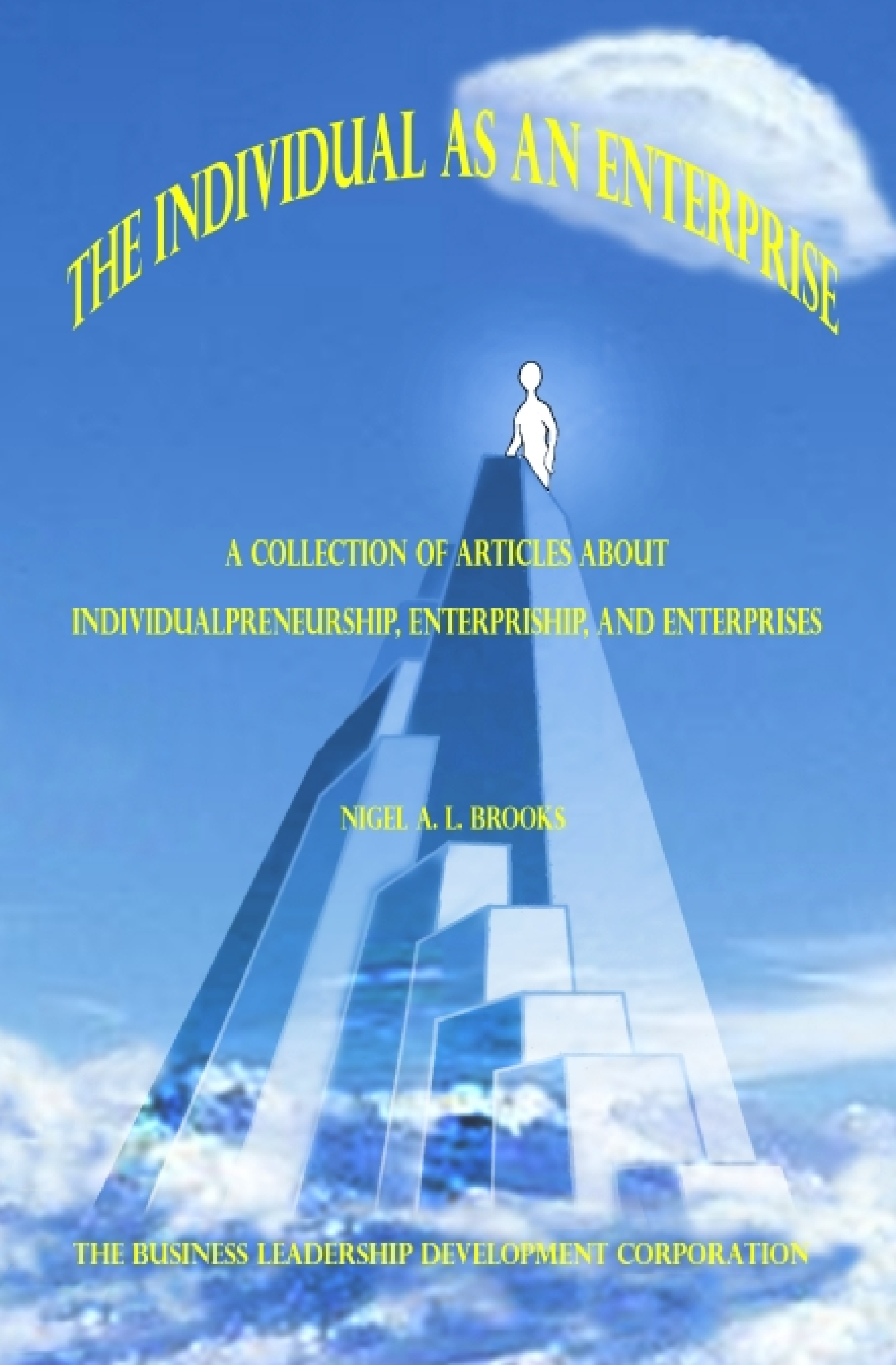


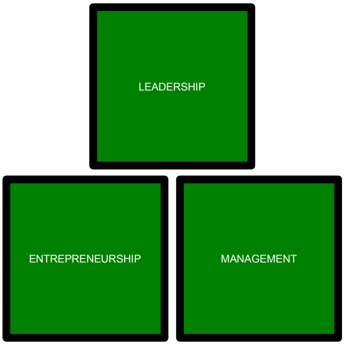
THE INDIVIDUAL AS AN ENTERPRISE

A COLLECTION OF ARTICLES ABOUT
INDIVIDUALPRENEURSHIP, ENTERPRISHIP, AND ENTERPRISES

NIGEL A. L. BROOKS

THE BUSINESS LEADERSHIP DEVELOPMENT CORPORATION

THE INDIVIDUAL AS AN ENTERPRISE



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individualpreneurship, enterpriship, and enterprises

SECOND EDITION

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BLD

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by

Nigel A.L. Brooks

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PREFACE

The notion of the individual as an enterprise (individualprise) and the individualpreneurship discipline must be of interest to anybody who wants to:

- Advance as an employee into a leadership and/or managerial capacity
- Be self-employed as an independent contractor or freelancer
- Be an entrepreneur/business owner by transforming innovative ideas into value by starting and operating an upwardly mobile enterprise that is focused on capturing large markets, or a lifestyle enterprise in local communities, such as a restaurant or a retail business
- Manage their own investments

Individualpreneurship embraces activities whereby an individual (the individualpreneur) behaves as an enterprise in their own right, and as such builds the individualprise. In effect, the individualpreneur is in business for themself. Whereas solopreneurs are independent professionals, individualpreneurs can have multiple businesses, can be employed, and can employ others.

The individualpreneur develops multiple income streams from many sources. Thus the individualpreneur is better hedged against uncertain economic, regulatory, and social conditions than those individuals who rely primarily on one source of income.

Individualpreneurship provides a mindset for income generation for the fully-employed, self-employed, under-employed, and unemployed, whether working for somebody else, for themselves as sole-practitioners, while planning the next ventures, or just in-between opportunities.

Individualpreneurship is in effect “focused multipreneurship.”

Opportunity is just beyond an individual's comfort zone, and the individualpreneurship discipline provides the framework for capturing it.

