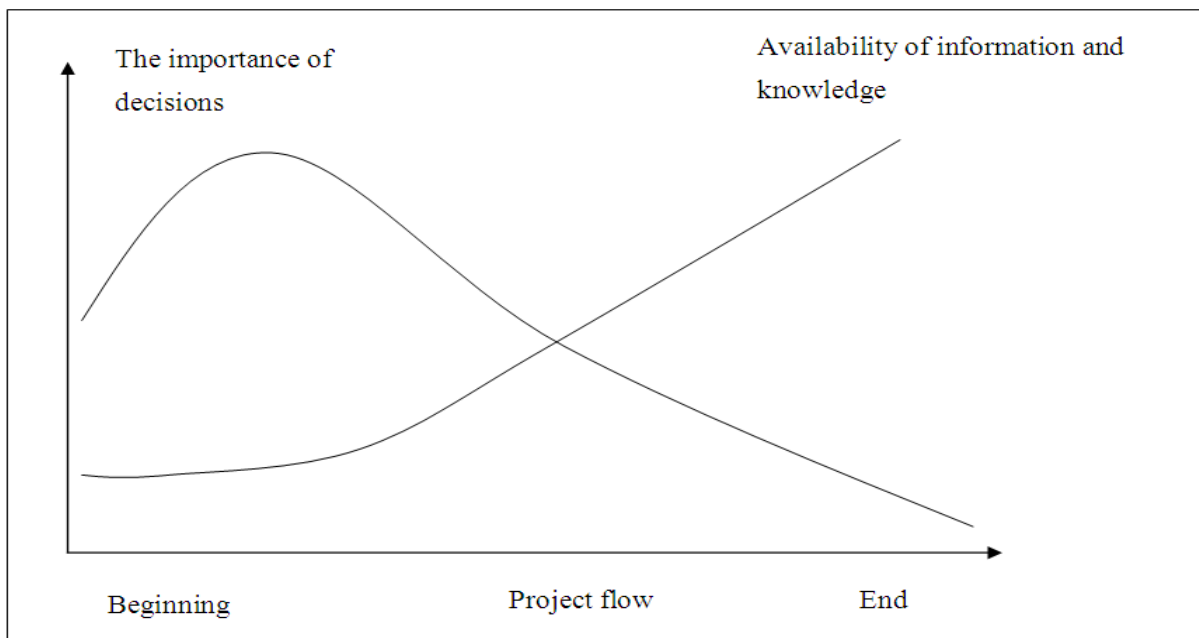
Further let’s have a look on circumstances of the venture creation by Majgaard.

*“...One Monday afternoon at around four o’clock I saw on the news that one of my competitors just went bankrupt. I bought that company, four days later, five in the morning. That’s how we got to have an office in Pakistan... So sometimes you see surprises which are doors to opportunities and sometimes they are just pains in the ass.”*

(Majgaard, 2012, int., 19:21 – 22:59)

In comparison to corporate world, where the decisions making process is defined by a very well formulated procedures and supported by different analysis, entrepreneurial settings are full of uncertainties.

The most important decisions are made on the early stage of the timeline before the necessary knowledge is available. In Majgaard's example it took him four days to acquire a competitor in Pakistan. As Figure 7 illustrates, the decisions which are made on the early stage include a high level of uncertainty, but due to the time pressure need to be taken right away before necessary information becomes available or verified. The time factor is very important in innovation as well as in entrepreneurial activities. It adds stress and other challenges, but in this environment entrepreneurs manage to take important decisions. Further, it is found out how entrepreneurs create meaning even when uncertainty factor is high.



**Figure 7.** The importance of decisions and the knowledge basis for decisions

Source: Mikkelsen and Riis (1998), p. 62

### 2.2.1. Meaning Creation

Decisions made by entrepreneurs happen very quickly as they try to catch and exploit windows of opportunity introduced by circumstances. Under the time pressure it is very difficult to make an extensive data collection in order to calculate risk and choose the less risky path. (Shapira et al., 1995). So how does an entrepreneur create a meaning in the situations full of uncertainties?

According to Eisenhardt (1998) heuristic-based decision making helps entrepreneurs to ‘piece together’ various fragments of information and master it. The process is based on a principle of making faster decisions in order to utilize a brief opportunities which arise in the very moment.

*“I rely far more on gut instinct than researching huge amounts of statistics. This might be because, due to my dyslexia, I distrust numbers, which I feel can be twisted to prove anything”*  
(Branson, 1998, p.193)

In the beginning of new idea development uncertainty factor is present in a high degree and it is difficult to make a distinction between ‘facts’ and ‘virtual facts’. Not clearly defined ‘facts’ are also difficult to justify or use in arguments. (Bernasconi, Harris, Moensted, 2006)

*“...When there is not enough information out there, what do you rely on?”*  
*-“Gut feeling, stomach feeling. And it depends on what you are risking...”*  
(Majgaard, 2012, int., 16:07 – 16:14)

The main goal of entrepreneurs is to make sense of what is ‘not- yet - known’ in the short period of time, and take an action based of some kind of intuition. Both Branson and Majgaard call it a ‘gut feeling’ which represents a tacit knowledge and stands as a part of entrepreneurial way to create meaning of new ideas in the uncertain situations.

### **2.2.2. Conclusion**

In this chapter the uncertainty factor was discussed as a ‘base’ for entrepreneurial opportunities. In this context the uncertainty needs to be seen not as a constantly present factor, or the environment of operation, but more as a time limited window to opportunities. Where entrepreneurs by relying on their existing knowledge and experience can ‘sense’ the opportunity and have the ability to fill up the gap between known and unknown with tacit knowledge, which through action and decision making is turning the uncertainty into opportunity.

