

ENTREPRENEURSHIP EXPERT

JEFFRY TIMMONS NEW VENTURE CREATION

By

Richard J. Goossen

During the past thirty years, America has unleashed the most revolutionary generation the nation has experienced since its founding in 1776. This new generation of entrepreneurs has altered permanently the economic and societal structure of this nation and the world, and it has set the “entrepreneurial genetic code” for future generations. It will determine, more than any other single impetus, how the nation and the world will live, work, learn, and lead in this century and beyond.

Jeffry Timmons
New Venture Creation:
Entrepreneurship for the 21st Century (6th ed)
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INTRODUCTION TO JEFFRY TIMMONS

KEY DATA:	
Name	Jeffry R. Timmons
Title	Franklin W. Olin Distinguished Professor of Entrepreneurship
Affiliation	Babson College, Babson Park, MA
Education	AB (Colgate), MBA, DBA (Harvard)
Experience	Investor, director, and advisor for public and private companies—including Cellular One in Boston, New Hampshire, and Maine; the Boston Communications Group; BCI Advisors, Inc.; Spectrum Equity Investors; Internet Securities, Inc.; and Chase Capital Partners
Notable Publications	<i>New Venture Creation</i> , 6 th ed (2003) <i>The Entrepreneurial Mind</i> (1989)

Biographical Highlights

- Jeffry Timmons pioneered entrepreneurship programs in the early 1970s, when the field of study hardly existed. *Inc. Magazine* dubbed him “the Johnny Appleseed of entrepreneurship.”
- With Timmons as a leading light, Babson College, Wellesley, MA, has consistently been ranked the number one entrepreneurship program in the world.
- Timmons has held simultaneous professorships at Babson College and Harvard Business School. He is currently at Babson full time, and in 1995 the school named him the first Franklin W. Olin Distinguished Professor of Entrepreneurship.
- Timmons has authored several books, including the leading entrepreneurship textbook *New Venture Creation*, 6th ed. (2003).
- Timmons’ writings are infused with practical insights, as he has nearly thirty years of immersion in the world of entrepreneurship, as an investor, director, or advisor for private companies.

11.1 THE ENTREPRENEURIAL REVOLUTION

The “Entrepreneurial Revolution” is creating historically unique opportunities for individuals to amass wealth for themselves and their communities.

Change creates opportunity. With a society’s transitioning likes and dislikes, and new developments in technology, some products are rendered obsolete while niches for others grow. One of the most notable changes in recent years is the arrival of the Internet—highlighted in the “dot com” boom of the late 1990s, only to be followed by the “dot bomb,” which began in March 2000. Another area of recent societal transformation is the music industry: technology has dramatically transformed how people listen to music, record music, and distribute music. In a few decades, we have evolved from a record album, to eight tracks, and from eight tracks to cassettes—and from there to CDs, then MP3s, and then to internet downloading and the iPod. As a result, the music industry, from producers to artists, has also changed to meet new demands. Similarly, the lifeblood of the entrepreneur and his/her organization is anticipating and responding to change. This requires an organization that can act and react quickly.

Sometimes small, nimble organizations exist, but not necessarily. The Internet has created a handful of household company names, and huge accompanying stock market valuations, within a few short years. Amazon.com is legendary as a new distribution-based powerhouse that grew from nothing. Another example is eBay, which bills itself as “The World’s Online Marketplace” and boasts more than 100 million registered members. This San Jose-based company was founded in 1995, and by 2005 had a market capitalization of approximately \$55 billion.¹ Now eBay is one of the fifty largest companies in the U.S. It has

local sites in approximately twenty countries, and is continually expanding into new markets to sustain its rapid growth.² So, why was eBay's dramatic emergence possible? Timmons' answer: because of the changing technological landscape.

