

The Wharton School of the University of Pennsylvania

**MGMT 816X: Building Human Assets in Entrepreneurial Ventures**

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Class meets Monday 3-6:00 in Huntsman F50

**Course Overview and Objectives**

The success of entrepreneurial endeavors depends, even more so than in larger more bureaucratic organizations, on the ability to manage talent effectively: Find the right people and keep them engaged in working on the organization's goals. We focus in this course on leading, building, and maintaining human assets in start-up and small, growing operations.

Building human assets is particularly relevant in the entrepreneurial context because it is critical for entrepreneurial firms to acquire the resources and establish the organizational capabilities that both facilitate growth and promote short-term and long-term stability. Maintaining those assets is a special challenge in the changing context of start-ups and fast-growing organizations because they lack the more stable and predictable systems for internal development and advancement associated with larger firms as well as the deeper pockets that provide sophisticated employee benefits and other perks.

We first examine these issues when firms are founded, examining how early decisions by founders can facilitate or inhibit growth. Second, we look at the next phase of the growing firm's lifecycle, where founders are building the backbone of talent. Here, the key is how to shape the culture and human resource practices that will define the young firm. Finally, we look at the challenges of maintaining the organization as rapid growth challenges the status quo.

In addition to conceptual and practical readings, every class will feature a case illustrating key concepts and issues facing leaders of start-ups and fast-growing firms. Every class will also feature a presentation by and conversation with an outside expert whose work is based on guiding or advising start-ups and fast-growing small firms.

**Objectives:**

At course completion, we should have:

- an understanding of how to manage human capital given the constraints and opportunities of an entrepreneurial endeavor;
- a familiarity with how to structure an organization to prepare for and facilitate growth;

- tools for dealing with conflicts and threats to the organization within growing firms;
- an understanding of how to assess the value of the human capital of entrepreneurial firms; and
- the ability to apply these concepts to real world situations.

### **Class Format and Preparation**

The majority of the learning in the course will take place through preparing for and engaging in the class discussions. Please come to class prepared to discuss the readings and to think analytically about the discussion of your classmates. In addition to case discussions and interactions with outside experts, we will also use some simulations and other exercises to practice the lessons presented in class.

### **Course Materials**

All course readings will be available in a bulkpack from Wharton Reprographics. The readings include cases and additional readings to support the concepts in the class discussion. There will also be several handouts distributed throughout the class.

### **Optional Materials:**

If you are interested in pursuing concepts in greater depth, the following sources may be of interest.

1) Constance E. Bagley and Craig E. Dauchy, *The Entrepreneur's Guide to Business Law*. West Educational Publishing, 1998.

2) James N. Baron and David M. Kreps, *Strategic Human Resources: Frameworks for General Managers*. New York: John Wiley & Sons, 1999.

### **Grading and Evaluation:**

#### **Class Participation** (40%)

All class meetings involve active discussion based on cases and readings. Your participation in class discussion will be evaluated on your contribution to the discussion. Regular participation is expected and there will be some cold-calling. Your contribution will be evaluated primarily on the quality of your participation and comments. Quality comments possess one or more of the following properties: 1) a thoughtful application of assigned reading (past and present) to the current discussion; 2) a contribution to moving the discussion and analysis forward; 3) an extension or exploration of the comments of your classmates (demonstrating your listening skills as well as your own analytical skills); 4) a critique involving outside evidence or logic; and/or 5) a citation of relevant

current events or personal experience to the discussion that moves the discussion forward.

**Final Project** (10% + 40% = 50%)

There are several options for the final project. The goal of this assignment is to provide you with an opportunity to apply the course material out of the classroom and to analyze an actual management problem in an entrepreneurial context.

The final project must be focused on an entrepreneurial organization, but there is flexibility in how you approach the assignment.