On the opposite, the implications of the constantly present uncertainty factor, as an environment for entrepreneurial actions, even if relevant knowledge or/and experience in place, entrepreneurial actions, might have no positive effect on the business growth, even if the opportunities are obvious.

As discussed in the chapter, very often entrepreneurs make their decisions under the uncertain circumstances. Because of the uncertainty factor, the situations of entrepreneurs starting their business, are full of risks, which virtually are impossible to calculate, and can be overwhelming even for the experienced decision makers. Due to the fact that entrepreneurs quite often undertake a risky action, in the following chapter understanding their logic and the way they perceiving a risk is in focus.

### **2.3. Perception of Risk and Opportunity**

It is obvious that entrepreneurs are starting their ventures based on new ideas and/or new markers, which are full of uncertainties and bare a big portion of risk. The chances to fail are between 50% and 80% within the first 5 years of operations (Dun and Bradstreet, 1967). Besides of the potential loss of the financial investments, entrepreneurs risk their reputation, private life, physical and psychic well-being (Bird, 1989). But it has been noticed that entrepreneurs perceive their chances to make a successful business much higher than their competitors in form of established business managers from the same industry (Woo et al., 1988).

The perception of risk by entrepreneurs in relation to the different stages of business development is looked into as next.

#### **2.3.1. Risk Perception and Timeline**

*“I think that entrepreneurs generally are more willing to take risks... As I have become older, I have become more safe, meaning I have more money, so I tend to be less willing to take risks... At that time (when started the business in Ukraine) I really didn't have much, no family, no nothing. So I didn't look at risks as a trap, I more looked at risks as fun.”*

(Majgaard, 2012, int., 10:38 – 12:48)

It is suggested that entrepreneurs think and perceive the risk differently depending on which stage of development their business is. In comparison to corporate managers and successful entrepreneurs, who tend to 'protect' already existing achievements, it is noticed that entrepreneurs in the very beginning of establishing the business tend not to be sensitive to the risk, they might face. This being said, entrepreneurs are not willing to engage themselves in risk reduction or risk-averse actions if someone points it out, since entrepreneurs do not view their ventures as risky (Cooper et al., 1988).

But what is then driving entrepreneurs? To find an answer to this question, different studies are reviewed and presented in the next section

### **2.3.2. Literature and studies**

Studies of scholars, who attempted to understand risk perception by entrepreneurs, are discussed in this section.

Cognitive psychology and decision making framework studied by Ray et al., (1994) looks into the biases and heuristics which entrepreneurs use more extensively in the decision making process and consequently cannot objectively acknowledge the amount of risk involved in the situation they find themselves in. Meaning entrepreneurs are taking more risky decisions because they perceive it as little risk involved.

Cognitive psychologists observed that perception of the random situation of one individual can be totally different from the statistic statements (Bar-Hillel et al., 1979). The decision makers are often driven by conflicting biases and unjustified optimism. Relying on biases and heuristics leads to the norm of deviation in the context of a normative interpretation of randomness (Kahneman & Lovallo et al., 1993)

Busenitz (1999) notices that, there is no difference in risk propensity that distinguishes entrepreneurs from corporate managers, but a difference is in the way entrepreneurs perceive and think about risk.

Tversky (1991) comes up with the statement that decision makers rarely approach risk by first calculating and then choosing among the alternative risk-return combinations available, which would be an example of rational decision making. And Busenitz (1999) suggests that this

especially applies to entrepreneurs. They strongly believe in their ability to make a difference and fulfill ideas and are not seeing it as they engage in risky endeavors. Due to the market potential, entrepreneurs tend to visualize. They view themselves as experts and go ahead with their actions towards perceived opportunities. According to Busenitz (1999), entrepreneurs perceive opportunities as unique and based on their expertise may largely underestimate the risk factor which is attached to the opportunity. Or they can simply ignore potential problems which they cannot control and even do not expect that they will have to deal with.

To conclude, cognitive point of view suggests that entrepreneurs tend to develop a set of rules and biases when the decision needs to be made. This statement echoes with before mentioned studies by Saras D. Sarasvathy (2008), which defined ‘affordable loss principle’ as one of the rules entrepreneurs tend to follow. As next, ‘affordable loss principle’ is discussed in more detail.

### **2.3.3. Affordable Loss Principle**

Saras D. Sarasvathy (2008) defines ‘Affordable Loss Principle’ as a key of entrepreneurial logic, when undertaking risky decisions.

*“If I could lease the plane for one year and then have the chance to return the plane, we would have a clear escape route, if it all failed. It would be embarrassing, but we would limit the amount of money we lost. By the end of the weekend I have made up my mind: if we could limit everything to one year – the employment contracts, the leasing of the aircraft, the exchange exposure, and anything else that starting up a New York route involved – then I wanted to have a shot at it.”*

(Branson, 1998, p.193)

While managers are starting with the market analysis and choosing target segments with the potentially highest return on investment, entrepreneurs tend to find ways to reach the market with minimum expenditure of resources such as time, effort, and money. They also analyze opportunities on whether the downside is acceptable instead of thinking about potential upside. In the extreme case, the affordable loss principle translates into the zero resources to market principle. Many entrepreneurs in Saras D. Sarasvathy (2008) research stating that they are not making any marketing research, when they are about to start venture, instead, they are taking the



product to the first customers and based on the feedback, adjust the product or service development strategy.

*“I think also as an entrepreneur, you are willing to work long hours for low salary. In the beginning of the time of the company I didn’t have any money. I was working very much, and I didn’t really have any salary for myself.”* (Majgaard, 2012, int., 14:05 – 14:57)

*“You (the entrepreneur) possibly run the risk of going underpaid for a certain period of time, compared to a stable salary, but then you have a chance to make much more.”*  
(Marchenko, 2012, int., 33:08 – 34:59)

Here we can recognize the ‘Affordable Loss Principle’ by Saras D. Sarasvathy (2008) when entrepreneurs consciously sacrifice what they can afford, in order to succeed with new opportunities.