In *New Venture Creation*, Jeff Timmons (speaking of the sea change since the 1970s) claims, "America has unleashed the most revolutionary generation the nation has experienced since its founding in 1776."³ His reasoning is that "this new generation of entrepreneurs has altered permanently the economic and social structure of [the U.S.] and the world, and it has set the 'entrepreneurial genetic code' for future generations." He predicts, "It will determine, more than any other single impetus, how the nation and the world will live, work, learn, and lead in this century and beyond."⁴ In other words, individuals like Jeff Bezos, Michael Dell, Bill Gates, Steve Jobs, and others have set a standard of innovation, success, and prominence that acts as an entrepreneurial beacon. Their stories—like the one about Michael Dell building computers in his dorm room at the University of Texas—inspire other entrepreneurs.

The cumulative impact of these high-profile entrepreneurs, who provide modern-day variants of the Horatio Alger tales, has enormously altered the economic landscape of the U.S. and the world. Unlike in Europe, for example, few Americans talk of "old money"; after all, past fortunes can be dwarfed in a matter of years by the fast-rising entrepreneurs. Timmons points out, "[M]ore than ninety-five percent of the wealth in America today has been created by this entrepreneurial generation ('E-generation') of revolutionaries since 1980."⁵ This entrepreneurial class is a self-made, self-generating elite, as opposed to an upper class coasting on momentum and borrowed time. There is complete social mobility within the entrepreneurial class—entry is a reflection of economic success rather than race or creed.

Mr. K

Ewing Marion Kauffman, or “Mr. K.,” as Timmons calls him, founded the pharmaceutical company Marion Labs in 1950—with five thousand dollars, in the basement of his Kansas City home. He had experienced previous success with another company, but when the president cut back Mr. K’s commission, he quit.

His basement business venture paid off. Mr. K’s work over four decades culminated in Merrill Dow’s acquisition of his company in 1989, when it became “Marion Merrill Dow, Inc.” The company had approximately \$3 billion in revenues.

Timmons says one of Mr. K’s core principles was to share created wealth with all those who have contributed to it, at all levels. Not only did Mr. K prosper, but more than three hundred of his employees became millionaires when the company sold.

A second principle Mr. K. endorsed was to give back to the community. He established the Ewing Marion Foundation, which became one of only a dozen or so foundations in America with assets of over \$1 billion. The Foundation has two missions: to make a lasting difference by helping at-risk youth, and to encourage leadership in all aspects of American life. Kauffman also established a Center for Entrepreneurial Leadership in Kansas City.

SOURCE: Timmons, *New Venture Creation*, 245-6.

The entrepreneurial revolution is creating unique opportunities for individuals to amass wealth and build organizations on a previously unimaginable scale. Individuals who can create technical innovations in the midst of a rapidly changing environment are able to join the entrepreneurial elite—open to all, based on success in the marketplace. These entrepreneurial leaders can significantly impact their communities with the monetary resources they acquire.

11.2 THE ENTREPRENEURIAL MIND

Effective pursuit of opportunities starts with an *entrepreneurial mind*, composed of six acquirable “core” attributes and supplemented by four not-as-acquirable “desirable” attributes.

While we may be in the midst of an “entrepreneurial revolution,” most take little heed. Why do some individuals see opportunities where others see none? Timmons defines entrepreneurship as “a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced.”⁶ Such methodical action identifies and pursues a particular opportunity with a concentrated team effort.

Who, then, is the protagonist at the center of the entrepreneurial process? He/she is not necessarily an “entrepreneur,” but an individual who acts and thinks with an “entrepreneurial mind.” The notion that people are born entrepreneurs has long been discounted, but perhaps it bears repeating that, instead, entrepreneurs are individuals who adopt a certain pattern of behavior. If this were not the case, the only point of educating people would be to hone pre-existing proclivities.

ATTRIBUTES	
Core (Acquirable)	Desirable (Not Acquirable)
Commitment and determination	Energy
Leadership	Health, and emotional stability
Opportunity obsession	Creativity and innovation
Tolerance of risk, ambiguity, and uncertainty	Intelligence
Creativity, self-reliance, and adaptability	
Motivation to excel	

SOURCE: Timmons, *New Venture Creation*, 249-256.

Timmons' research and synthesis of over fifty studies has revealed six dominant attitudes and behaviors that characterize the entrepreneurial mind. The rate at which individuals acquire these attitudes and behaviors depends on their motivation and level of perseverance, but the attributes are at least available to all. Moreover, people have an amazing capacity for change and growth.