Individualpreneurship has its roots in the agricultural age when individuals and families had multiple streams of income from such activities as farming, metalwork, needlework, and woodwork. During the industrial age, the notion of full-time employment became the norm for many people in managerial, staff, and labor capacities. Labor and employment, immigration, and taxation laws, regulations, and practices were established to encourage academic and vocational education as the basis for career opportunities in stable jobs. These practices were extended to encourage home ownership by providing income tax breaks on mortgage financing and property taxes to stabilize the economy as a whole. The information age has changed many of the prior assumptions.

New technologies cause paradigm shifts. Globalization is enabled through improved telecommunications and transportation technologies, and jobs have been eliminated through improved information and process control technologies, impacting managers, staff, and labor. The result is that the economy has become less stable over time.

When national economies are self-sustaining, they are effectively vertically integrated – meaning that (almost) all aspects of the factors of production and supply chains are domestic. In a global economy, this is no longer the case, with various nations becoming "centers of excellence" for certain activities. Over time, the extent of vertical integration of national economies has declined, such that there is a much heavier reliance upon both imports and exports. For example, the United States is a center of excellence for aerospace manufacturing and , whereas Germany and Japan are centers of excellence for automative manufacturing. The United States is a center of excellence of information technology innovation, but many other countries, such as China, Japan, Korea, and Taiwan, are centers of excellence for specific information technological components.

In a global marketplace with differing laws, regulations, and practices in various jurisdictions, new markets can open for revenue for both existing and new products and/or services, and new sources can open for cheaper materials, supplies, assemblies, and finished products and services at the same or higher quality. As a consequence, off-shore outsourcing has become commonplace. Job markets have changed in the United States, with more emphasis on service delivery and "knowledge work" than manual labor than in prior generations.