Another example is from Majgaard, who now, as a mature entrepreneur, reveals merging activities with a strong partner and bares big financial interests for both parts. Majgaard evaluates the situation as follows:

*“The mistakes can be very costly, and the business I’m risking is something I have put a lot of time into. So today I pay 500 pounds per hour to get some very tough guys’ advice on how to put this deal together, because I have much more to risk, and I have the money to pay.”*  
(Majgaard, 2012, int., 15:08 – 15:60)

But would it be right to say that entrepreneurs tend to apply the risk-averse actions later in their careers, when the bigger stakes are on the table. Or maybe they can afford to ‘lose more’ in order to win more? In Majgaard’s case it is by paying what it takes to the lawyers.

From the interview with Marchenko, it was difficult to define whether the expansion of business to Denmark from Ukraine was seen as a risky step or more as a risk-averse action.

### 2.3.4. The Journey from Developing to Stable Economy

As it was concluded in the previous chapter, the uncertainty factor plays an important role in creating windows of opportunities from which entrepreneurs can create meaning and turn them into new businesses. But what role uncertainty plays if we look at it as constantly present factor in an environment in which entrepreneur need to operate the business? High level of uncertainty has an influence on the amount of risk an entrepreneur needs to cope with.

*“Well, risks are present in Ukraine, in Russia – in our countries. There is where they can come and demand payment not stipulated by law, just like that. That’s risk! And what do you risk here (in Denmark)? You arrive here, you have a residence permit, you come and say “I want to start a company”, it costs this or that, you go and register it.”* (Marchenko, 2012, int., 16:10 – 18:37)

While vast amount of the worlds businesses, including Majgaard’s Ciklum, are entering the developing countries with outsourcing activities due to the cheap labor and production facilities, Marchenko expanded his company’s business by entering to the stable economy (Denmark). He saw the opportunities in the developed and supporting infrastructure for entrepreneurs and stable financial, political and social environment. These factors all together are able to help him to secure stable day-to-day operations.

*“Well, it’s probably my subjective perception. You first try to do something in Ukraine, then you come here and you think “Phew, what crisis?” You kind of don’t see it. The Danish crown is a stable currency... Real estate prices rise and fall, but it’s... well... it doesn’t bother anyone much. You come here (Denmark) from there (Ukraine) and compare: it’s like some kind of a greenhouse.”*

(Marchenko, 2012, int., 18:36 – 19:27)

By this comment we can see that a move to expand to Denmark is not necessarily totally secure and with zero risk involved, even if the good business infrastructure is available, but as Marchenko expressed ‘*You kind of don’t see it*’, meaning his perception of risk can be underestimated. But compare to the environment Marchenko used to operate the company, his

perception of the risks in Denmark could be lower than it actually is. It is clear that by benchmarking the risks of moving part of the business to Denmark, there was an affordable loss to face:

*“The process (of opening the company) is very easy in Denmark. Well, not that easy – I had to enter MBA for that. Because it’s very difficult to start a company here (Denmark) from there (Ukraine) without it. When I entered, it got all easier.”*

(Marchenko, 2012, int., 14:02 – 14:55)

We could comment this quote that Marchenko was reaching out for the promising opportunities, which could come along, once his business is expanded to Denmark, but what the transition stage would bring was unknown, and turned out to be not that easy as he probably thought from the beginning.

One of the first efforts was to get a living permit in the desired country, which was achieved via MBA program enrolment. This can be seen more as calculative move or the logic of causation, which fits well with the part of knowledge spillover theory - Agglomeration & Location attractiveness, where it is stressed that due to the certain qualities of the location, entrepreneurs will have bigger probability to face the opportunities. That was one of the supportive facts for Marchenko to move to Denmark.

Appendix D. amplifies on the Agglomeration & Location attractiveness factor, using Richard Branson example as London based entrepreneur.

But even when following the calculative logic, the affordable loss principle is sensed in form of a limited time together with the family for awhile.

*“The Immigration Service. Not even me personally, but my family had to wait for residence permits for 7 months... Well, not too comfortable: I had to fly home, and it’s expensive. They could have been living here, instead either I was flying to them or they were visiting me here. It’s not even a problem, it just takes too long.”* (Marchenko, 2012, int., 19:02 – 19:55)

But all in all it was something, which Marchenko could afford to lose on exchange of company expansion to the stable environment.

Every time Richard Branson was up for a new venture creation, he would need to persuade his partners to join him. In such situations the element of affordable loss was always in place.

For instance, the road to the first great fortune was by giving away his wedding present – Bentley, in order to persuade a great but extremely modest musician, who refused to go on stage for his first live concert, when the Queen Elizabeth Hall was filled up with people. The offer, artist could not say no to, lead to the following:

*“That night we sold hundreds of copies of ‘Tubular Bells’. Word of mouth spread and on 14 July ‘Tubular Bells’ entered the album charts at number twenty-three. By August it was number one. ‘Tubular Bells’ eventually sold over thirteen million copies, making it the eleventh-best-selling album ever released in Britain, sacrificing of my Bentley was worth it”* (Branson, 1998, p.117)

Later in the Richard Branson’s entrepreneurial career the opportunities got bigger and the estimated losses also grew. When persuading his partners to support the decision to jump into the airline business, while current activities evolved in the entertainment industry, Branson said:

*“Virgin can afford to make this step. (Jump from entertainment industry in to airline business) The risk is less than a third of this year’s profit. (2 million pounds) Money from Culture Club is pouring in. And it will be fun...”*

(Branson, 1998, p.194)

### **2.3.5. Conclusion**

In comparison to corporate world with well-defined procedures and processes, when decisions need to be taken, entrepreneurial decision making settings are completely different, without defined policies and all the bureaucracy. Entrepreneurs tend to use their own 'decision-making rules' and heuristics to direct their decisions. The discussed affordable loss principle plays so called shortcut role in the decision making process, helping entrepreneurs cope with high amount of uncertainty and come up with the decisions quickly and efficiently, without concentrating on the all possible risks involved. Entrepreneurs are very conscious about not all surprises being bad, and that surprises whether good or bad, are seen and used as opportunities, which in best cases can lead into new venture creations.