First, the entrepreneur will require “commitment and determination” to overcome inevitable obstacles and challenges. Timmons notes, “Almost without exception, entrepreneurs live under huge, constant pressures, first for their firms to survive startup, then for them to stay alive, and finally for them to grow.”⁷ Thus, entrepreneurs need to channel their energy. They must make personal sacrifices, often risking all of their own worth in order to grow the company. Further, they should have the discipline to persist in a disciplined method of solving problems.

A second desirable and acquirable core attribute is “leadership”: entrepreneurs inspire themselves and others to achieve lofty goals. Timmons explains, “They are self starters, and have an internal locus of control with high standards. They are patient leaders, capable of instilling tangible visions and managing for the longer haul.”⁸ Much of their ability to lead comes from exerting power without formal control—they inspire others to work together, rather than demanding support through hierarchical dominance.

A third desirable/acquirable attribute is “opportunity obsession.” The successful entrepreneur typically focuses on a single opportunity and pursues it with passion. An entrepreneur realizes that, while there are many ideas in the marketplace, there may be few opportunities, particularly ones that fit the entrepreneur's skills. Thus, when there is a good fit, the entrepreneur pursues the opportunity passionately.

Fourth, entrepreneurs must develop a “tolerance of risk, ambiguity, and uncertainty.” The entrepreneurial mind is quite different from the mindset of many managers and professional workers. Entrepreneurs are constantly assessing risks and determining which opportunities to pursue, all the while putting a good portion of their net worth on the line. Ambiguity is high—entrepreneurs must often make choices without knowing all the facts; thus, they learn to exploit available information as much as possible, and to reach decisions without having all the details, as an opportunity may vanish with prolonged deliberation. They must also face the disconcerting possibility of failure, as the outcomes of entrepreneurial actions are impossible to foresee. Managers and company workers, by contrast, prefer predictable tasks, a regular salary, minimal risk, and foreseeable results.

A fifth set of acquirable and desirable attributes is “creativity, self-reliance, and adaptability.” Entrepreneurs need to envisage new ways of doing things, and they need to arrive at solutions. Moreover, the pioneering process requires them to be self-reliant, because they present innovations in a world where change is not always welcomed. With that in mind, entrepreneurs obviously have to welcome and adapt to new environments, even when others pine for the way things have always been.

Finally, entrepreneurs should cultivate a personal “motivation to excel.” Timmons notes, “Entrepreneurs are self starters who appear driven internally by a strong desire to compete against their own self-imposed standards and to pursue and attain challenging goals.”⁹ This motivation is critical, because entrepreneurs have something to prove: namely, that they can start a business, that the product will work and succeed, and that those who doubted them and/or their technology were wrong. For most entrepreneurs, money is a way of keeping score rather than a motivation in and of itself. Instead, entrepreneurs feel the compelling need to meet and surpass a

challenge. Thus, even when they have already built a large company—and accumulated a seemingly inexhaustible amount of wealth—they keep moving forward, propelled by further challenges.

Timmons presents other desirable behaviors as well, but these are not as acquirable: energy, health, and emotional stability; creativity and innovation; and intelligence.¹⁰ Energy levels vary with an individual's physical health; there is a limit to one's ability to bypass this fact. In addition, emotional stability is, of course, an asset. The stresses of the entrepreneurial process can frazzle an entrepreneur with a fragile psychological disposition and thus undercut his/her efforts. Finally, not everyone demonstrates high levels of creativity or intelligence—such as having the ability to write software code, invent new mechanical devices, or cure cancer. And indeed, these capabilities are not prerequisites for entrepreneurship; however, entrepreneurs that are not exceptionally creative or intelligent need to consciously play to their strengths and supplement their weaknesses.

11.3 THE ENTREPRENEURIAL PROCESS

Aspiring entrepreneurs will swing the odds of success in their favor by mastering the *entrepreneurial process*, which seeks to achieve an appropriate balance between one's opportunity, team, and resources.