Knowledge work opportunities exist in many industries, such as construction, manufacturing, and professional services. Knowledge workers can perform planning, analysis, and design activities electronically, and transmit results to operations facilities around the world, such as construction sites and factories for fabrication and assembly. However, workers in foreign markets can develop the same knowledge and skills at potentially lower cost in many cases.

Globalization leads to consolidation of large enterprises between and within mass markets to create economy of scale through increased effectiveness and efficiency. Hence, over time there will be fewer large enterprises on a global basis. However, specialized boutiques continue to provide value-added products and/or services in market niches, with higher qualified workers. As a consequence, in the United States, markets are changing to more knowledge-based jobs, less manufacturing jobs, and more lower-paid service jobs over time. Both domestic and foreign outsourcing is becoming commonplace for commodity products and/or services to providers who achieve economy of scale by serving many customers in essentially the same way. The result is that many individuals who were previously fully-employed are becoming under-employed, or even unemployed.

Many future sources of employment come from innovative entrepreneurs who form boutiques that develop products and/or services that form new industries. Although these industries are sometimes bootstrapped, they are usually financed initially by angel and venture capital. From innovative research and development jobs, held by primarily professional and technical personnel, come infrastructure jobs in business development, operations, legal, finance, human resources, and information technology functions. These jobs provide opportunities for executive, administrative, professional, technical, and vocational management and staff. For example, the innovations of Thomas Edison, Alexander Graham Bell, Henry Ford, Frank Whittle, Jack Kilby, Robert Noyce, and Steve Jobs, have led to entire industries of workers who have delivered products and/or services that otherwise may not have existed.

Information technology has made it easier for individuals to develop their own "nonemployee" businesses as solopreneurs such as offering professional services and marketing products and/or services of their own or others. Many solopreneurs work from home in a micro-enterprise, and can be described as micropreneurs. Many individuals are becoming webpreneurs by marketing and selling products and/services over the internet with solely a virtual presence. Solopreneurs can be sole proprietors of their own lifestyle enterprises and/or independent contractors to others (as permitted by law). Over time, solopreneurs may add employees, thus becoming more traditional business enterprise owners if demand requires the additional labor.

The trend towards a few large global enterprises and millions of webpreneurs was first identified by futurist Frank Feather at the beginning of the 21st century. Frank is also responsible for the phase, "thinking globally, acting locally."

According to the United States Census Bureau, there were 21.1 million nonemployer businesses in 2009. Nonemployer businesses have annual receipts of $1,000 or more across 450 industries, except in the construction industry, which includes receipts of $1 or more. Most nonemployers are self-employed and operate businesses that may or may not be their primary source of income. Of the 21.1 million businesses, 18.7 million were sole proprietorships, 1 million were partnerships, and 1.4 million were corporations. In 2009, these businesses generated $838 billion in receipts. In 2007 according to the full census, the number of nonemployee businesses peaked at 21.7 million and generated $992 billion in receipts. There were 6.0 million employee businesses, with $29.7 trillion in receipts, 121 million paid employees, and an annual payroll of $5.0 trillion. Less than 1,000 businesses had more than 10,000 employees. In summary in 2007, the average enterprise with employees had approximately 20 employees, an annual payroll of $831,000, total sales or receipts of $4,917,000, average wage per employee of $41,600, and average sales or receipts per employee of $246,000 (*figures adjusted for roundings*); the average nonemployee enterprise had total sales or receipts of $46,000.

For entrepreneurs starting businesses as providers of new products and/or services, developing networks of independent but affiliated solopreneurs as marketing representatives may be a more effective way of building market share than traditional wholesale and retail distribution channels. The use of social media for electronic "word-of-mouth" marketing in conjunction with personal websites, webinars, and online ordering makes the use of webpreneurs as independent marketing representatives extremely attractive. These representatives earn commissions from sales and referral fees. If the product and/or service providers perform the bulk of the administration, the representatives can concentrate their efforts on marketing.