It needs to be stressed that entrepreneurs operate in the environment through interconnecting with different people, partners, stakeholders which need to be persuaded to support the risky decisions. The process of hiring human resources and building partnerships in the entrepreneurial contents is discussed in the next section.

## **2.4. Entrepreneurial Recruitment Processes**

As part of the extrinsic factors, which are influencing the ability of entrepreneur to see and act upon the opportunities, in the current section human resource factor is taken under analysis.

Many scholars agree that human resources are critical for establishing and growing phase of start-ups (Ajdrich & Langton, 1997).

One of the major challenges entrepreneurs face is to attract and hire the needed human resources to the new company. In many cases it happens because of the general lack of resources and lack of organizational legitimacy (Barber et al., 1999). On the other hand, to attract human resources can be difficult due to the person-organization-fit issue (Heneman et al, 2000). It can be interesting to look into this issue to find out how the entrepreneurs that have been chosen for this study, regardless aforementioned barriers, managed to grow the startups from 'me and my friend company' size to multinational corporations with thousands of engaged employees on board.

### **2.4.1. Key Concepts and Studies**

Different studies have been done in order to find out how entrepreneurs deal with human resource challenges. Saras D. Sarasvathy (2008) looked at it from the perspective of 'Bird in Hand Principle', meaning entrepreneurs start with their means. Knowing that entrepreneurs do not wait for the perfect opportunity, they move forward by taking action, based on what resources they have available: who they are, what they know, and who they know (Sarasvathy, 2008).

In other words Sarasvathy (2008) is referring to the knowledge and the social network of entrepreneurs when starting a new venture.

Important fact has been noticed by her is that these factors are not mutually exclusive or independent. The identity of who you are interconnects and depends on your knowledge (what I know) and your network of people (whom I know). All together these factors determine the recourses available (what I have). It is also mentioned that this definition is quite primitive, because any means or circumstance entrepreneurs find themselves in, start to be part of the big picture and entrepreneurial process. Ideally it is not circumstances that shape the reality, it is how entrepreneurs deal with them. But in the beginning of any venture, entrepreneurs are holding on

to their own identity, knowledge available and social network, which transforms to the core team with core competencies.

#### **2.4.2. How to Interpret it for the Current Study**

In the next section it will be explained why human resources are a part of the study on entrepreneurs and their ability to see the opportunities. Throughout the interviews and autobiographies it was very clear that entrepreneurs never act by themselves, on the contrary, they always had a team of people with whom they interacted closely. The team members possessed different competencies and skills, challenged and supported each other. With time, if the team was successful enough, it grew and formed an organization or even a big corporation with its own culture, and way of doing business. It will be further discussed how the recruitment process looks like when it comes to entrepreneurs and the different stages of their company development.

Regardless the different origins of recruiting issues, entrepreneurs agree on the difficulty factor of attracting human resources as a start-up, compare to the mature stage of the company. It is exemplified by the following quote from Majgaard:

*“In the beginning I knew very few people over here. (Majgaard refers to the moment when he moved to Ukraine to open up new company.) When you are a little company it is difficult to attract good people, because the very good people might think it’s too big of a chance to take. When you become like we are now ( more than 2000 employees), I’m searching now for a new CFO, I put advertising on Jobindex in Denmark and I got 60 applications in the first four days. So it’s a lot easier now to get the good people”* (Majgaard, 2012 int., 21:10- 23:05)

The quote by Majgaard illustrates the different types of challenges the startup companies face, when trying to attract employees, in comparison to the stage when the company is already well established.

Even though Majgaard’s company, over the years, grew to an international size and gained a certain market share in different countries, he chooses to look for the top level manager in the

home country - Denmark. This is an interesting decision because Majgaard could also choose to support Ciklm's international side with international competencies, and search for the managers with an international profile, by making an announcement in the international recruitment agencies. This decision can also be seen as a limitation for entrepreneurs when they continue to use an effectual logic on a stage when their company 'grow out' of the start up stage and can benefit more from the causal way of doing things.

How do entrepreneurs manage to grow their human resources from start-up to growth stages? Why and how the recruitment process is different startups compare to the well established companies?

### **2.4.3. Network Utilization as Strategic Response to Resource Limitations**

The fact that entrepreneurs adopt and prefer informal practices such as networks and referrals, rather than using recruitment agencies or university programs, is supported by chain of scholars (Aidrich & Langton, 1997; Barber et al., 1999; Heneman & Berkley, 1999; Pritchard & Fidler, 1993; Ram, 1999). Marchenko is giving an example how according to his practical experience, his company was getting new employees:

*“When the company emerges, those who come first are usually your own acquaintances. Then in your circle of acquaintance there are no more people left of those that you could employ. Well, you still have your friends' friends, but then even among them there are no professionals with the right qualifications left. Then you should go to the specialized recruiting agencies and try there. But that's another level. That's certainly better when you know people personally and for many years. You hire him or her and you're sure of what you can expect.” (Marchenko, 2012 int., 27:32 – 28-50)*

Marchenko emphasizes that the right qualification needs to be in place when scanning your social network for people to join you. It is one of the crucial points for the core team members.