How does someone with an entrepreneurial mind master the entrepreneurial process?

Timmons states, “At the heart of the process is the creation and/or recognition of opportunities, followed by the will and the initiative to seize these opportunities.”¹¹ In his mind, a recognized opportunity without initiative is a tripod with two legs. The entrepreneurial process is the method by which an individual with an entrepreneurial mind is able to assess risks, distinguish an idea from a viable opportunity, and gather resources to pursue this niche in the market.

What precisely does the entrepreneurial process involve? In general, ventures with a substantially higher success pattern are: (1) opportunity driven; (2) creative and resource parsimonious; (3) guided by a lead entrepreneur and an entrepreneurial team; (4) examples of appropriate balance between these elements; (5) a good fit for the opportunity; and (6) integrated and holistic.

First, the process starts with an opportunity—not money, strategy, networks, team, or the business plan.¹² In plain terms, no other factors are relevant until one finds an appropriate opportunity to pursue and determines a valid starting point. The opportunity should also receive support from investors. Then, the size and scope of the opportunity will dictate the necessary amount of resources, the nature of the team, and the strategy required. Sadly, however, the vast majority of opportunities are not able to attract financial backing.

After an entrepreneur secures the initial opportunity, the process must control resources in a “parsimonious and creative” fashion. Sharing office space and equipment, swapping small bits of equity in the company for advice from key advisors, traveling on stand-by, and designing your own logos are ways to minimize cash outlays. Money is one necessary resource, but it should be supplemented by sources of information, professional advisors, and a range of industry relationships. The most common misconception among inexperienced entrepreneurs, however, is that nothing can be accomplished without money.

Timmons reflects, “If you grabbed one hundred people on the street at random and asked them, ‘Does it take money to make money?’ they would all say, ‘Yes!’”¹³ He goes on: “[Most people think] entrepreneurs who have a lot of money have a higher chance of success than those who don’t. But you can dispel that as a myth,” he observes, “because it has been erroneous, and just dead wrong, and backwards so many times. Get people to look at cases where you buy a \$40 million business for a buck. It happens all the time.”¹⁴

Timmons considers this delusion—that “money is the most important start-up ingredient”—so prevalent that he lists it among his fifteen main myths of entrepreneurship.¹⁵ He has seen that not every opportunity requires money. Instead, the entrepreneurial process succeeds through creative use of *all* resources, which may include money, but is by no means limited to it. In other words, securing funding is not the single key to establishing a business.

After the first two considerations (the opportunity, followed by the creative, parsimonious use of resources), the third element of the entrepreneurial process is developing a team. A great entrepreneurial leader who stands alone can attain some level of success—but typically not enough to build an organization that achieves sustained growth. A company with a single leader is a commercial cult; if the entrepreneur leaves, the company (which exists

independently in name, but not in fact) will simply implode. For obvious reasons, this is not the finely-tuned organization model investors prefer.

Thus, one entrepreneurial imperative is to demonstrate the existence of a team and system that can ride through difficult patches and replace key players along the way. As the popular saying goes, investors prefer a Grade-A team with a Grade-B idea over the reverse. The Grade-A team will figure out a way to make the business work, and will overcome the challenges of a sudden change in circumstance or direction.

Fourth, the venture must arrive quickly at a balance between the key elements of opportunity, resources, and team, and must properly determine where each element fits in the overall picture. For example, if a large opportunity has insufficient resources, the business is likely to fail. Similarly, if a team is too big for the opportunity, dissension will fester among the ranks. Thus, the entrepreneur needs to keep these three elements of the model in balance.

What about the “fit?” Timmons addresses this question by asking, “This is a fabulous opportunity, but for whom?”¹⁶ The entrepreneurial process will only succeed if the opportunity, resources, and team fit the particular circumstances. People can only exploit an opportunity if they have the expertise to do so. Therefore, investors in one country may forego opportunities in an emerging market, such as China, because they lack familiarity with the investment dynamics. The opportunity may have been a good one, but it was not an appropriate fit for the team and resources available.