The use of smartphones and tablets for email, phone, and text messaging in conjunction with personal websites, social media websites, and provider websites, increases the effectiveness of webpreneurs. However, no technology will replace the benefits of personal relationships and face-to-face communication. Marketing representatives may struggle at first as they learn new skills such as the art of persuasion, especially if they had been previously employed in administrative or operations capacities in the "corporate" world. However, being both "high-tech" and "high-touch" helps promote business opportunities.

The restructuring of markets and opportunities in the information age leads to the individualpreneurship discipline and the notion of an individual as an enterprise through multiple income streams including:

- Wages - all forms of compensation for full and/or part-time employment, or combinations of both (including as a founder in a "C" corporation)

- Interest on investments

- Dividends on investments (including as a founder in a "C" corporation)

- Capital gains on investments

- Net income as an entrepreneur/business owner from active revenue generation activities, such as commissions, fees, rents, royalties, and sales less expenses

- Net income as an investor from passive revenue generation activities, such as real estate rents and/or royalties less expenses

Under employment and taxation laws, entrepreneurs/business owners can fall into one of three categories:

- Founder employee of a "C" corporation

- Shareholder/officer employee of an "S" corporation (self-employed in mindset, but employed for tax purposes) receiving cash flows consisting of salary and capital distributions

- Self-employed as a sole proprietor of a lifestyle business enterprise and/or as an independent contractor, as a partner in a partnership, or member in a limited liability company

Establishing the individualpreneurship mindset enables an individual to exert more control over all of their income generating activities, whether fully-employed, self-employed, under-employed, or unemployed. The individualpreneurship discipline embraces the enterpriship disciplines of entrepreneurship, leadership, and management, which apply to every individual in business, whether fully-employed or not.

Understanding enterpriship disciplines is extremely important for success as an employee, as an entrepreneur/business owner, and as an investor. In the corporate world, leadership and managerial capabilities are essential for advancement through the ranks.

This ebook contains useful tips of the individualpreneurship and related enterpriship (entrepreneurship, leadership, and management) topics. In effect, individualpreneurship is a discipline for building an individual enterprise for a sustainable self-reliant career; that means having the confidence to exercise one's own judgment so as to be able to continue over time in endeavors of achievement in both personal and professional lives.

FOREWORD

A note from the author:

I am lucky to have had a very interesting and diverse career as an entrepreneur, business enterprise owner, management consultant, corporate executive, motivational speaker, and expert author.

I began my entrepreneurial endeavors when I was fifteen. From my bedroom in North London, England, I organized a poetry competition, and collected poems from all over the world. I subsequently published a collection of the best as a book entitled: "Versewise – A collection of poems," and awarded prizes.

I became fascinated with computers when the industry was called "data processing," and spent many years building operational and analytical systems in the automotive, construction, education, energy, financial services, food services, high-tech, hospitality, manufacturing and distribution, merchandising, pharmaceutical, transportation, and government industries.

By building transaction processing, management information, and decision support systems, I understood how enterprises worked. By working in the financial services industry, I understood how entire industries worked and fitted together, because every enterprise has a relationship with at least one financial institution.

Because I worked in many countries around the world, and many of the systems that I built were related to foreign exchange, import/export, and shipping and distribution, I understood how global commerce worked.

The genesis of the ideas for ***Enterpriship BLDer™*** and **Sustainable Advantage BLDer™** began in 1986, when I wrote a position paper that contained a model that showed how a commercial bank works.

Enterpriship BLDer™ and **Sustainable Advantage BLDer™** are components of the intellectual capital of The Business Leadership Development Corporation, doing business as BLD Solutions.

The paper was based upon some ideas that I had formulated while developing strategic and information technology planning and development methodologies. It described a hypothetical bank, the banking industry at large, and relationships between banks and their consumer, commercial, industrial, corporate, and real estate customers.

The paper was a first attempt at defining process and function models for enterprises, and included a project management methodology. Later, I enhanced it to include financial, managerial, and regulatory accounting models.

At about the same time, I wrote a series of articles for the magazine of the Bank Administration Institute ("Bank Administration" later "Banking Strategies"), as a contributing editor, that presented outlooks for the future of information technology in the global banking industry.