Richard Branson's first non-official employees were the closest ones – friends and family:



*“My parents and Lindi (sister) came up to help us to sell copies of the magazine. Mum took a bundle to Hyde Park and pushed them into the unsuspecting hands of tourists.”* (Richard Branson, 1998, p.54)

Later he was pointing out that all the success of Virgin music happened due to the outstanding skills of a single person:

*“Most people assume that a record shop’s success lies in selling records. In fact, Virgin’s success... lays in Simon’s skill at buying records. He was able to pick out bands that did not sell through the mainstream shops and sell them through Virgin. He knew so much about music that he knew which bands would sell even before they were a proven success: he was already using the antennae, which enabled us to set up the record label two years later. Without Simon, such a move would have been a step in the dark.”* (Richard Branson, 1998, p.96)

*“Our other genius was John Varnom, who did all the promotion for the records and wrote the advertising slogans for the shops.”* (Richard Branson, 1998, p.96)

As it was discussed in the chapter on the business model change of Virgin record label, the uniqueness of competencies of each team member were the key to success and explanation to why Branson created his business models around the resources available to him.

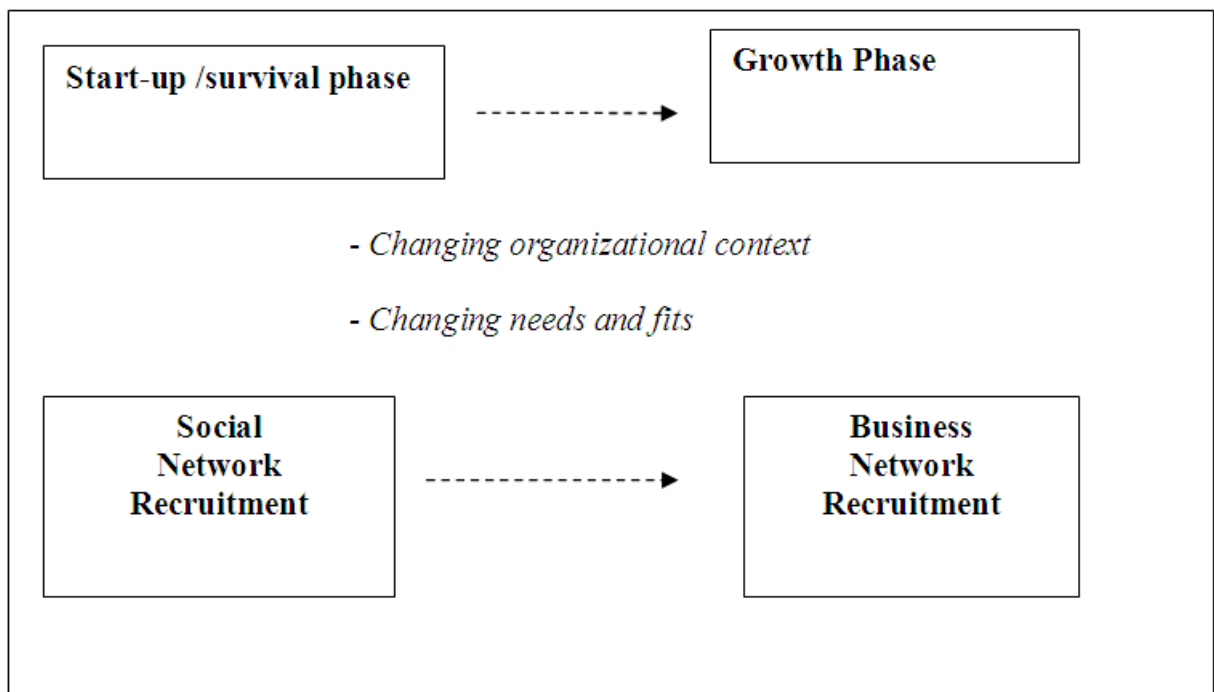
Majgaard is taking this statement even further and elaborating how things work on the growing stage of the company by pointing out the following:

*“Today I use my network very much, especially for the senior positions,”*  
(Majgaard, 2012 int., 25:45)

Meaning that the fact of using personal network on the growing stage of the company is equally important especially when hiring people for the positions where big amount of responsibilities and trust is involved. But it is not only about senior positions, in fact all the recurring processes in Ciklym evolve around networking activities, Majgaard describes it as following:

“I think now we are growing, we are hiring almost 100 people (per month), so to hire 100 people, we need an army of recruiters... We are using advertising and 40 recruiters, and each recruiter have their own network which they are utilizing, and of course the existing employees, we are asking them on a daily basis for contacts to their friends. So recruiting is very much about networking.” (Majgaard, 2012 int., 25:53- 35:05)

From this statement we can see that the network of existing employees is broadly utilized and used on the daily basis as a part of the recruitment strategy in Ciklym. Furthermore, with the change of organizational context, when company is growing from start-up phase to growth phase, the needs are also changing and hiring process develops from social network recruitment towards business network recruitment. This evolutionary development is illustrated in the Figure 8.



**Figure 8.** An evolution framework of network recruitment practices  
Source: Aldrieh abd Langton (1997), p. 79

In the stage of transformation from Virgin record label into airline business, Branson began to get people in the team starting with the nearest professional network available, which was a lawyer, Randolph Fields, from whom, Branson received the proposal to buy an airlines.

*“The first arrangements I (Branson) made with Randolph was that we would have an equal partnership. I would invest the funds; he would run the airlines. Randolph had already recruited two key people from Laker Airways (the one that went bankrupt): Roy Gardner, who had run the engineering side of Laker, and David Tait, who had run the American side of the operation”*

(Richard Branson, 1998, p. 197)

Here we can see that even though Laker airlines went to bankrupt due to the unsuccessful business model, the same key people were rehired for the new company and new opportunities were captured due to the utilization of the human resources available at that very moment.

When key people got in place, further recruitment process took place on the one side of the flight route.