Finally, an entrepreneur’s approach to the process must be “integrated and holistic.” He/she must integrate multiple factors to determine how an opportunity should be pursued. For example, ambiguity and uncertainty may exist in the external environment. Yet at the same time, internal decisions will affect the venture: the company requires funding, so it needs to satisfy the

requirements and expectations of investors. In the midst of this swirl of considerations and uncertainties, the entrepreneur has to apply leadership, creativity, and good communication skills. Furthermore, Timmons emphasizes that he/she must do this in a “holistic” manner: specifically, the entrepreneur must step back and assess each opportunity in light of all constituent factors. Timmons comments, “This integrated, holistic balance is at the heart of what we know about the entrepreneurial process and getting the odds in your favor.”¹⁷

11.4 SUSTAINING AN ENTREPRENEURIAL CULTURE

Entrepreneurs achieve success by sustaining an entrepreneurial culture. This requires both entrepreneurial and managerial competence. A supportive community will further enhance an organization's prosperity.

The entrepreneurial process concentrates on establishing a venture, but how can one maintain the business once the wheels are set in motion? An entrepreneur's chances of long-term success will increase as he/she develops competence, not just as an entrepreneur, but also as a manager. External factors—like the overarching culture or subculture—will also affect entrepreneurial achievement.

Will the entrepreneurial culture that gave birth to the company continue as human and financial resources grow? According to Timmons, this is the fundamental question. Unfortunately, entrepreneurs are often authors of their own demise. They struggle to pass on the company's reins to a manager, whose goal would be to build the culture around the company as an institution (rather than around the entrepreneur as an individual). For the entrepreneur, this can seem like raising a child until he/she is six years old, and then sending him/her off to a residential boarding school that claims it will do a better job of raising him/her to adulthood.

As I observed from my own experience as an advisor to high-growth companies, most entrepreneurs naively assume that the same skills required in the initial growth stage will also help the company expand later. Based on their company's previous development, these entrepreneurs have too much confidence in their management skills. Also coloring the equation is the fact that entrepreneurs of small, high-growth companies have a huge personal stake in the

enterprise. Of course, there are well-known examples of founders like Bill Gates and Michael Dell, who have grown start-up companies right through to multi-billion dollar organizations, but these are the exception rather than the norm.

Timmons concludes that an individual can, indeed, transition from being an entrepreneur to being a manager in order to sustain an entrepreneurial culture. But, one thing is apparent: “Growing a higher-potential venture requires management skills.”¹⁸ Timmons explains, “Organizations at different stages [of their growth cycle] are characterized by differing degrees of change and uncertainty, and are therefore more-or-less entrepreneurial or more-or-less administrative.”¹⁹ Thus, the entrepreneur’s managerial skills will vary accordingly. A start-up venture exists in a fluid environment, with limited staff and resources. On the other hand, a more established company, in a mature market, primarily focuses on serving its customer base. Nevertheless, it must maintain aspects of an entrepreneurial culture so that the drive for innovation will be self-perpetuating. The tendency is for complacency to set in, and for managers to douse the original entrepreneurial spark with an overemphasis on maintaining operations instead of growing them.

Entrepreneurial and managerial cultures can differ significantly. In an entrepreneurial culture, managers “appear unconcerned about status, power, and personal control. They are more concerned about making sure tasks, goals, and roles are clear than they are about guaranteeing that the organizational chart is current or that their office and rug reflect their current status.”²⁰ This entrepreneurial culture can exist in big and small organizations, although the entrepreneurial spirit within a larger and more bureaucratic organization is typically referred to as “intrapreneurship” in place of classic “entrepreneurship.”

Timmons stresses the importance of sustaining an entrepreneurial culture in a large company. He states, “[Entrepreneurs] who build substantial companies that grow to more than \$10 million in sales, and have seventy-five to one hundred employees, are good entrepreneurs and good managers.”²¹ Why? Because they create an entrepreneurial culture with “a belief in and commitment to growth, achievement, improvement, and success, and [they foster] a sense among members of the team that they are ‘in this thing together.’ Goals and the market determine priorities, rather than those whose territory or prerogatives are being challenged.”²² This is the opposite of the classic company bureaucracy, which focuses on position, job description, reporting structures, and self-preservation.