I wrote an article entitled "Strategic Issues for Financial Services Marketing," which was first published in 1987 in the United States, and in 1989 in the United Kingdom, that discussed forces driving change in the banking, insurance, and securities industries, and the implications for market segmentation, product development, and delivery channels.

This article helped many financial institutions around the world apply the concepts of demographics and psychographics to their customer databases.

Writing these articles shaped my thinking about the structure of industries.

During my tenure with Andersen (now Accenture) and Booz Allen Hamilton (now Booz & Company), I worked with many enterprises in the development of both business and technology strategy. I understood how enterprises worked and behaved from the inside to the outside, and from the top-down.

Because I was an agent of change, I learned how individuals react to change, both favorably and unfavorably, and whether welcomed or not. I began to understand what is referred to herein as "Personal Styles."

A personal style is a set of personality characteristics.

At American Express I learned the importance of values and quality, first as a customer, then as a client of mine, and later as a member of senior management.

In 1995, I opened my own retail and food service enterprise to apply much of what I had learned in the corporate world to a small enterprise from the inside-out.

My career objective had been to combine my large enterprise management experience with lifestyle business enterprise ownership, as a basis for returning later to management consulting.

As a client, I worked with both Accenture and Booz Allen while at American Express, which was also a client of my food service enterprise (both individuals and the company itself).

Five years later, I sold my award-winning enterprise to return to management consulting, applying my local-to-global experience with entrepreneurs, lifestyle business enterprise owners, executives, and managers in start-ups to large corporations, and governments.

Over time, I had become familiar with many personality tests while rendering client service.

From 2000 to the present, I provide "project-based" consulting through BLD, and business/technology strategy consulting with TechKnowPartners, LLC. From 2008, I provide seminars through BLD's "The Center for Business Leadership Development."

I developed a new set of models, methodologies, and tools for strategic planning, deployment and execution, and performance measurement, and packaged as ***Enterpriship BLDer*™** and **Sustainable Advantage BLDer™**.

This set of intellectual capital provides a systematized approach to enterprise building, and has been used on client engagements from 2000 to the present time.

The material is integrated – meaning that it fits together in a way that is usable for any enterprise in any stage of development. It provides a mindset for enterprise management and the actions required to transform vision into value.

The material is designed to provide "just-in-time" information in an integrated (systematic) fashion for entrepreneurs, lifestyle business enterprise owners, executives, and managers as their enterprises migrate through the various stages of development.

Not only has this material been used on client engagements, but components have been taught in both private and public seminars in academic institutions, businesses, and membership organizations.

Over time, the “Understanding Personal Styles” seminar emerged as both an offering in its own right, and as a topic on the agenda of more comprehensive seminars, although not necessarily under that name.

At BLD, I promoted this seminar because people-oriented capabilities are just as important as both product and service and process capabilities in the sustainable enterprise.

These seminars included exercises that enabled me to observe how the participants behaved and to listen to the words they used. Client engagements, including one-to-one coaching and mentoring situations, provided the same opportunities.

Over time, at BLD, I developed the material for the Personal Styles model, including the Profile Survey. Understanding Personal Styles is an essential discipline for building a sustainable enterprise that is environmentally, economically, and socially responsible. It is also an essential discipline for building social relationships too.

I developed a companion offering – the “Individual Competencies Assessment,” which is a self-assessment for enterpriship competencies.

The material herein is derived from a collection of articles that I have written on individualpreneurship and enterprises, including enterpriship (entrepreneurship, leadership, and management) topics. The article format has been preserved.

The material herein is based upon ***Enterpriship BLDer™,*** **Sustainable Advantage BLDer™,** and **Understanding Personal Styles**; some of which has been previously published as the Enterpriship Digest.

I wish to acknowledge Rodney Baker-Bates, Jim Labick, Victoria Li, Dylan McKinstry, Lucian Spataro, David Syms, and Roger Townsend who have helped me think through the concepts presented herein, and Rebecca McKinstry for designing the cover.