*“We rented a warehouse near Gatwick Airport, where we based Roy Gardner and his engineering team, and started recruiting pilots and cabin staff”*

(Richard Branson, 1998, p. 198)

Meanwhile, oversees side, the main person also got in place:

*“David Tait moved his family up from Miami back to their home in Toronto and started living at Virgin Music’s office in New York”*

(Richard Branson, 1998, p.199)

So by acting fast and taking advantage over the situation, Branson could start the airlines also because of the human resources he manages to hire first via social network of partners. After the key people were in place, it can be assumed that Branson took less personal approach, such as-business network recruitment.

Some of the reasons of recruitment evolution which go from social network recruitment to business network utilization, are defined as next. According to Barber et al. (1999) and Heneman

& Berkley (1999), the recruitment process starts with the limited resources entrepreneurs have on the start-up stage. The HR function is usually underdeveloped and owners of start-ups recruit new members of the team personally, on the line with performing many other roles and responsibilities. Entrepreneurs are less likely to employ professional recruiter in the start up stage. Lack of financial resources is also keeping entrepreneurs away from intensive methods such as university recruitment. On the other hand, recruitment through network provides 'convenient and inexpensive' way of acquiring talents (Barber et al., 1999.) and appears as a natural response to resource limitation issue.

#### **2.4.4. The Strategic Partnerships Principle & Organizational Legitimacy Issue**

One of the key principles of effectuation is focusing on building partnerships rather than on doing a systematic competitive analysis. Effectuation stresses the importance of alliances and pre-commitments from stakeholders, as by this entrepreneurs are striving to reduce and if possible drive close to zero uncertainty and rise entry barriers. More than that, entrepreneurs encourage stakeholders who make the commitment to shape and develop the company.

On the other hand, potential stakeholders before joining the company can struggle with the organizational legitimacy issue. Due to not yet established company image, lack of reputation and very often not well defined job description for the position, smaller firms usually appear as less attractive recruiter compare to the well established companies. But through personal networks potential employees can obtain the private information of the firms to fill up their gaps. The circumstances of partnership creation of the Marchenko's company could be a good example of it:

*“We've known each other for a long time. We met because of work: he worked at the brewery that was buying equipment from me... Then they ( current partners) quit the brewery, started their own company, and I began to involve them in other projects, meaning we started hiring them as a subcontractors for other projects we were working on, because we knew they were able to do the work well, fast and priced it reasonably... Then, I entered their company capital buying 50 percent of the company so we become partners. (Marchenko, 2012 int., 22:54- 23:50)*

Here we can see the clear line that the prospective partners gained the necessary knowledge about each other in the process of personal interactions and experience while working with each other throughout the years, gaining trust and knowledge about each other. Barber et al. (1999) is confirming that prospective employees build the knowledge and trust to the young firm by being its customer, sub-suppliers or by getting recommendations through third party and becoming more open to consider joining the firm. (Barber et al., 1999; Heneman & Berkley, 1999)

It is important to emphasize that the interests of employer and employee need to be shared, in order to reach the necessary level of synergy for the best possible outcomes.

In the case of Apple when back in 1982 the company was looking out for a new president. Apple's most wanted candidate was Don Estrid, who had built IBM's personal computer division from scratch and launched a PC with great sales. In theory, he was a perfect match with needed experience and knowledge. But Don's reaction was as follows:

*“Don declined the offer, he liked to be part of the established company, “a member of a Navy, rather than a pirate”.* (Jobs, 2011, p. 153)

This citation can be interpreted that there is much more than knowledge and experience. There is something about personal security and stability, and it can be explained as a clear preference for a perspective employee, it is about the 'known' rather than 'unknown. When the 'navy' allegory illustrates well established companies (as IBM) with clear goals, long term visions and stable processes on how to reach their targets, then on the other hand the 'pirate' comparison gives a clear picture of chaotic and unclear, but in the same time 'free to modify as you go' company structure and culture, which at that time was Apple. All in all, it reflects a lack of legitimacy, signalized by Apple.

*“We are looking now to set up a new business inside Ciklum, a new department of Ciklum. And we were looking to hire a person to look after that, and the person we had in mind actually said very directly, that he is now responsible for 150 people, what he is looking for now, is a job,*

*where he can sit in his office and manage 200 people. He is not interested right now in building something from scratch.*” (Majgaard, 2012 int., 23:547- 24:28)

#### **2.4.5. Person – Organization Fit and Recruitment through Network**

According to Granovetter’s study (1974) regarding the job search process and outcomes by professionals, he found out that job satisfaction of people who got hired by utilizing weak ties (the network) is much higher than of people hired in a traditional way. Even though this study looked only into the job seeker’s perspective, it can be assumed that organizations might prefer to recruit from their networks, and higher job satisfaction could mean a better fit between the person and organization and in total bring much higher productivity outcomes.

Building up on the Granovetter’s findings, Brass (1995) suggested recruiting by utilizing firms’ networks as more effective means to recruit people with better fit into organization. Since both, the recruiter and individual, are already having necessary knowledge about each other and are mutually attracted to each other, based on perceived similarities. People recruited through networks believed to ‘fit in’ better into organization.

As a continuation of Apple director search process, after clear mismatch between Apple and Don from IBM, the next target for the position was chosen on the basis of the ‘better fit’ or ‘match’ of competencies, being described below:

*“Apple decided not to focus on technology executives; what Apple needed was consumer marketer who knew advertising and had the corporate polish that would play well on Wall Street.”* (Jobs, 2011, p. 148)

In these words Jobs defined a good organizational fit for the prospective employee. According to Kristof’s (1996) studies person-organization fit, is the compatibility which occurs first, when at least one of the sides provides what the other needs, second, when they share the same fundamental values and goals, and third, both of the abovementioned criteria are fulfilled.

Perfect combination of ‘organizational fit’ between company and employees occurs, when the vision of both sides merged into one.