Some suggested approaches:

1. Analyze and extend current practices:  
Analyze the current human resource and leadership practices at a rapidly growing or young organization and provide suggestions to align their strategy and HR practices.
2. Analyze the impact of a key strategic decision – forward looking  
Acting in the role of consultant, conduct an analysis of how a key strategic decision within an organization might impact the employees and provide recommendations that will help your client in implementing the strategic decision.
3. Analyze the impact of a key strategic decision – backward looking  
Acting in the role of consultant, conduct an analysis of how a key strategic decision that has been implemented within an organization impacted the employees. Examine the consequences of the decision, assess the outcome of the decision, and provide recommendations for how the implementation could have been improved.

Deliverables:

Outline (10%): Each team should post on webCafe a 1-2 page outline of their project. The outline should (1) briefly describe the company or organization of analysis, (2) briefly describe the approach to the final paper, and (3) identify the key concepts that will be applied to the company or organization of interest.

Final Paper (40%): Each team should post on webCafe a report no longer than 10-15 pages (double spaced, 12 point, times new roman font with 1 inch margins), excluding exhibits. The final paper will be evaluated on the following:

- Interpretation. In the practices, events, or outcomes under study, demonstrate an understanding of what is important, why it is important, and how the organization arrived at the current situation. Appropriately apply class concepts to the phenomena under study.
- Specificity. In your analysis and recommendations, be very specific about what actions a manager should implement. Justify and defend your recommendations.

- **Implementability.** Given the current state of the organization (their resources, culture, politics, etc.) defend the implementability of your suggestions. Identify potential issues with your recommendations.
- **Originality.** Be creative with your analysis and recommendations. Identify potentially unexpected ways to implement your suggestions, and potentially unexpected consequences of implementing the suggestions.

This assignment may be completed individually or in small groups (2-3 members). Please discuss your ideas with me before you invest your time in the project.

**Peer Evaluation** (10%)

You will rate your classmates (not yourself) on a 1-10 scale at the end of the course to measure their overall contributions to the class in terms of creating value in class discussions and professionalism of conduct. A template will be available on webCafe.

**Initial Goal Statement and Background**

The initial assignment is a brief statement discussing your goals for this course and your background in entrepreneurial activities. You should discuss why you are taking this course and what you hope to extract from this course. Please also describe your personal experience as it relates to leadership and entrepreneurial activity. Please note if you would not be willing to discuss your experiences with the class. Note that this is an ungraded assignment which will help me tailor the class to your goals.

**Readings and Weekly Plan:**

**1<sup>st</sup> class – Monday January 21<sup>st</sup> 3:00 Huntsman F50**

**Introduction:** So you want to start a company?

**Case:** Jerry Saunders

Readings: “The New Venture.”

“Built to Flip vs. Built to Last” by Jim Collins, *Fast Company*, March 2000, Issue 32.

**Finding and Acquiring Talent:** How do we find the people to help run a new organization? More generally, how do we think about which competencies we should need to bring in as employees, which we should outsource, and which we might be able to secure in other ways?

**Case: Mark Pitts** – This is about making the hiring decision

Study Questions:

1. How well do Pitts' credentials and accomplishments fit the Peoplestreet job description?
2. What do you learn from his resume?
3. What questions would you want to ask Mark in the interview in order to decide whether or not he is right for the job?

Reading: "What is Social Capital and Why Should You Care About It?" (Chapter 1) in *Achieving Success Through Social Capital* by Wayne Baker, 2001, Jossey-Bass.  
(Download from: <http://www.humaxnetworks.com/BakerChap1.pdf>)

"The One Job a CEO should never Delegate"

Speaker: John F. Salveson, CEO of Salveson Stetson Group -- executive search firm specializing in small businesses and start-ups.

**2<sup>nd</sup> Class - Monday January 28<sup>th</sup> 3:00**

**Assessing companies/Assessing Talent:** How do we assess the human capital of an organization when doing a valuation, thinking about a merger or integration partner? How do you decide who to keep and who to let go?

**Case:** Cisco Systems: Acquiring and Retaining Talent in Hypercompetitive Markets, from Charles A. O'Reilly III and Jeffrey Pfeffer, *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People*, Harvard Business School Press, 2000, pp. 49-74.

Study Questions:

1. Is Cisco really a technology company or something else?
2. What are the key techniques that Cisco uses to find businesses to acquire – what are they looking for?
3. What is the worst-case scenario for Cisco's approach?