The likelihood of maintaining an entrepreneurial culture within a company will be significantly affected by the surrounding societal culture. Timmons cites Native Americans as an example:

I’ve done a lot of work with Native Americans. Interestingly enough, when I first started working with Native Americans about thirteen years ago and they found out about Mr. Eugene Kauffman, one of them gasped and blurted out in my seminar, “He must have been a Native American!” Kauffman’s principles, like theirs, included sharing wealth with everyone who helped create it, giving back to your community, and treating other people as they like to be treated. These are wonderful principles of leadership and company building.²³

Timmons is a pioneer in his analysis of the Native American community from an entrepreneurial perspective. His focus on a self-contained ethnic group facilitates a study of the relationship between individual entrepreneurial activity and the broader societal culture.

He describes his experience:

When I first started working with Native Americans on reserves, the casino owners were the only apparent kinds of entrepreneurs! It didn’t make sense to me. They could not have survived the past 150 years without an enormous amount of raw survival tactics.

However, I would describe their self-preservation from an entrepreneurial perspective: bootstrapping, bartering with an absolute paucity of resources, being resilient, being very creative, and being very team-oriented in the things they do.

Some Native Americans believe these entrepreneurial practices are uncommon. They argue that there are, instead, huge conflicts between Native American-run businesses on reservations and the surrounding Native American community.

In my experience, this is not the case. Native Americans are figuring out how to get both constituencies together. There is probably a greater groundswell of interest and support for entrepreneurship—as a community development and an economic development strategy—among Native Americans today than there ever has been, by a long, long shot.²⁴

Timmons makes the point that individual Native American entrepreneurs, who do include more than merely high-profile casino operators, would not be able to sustain their business endeavors without a supportive societal environment.

Thus, there are two aspects to sustaining company growth. One on level, there are the controllable factors: an entrepreneur needs to create an entrepreneurial culture within his or her own company, to instill in others the values that gave birth to the company. As well, the creation of this culture requires the lead individual to evolve from possessing pure entrepreneurial skills to acquiring the skills of a manager, without losing an entrepreneurial orientation. On another level, however, the context in which the company operates will affect the creation and maintenance of this entrepreneurial culture, as demonstrated by the example of the Native American community. This factor is often not under the company's control.

Timmons' Key Points

11.1 - The Entrepreneurial Revolution is creating historically unique opportunities for individuals to amass wealth for themselves and their communities.

11.2 - Effective pursuit of opportunities starts with an *entrepreneurial mind*, composed of six acquirable “core” attributes and supplemented by four not-as-acquirable “desirable” attributes.

11.3 - Aspiring entrepreneurs will swing the odds of success in their favor by mastering the *entrepreneurial process*, which seeks to achieve an appropriate balance between one’s opportunity, team, and resources.

11.4 - Entrepreneurs achieve success by sustaining an entrepreneurial culture. This requires both entrepreneurial and managerial competence. A supportive community will further enhance an organization’s prosperity.

ENDNOTES

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- ¹ eBay Website.
 - ² Ibid.
 - ³ Timmons, New Venture Creation, 3.
 - ⁴ Ibid., 3.
 - ⁵ Ibid., 4.
 - ⁶ Ibid., 47.
 - ⁷ Ibid., 250.
 - ⁸ Ibid., 251.
 - ⁹ Ibid., 254.
 - ¹⁰ Ibid., 255.
 - ¹¹ Ibid., 47.
 - ¹² Ibid., 56.
 - ¹³ Timmons Interview.
 - ¹⁴ Ibid.
 - ¹⁵ Timmons, New Venture Creation, 67.
 - ¹⁶ Ibid., 62.
 - ¹⁷ Ibid., 56.
 - ¹⁸ Ibid., 274.
 - ¹⁹ Ibid., 274.
 - ²⁰ Ibid., 279.
 - ²¹ Ibid., 281.
 - ²² Ibid., 279.
 - ²³ Timmons Interview.
 - ²⁴ Ibid.