In the Virgin transition period from record label to airline business natural restructuring in the team took place as well

*“Over the years I had (Branson) unnerved Simon several times, but this time he felt that I was prepared to bed the company and all our accumulated wealth on a scheme that he thought was totally harebrained. Simon’s interest and love for life comes from the arts, from music, books, his collection of paintings and beautiful cars. My interest in life comes from setting myself huge, apparently unachievable, challenges and trying to rise above them. From a purely commercial perspective, Simon was absolutely right; but from the viewpoint of wanting to live life to the full, I felt I had to attempt it (start Virgin airlines)”* (Branson 2008, p. 195)

In light of this situation could be assumed that when the important decisions need to be made, entrepreneurs try to go back to their core individual values and take the decisions based on them. In Branson example it turned out to be different to his partner. There is no reason to evaluate on correctness of the decision since intrinsic factors that motivates entrepreneur and his partners may explain most of his behaviour and lays deeply in his personality.

However the employee’s organization fit can evolve with the time due to organizational changes and growth. At the start-up phase, entrepreneur has a core team with similar backgrounds, values and goals. It is providing close-knit and understanding of what is necessary to survive at that stage. On the other hand, during growth stage, diversification of qualities, opinions and skills become the first priority (Schneider et al., 1997).

This can also go to extreme cases and can be exemplified by Jobs being fired from his own company when his qualifications were less needed.

*“Job is irrelevant to the company, despite his title as chairman”* (Sculley, 2011, p.208)

Despite of the variety of causes and explanation, the fact of firing Jobs from Apple and in fact, hiring him back as CEO, supports the main point that the employee and employer relation are very dynamic, based on the trust, reliability, common goals and values, unique skills and abilities of the core team members. And in many cases entrepreneurs themselves spot the individuals from their social networks, which with time are growing to the utilization of professional networks.

## **2.4.6. Conclusion**

This section answers the research question from the human resources perspective as one of the extrinsic factors which drive entrepreneurs and influence the opportunity discovering and commercialization process.

As an outcome of the empirical findings two main points should be mentioned. Entrepreneurial career could be divided into two stages: start-up and growth stage. During the first stage, entrepreneurs use widely effectual logic, by utilizing their nearest network available. During growth stage entrepreneurs tend to utilize professional networks by opening to more broad resources available. This indicates transformation process from the effectual logic of entrepreneurs into the casual logic along with the company's development stages. But it is not in all cases that the transformation of the entrepreneurial logic developed in parallel with the company. In situations when companies have grown big and started to possess complex structures, the effectual logic could be seen as limitation because of the different needs company might have.

But on the other hand when entrepreneurs continue to use effectuation on company's mature stage, it can give them the comforting feeling since they are using the proven successful ways and perception of having situation under control.

It could be interesting to study further the transformation process of the entrepreneurial logic along with the company's development from start-up to mature stage, having in focus the logic change from effectual to causal way of thinking.



### **3. Conclusion**

This research was inspired by an interest of how entrepreneurs see the opportunities and what intrinsic and extrinsic factors influence the commercialization process.

According to Saras D. Sarasvathy's research, (2008): Elements of Entrepreneurial Expertise 'Effectuation', entrepreneurial logic is completely different to the managerial one, entrepreneurs move forward by taking action, based on what resources they have available: who they are, what they know, and who they know. On the other hand Audretsch and Keilbach (2007) suggest that opportunities arise if the right extrinsic factors are in place such as: regional growth, unemployment, agglomeration and location attractiveness and social diversity.

Based on the analysis the main takeaways can be defined:

#### **Main Takeaways for Corporate Managers**

In order to keep the existing businesses competitive, the role of nowadays managers has gone far beyond casual logic. Planning, execution and controlling function is simply not enough anymore. Corporate managers need to be open towards next opportunities in line with 'external' entrepreneurs. It might require current corporate culture revision and dedication of the additional financial and human resources. And this needs to be seen as an investment, which, in the very end, might be the only way of businesses to prosper.

#### **Main Takeaways for Entrepreneurs**

Do you want to be an entrepreneur? Sarasvathy's effectuation elements of entrepreneurial expertise could be a great place to start. Do you want to enhance your chances of success? There is a need to have a mixture of both effectual and causal logic. Even though it is about two different ways of doing things and in academic world these ways are represented by two different theories, which in some sense are even contradictive. But in a practical set up i.e. moving from real life examples towards theories, this thesis has discovered that in the different stages, entrepreneurs have a great portion of success by mixing these two approaches. In case of entrepreneurs sticking to only one of the approaches, it might be caused by their reality or limited experience, but not necessarily the best choice to make after all.

### **Main Takeaways for Educational System**

It is very difficult to make a valid recommendation for the educational system, based on this research, since educational system is quite complex and full of traditional and innovative ways of teaching. But in case educational system, besides educating strong academics, would like to help entrepreneurs to master their potential, it might be necessary to recognize the difference of theoretical and practical teaching approaches, and combine a good mixture of both.

Business schools could also look into the way of teaching in traditional music high schools, where for centuries theoretical, practical and methodological ways are blended together and practically cannot stand alone, not only in real life, but also during all years of education.

### **Main Takeaways for Me as a Researcher**

Throughout the thesis writing I had a very strong personal opinion that the only way to move forward was an adaptation of the effectual logic. Because of this opinion or the glasses I used to look on the cases, it was very difficult to see the whole picture. When I reached to the contradictive and the most interesting aspects in my cases - the transitional stages of business development, my opinion started to equalize and take broader perspective. It was, when I discovered the importance of the balance between effectuation and causation logics and extrinsic and intrinsic factors, which are if not equally important, then at least needing to be both included in considerable amount by entrepreneurs in order to achieve the best possible outcomes from the potential opportunities.