Reading: Managerial Problem Solving: A Congruence Approach  
Peter Cappelli, "A Market-Driven Approach to Retaining Talent," *Harvard Business Review*, January-February 2000, pp. 103-111.

Speaker: John Palmer – Managing Director, Nachman Hays Brownstein, Inc (this is a turnaround firm that restructures troubled companies)

**3<sup>rd</sup> Class – Monday February 4<sup>th</sup> 3:00: Compensating/Rewarding the Players**

**Creating Incentives and Rewarding the Right Behavior:** Few things are as important or as distinctive to a start-up firm as compensation. In the absence of formal rules and procedures and extensive supervision, the incentives associated with compensation has to carry a great deal of the burden to get employees to perform in start-up firms. How can we get this right?

**Case:** Stock Options at Virtua.Net.

Mercer consultant? McLagan Company – just focused on financial services industry. Peter Johnson in West Chester, just does compensation design. Also started his own company.

**Case:** Automated Travel Systems (this is the software behind Priceline.com)

Martin J. Conyon and Lerong He. Compensation Committees and CEO Compensation in US Entrepreneurial Firms. *Journal of Management Accounting Research*, 16: 35-56, 2004.

Surprise speaker.

#### **4<sup>th</sup> Class – Monday February 11<sup>th</sup> 3:00: Shaping and Managing the Culture of the Organization**

**The Role of Organizational Culture:** Culture is important in all organizations, and the most important moments for shaping organizational culture are right at the beginning. For better or worse, the initial decisions made by founders play a crucial role in determining what the culture will be, whether it will serve the needs of the organization and help it thrive or lead to dysfunctional behavior. What are those initial decisions, and how do they play out to form culture in start-ups?

**Case:** Andrews Winery

Readings: “The Role of the Founder in Creating Organizational Culture,” by Edgar H. Schein, *Organizational Dynamics*, Summer 1983.

“Organizational Blueprints for Success in High-Tech Start-Ups: Lessons from the Stanford Project on Emerging Companies,” by James N. Baron and Michael T. Hannan, *California Management Review*, Fall 2002. 44(30):8-36.

Speaker: Lisa Velte, Vice-President of Analytical Graphics, Inc. (AGI has received the “Best Small Company to Work for in America” Award virtually every year for the past decade.)

#### **5<sup>th</sup> Class – Monday February 18<sup>th</sup> 3:00 PM: Designing and structuring the organization.**

The initial decisions that founders make about the structure of the company are crucial for survival. The complication in making those decisions is that too much structure, or the wrong type of structure, can cripple a growing company. But no structure (perhaps the most common outcome) makes it difficult to get anything done. What are the appropriate structures for entrepreneurial firms – what constitutes too much structure in a start-up vs. too little?

**Case:** Cypress Semiconductor (A): Vision, Values, and Killer Software, Stanford HR-8A

Study Questions:

1. How would you describe T.J. Rodgers approach to achieving results?
2. Are his policies and practices at Cypress aligned with the strategy? Are they a source of competitive advantage? Why or why not?
3. How is the culture being developed and maintained?
4. At the end of the case (in 1994), T.J. Rodgers is wondering whether he should make any changes. What are your recommendations?

Readings: “How Entrepreneurs Craft Strategies that Work.”  
“Organization Structure and Management Systems,” (chapter 6) in Contemporary Strategy Analysis, 5<sup>th</sup> Edition by Robert M. Grant. 2005. Blackwell Publishing.

Speaker: TBA

### **6<sup>th</sup> Class Monday February 25th 3:00 PM: Managing Inevitable Conflicts in Startups**

**Case:** Power Graphics – an exercise

Study Questions:

- Are Monosoff and Hill able to maintain their working relationship?
- Could this conflict have been avoided?
- How would the resolution differ if the principals were family?

Reading: Three Approaches to Resolving Disputes.

Speaker: Richard Jaffee, esq. from the law firm of Ballard Spar, who specializes in start-up and small firm operations