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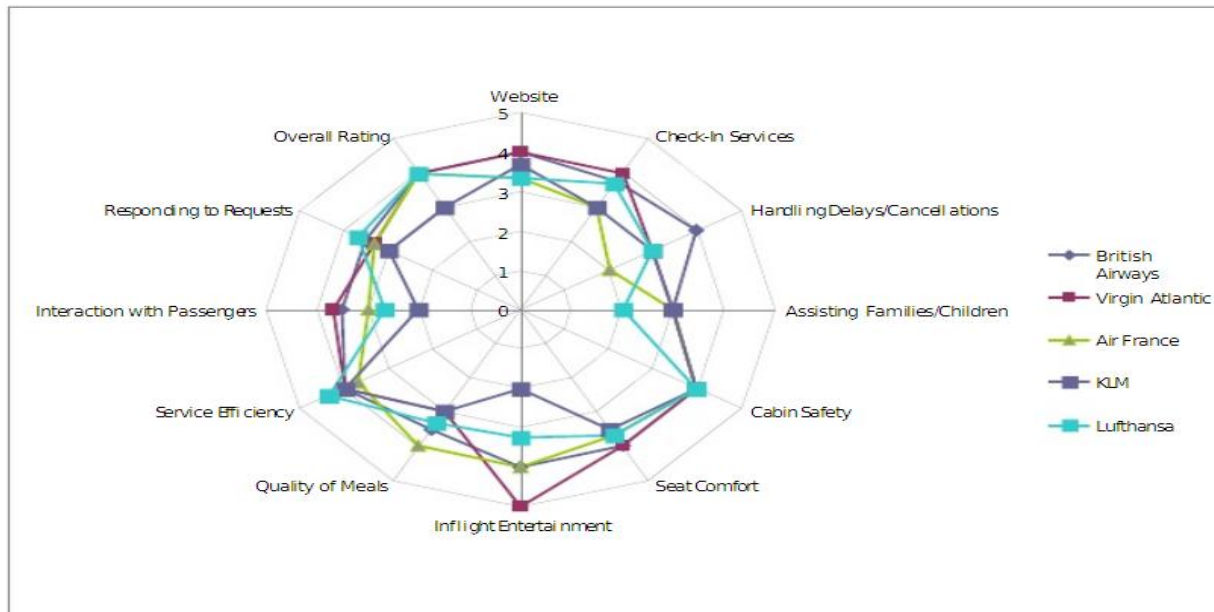
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## 5. Appendices

### Appendix A. Competitive Spider Index



Data source: Skytrax, 2008

All ratings taken from the website are based on scale of 1 to 5 with 5 being the highest.

### Appendix B. Types of change

		Scope of Change	
		Realignment	Transformation
Nature of Change	Incremental	<b>Adaptation</b>	<b>Evolution</b>
	Big Bang	<b>Reconstruction</b>	<b>Revolution</b>

Source: Johnson et al., 2008, p. 520

## Appendix C. British Airways Value Chain

SUPPORT ACTIVITIES	<b>FIRM INFRASTRUCTURE</b>				
	Structured hierarchy allows BA to make use of a multitude of specialist knowledge in order to gain competitive advantage over downsized firms.				
	<b>HUMAN RESOURCE MANAGEMENT</b>				
	Invested in the development of customer service training in 2007 attracting the best employees. 'Speak Up' opinion survey encourages employees to provide feedback (British Airways, 2008).				
	<b>TECHNOLOGY DEVELOPMENT</b>				
BA has added value in this category over smaller companies due to slack resources that can be employed to innovate the service (e.g. individual LCD screens).					
<b>PROCUREMENT</b>					
Due to the size and historical business relationships and alliances, BA is able to leverage suppliers and through economies of scale make efficiencies where competitors may fail.					
<b>PRIMARY ACTIVITIES</b>					
<b>INBOUND LOGISTICS</b>	<b>OPERATIONS</b>	<b>OUTBOUND LOGISTICS</b>	<b>MARKETING &amp; SALES</b>	<b>POST SALE SERVICE</b>	
Stock Control  High quality training accredited by City & Guilds (British Airways, 2008).  Ongoing relationship with suppliers (e.g. Gate Gourmet.	Increased Baggage Security.  Quick check-in services and secure online bookings with ability to pre-book additional services.	Customer Service  Large database of airport slots enable passengers to access the majority of destinations from preferred airport.	Marketing communications to all stakeholders.  Brand allowing for large budget to be spent in this field.	Loyalty club card.  Update communication on other services	

Source: Jonson et al., 2008, p.110

## Appendix D. Agglomeration & Location attractiveness or Branson in London

The Knowledge spillover theory suggests that density of population stimulates the flow of opportunities and entrepreneurial ideas compare to less agglomerated regions. It is also easier to build the network of subcontractors and provide additional services, get inspiration and additional input to the core business. (Audretsch et al.,1999).

*“Branson took a taxi to a meeting early in the morning: “I know you. You're that Dick Branson. You've got a record label.” said the cab driver. “Yes, that's right,” I admitted. Then driver said that it might be his lucky day, and it could be Branson's, too. He was a musician, a drummer in a band and proposed on playing his demo tape while Branson signaled a lack of interest in it. Then the driver proposed to visit his mom who lived just around the corner, for a cup of tea. “It'd*

*make her day," he said. Despite the fact that Branson was terribly late, he agreed. The driver also put his tape on just as the cab pulled to a small house. "The tape started with a familiar drumbeat. Over the speaker came the words: "I can feel it coming in the air tonight..." and the door of the cab was opened by Phil Collins." (Richard Branson, 1998, p.233)*

This situation underpin that there are many more opportunities entrepreneurs could bump into themselves depending on agglomeration and location attractiveness, they are living in. In other words, saying that the probability of a similar situation happening in a village or in a desert is very much unlikely. Of course it requires certain attitude and reaction from entrepreneurs' side to be open and flexible for similar queries.