I welcome comments at nalb@bldsolutions.com.

I have been lucky to pick-up variations of my name during my travels.

Nigel A.L. Brooks
Niguel
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Na Jie
Naj

July, 2012
Tempe, Arizona

Note for the second edition:

The second edition contains additional material on strategic and business planning.

Nigel A.L. Brooks

May, 2013
Tempe, Arizona

INTRODUCTION

This ebook is a collection of articles on individualpreneurship and enterprise topics, including the enterpriship disciplines (entrepreneurship, leadership, and management), some of which have been previously published as the "Enterpriship Digest."

What?...

Individualpreneurship (individual entrepreneurship) is a discipline, mindset and activity for income generation for the fully-employed, self-employed, under-employed, and unemployed, whether working for somebody else, for themselves as sole-practitioners, while planning the next ventures, or just in-between opportunities.

The discipline includes activities for developing and managing multiple sources of income, without losing focus on any. Sources of an individualpreneur's income include: employment, entrepreneurship/business ownership, and investing. An individual behaves as an enterprise in their own right, and as such builds their individualprise (individual enterprise). In effect, the individualpreneur is in business for themself. Whereas solopreneurs are independent professionals, individualpreneurs can have multiple businesses, can be employed, and can employ others.

Why?...

Establishing the individualpreneurship mindset enables an individual to exert more control over their income generating activities, and thus is better hedged against uncertain economic, regulatory, and social conditions than those who rely primarily on one source of income. Thus the individualpreneur is more likely to have a sustainable self-reliant career. They understand the notion of personal styles and their personal, professional, and enterpriship (entrepreneurship, leadership, and management) competencies, and thus can rely upon their own capabilities for decision making and execution.

Thinking and behaving as an individualprise helps an individual perform better not only as an entrepreneur/business owner, but also for an employer, especially in an executive capacity. They better understand the concepts of income generation and expense, asset, liability, and capital management; they better understand legal, finance, human resources, information technology, business development, and operations activities. They understand how to enact and respond to change.

The individualpreneurship discipline and the notion of an individual as an enterprise must be of interest to anybody who wants to:

- Advance as an employee into a leadership and/or managerial capacity

- Be an entrepreneur/business owner by transforming innovative ideas into value by starting and operating:

    - Either an upwardly mobile enterprise that is focused on capturing large markets

    - Or a lifestyle enterprise in local communities, such as a restaurant or a retail business

- Manage their own investments

Enterpriship is the process of building sustainable advantage, and has a framework of three related disciplines: entrepreneurship, leadership, and management. "Enterpriship" is derived from the words managem*ent*, lead*er*ship, enter*pri*se, and entrepreneur*ship*.

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INDIVIDUALPRENEURSHIP
- THE DISCIPLINE OF THE INDIVIDUAL ENTREPRENEUR AS AN ENTERPRISE

Individualpreneurship is an activity whereby an individual (the "individualpreneur") behaves as an enterprise in their own right, and is fully responsible for both professional and personal income generation and expense management. The individualprise is the notion of an individual as an enterprise through multiple income streams from employment, entrepreneurship/business ownership, and investing activities.

Individualpreneurship is not a new concept; it has its roots in agricultural societies where individuals and families worked the land and had other forms of income from crafts such as ironwork, needlework, and woodwork that became cottage industries in their own right. These individuals and families as individualpreneurs had multiple sources of income that provided hedges against poor harvests, and for the changing wants and needs associated with supply and demand of materials and supplies, labor, and products and/or services.

Entrepreneurs would "put out" work to individualpreneurs who were, in effect, independent contractors. In the shift from the agricultural age to the industrial age, operational work became centralized in factories and later, administrative work became centralized in offices. Practices were established over time, often with the involvement of unions, that have become regulated through labor and employment, health and welfare, immigration, and taxation laws and regulations at both the Federal and state levels. Such practices turned the notion job creation into a complex activity subject to a multitude of laws and regulations with risk of litigation and penalties for non-compliance. In the peak of the industrial age, one could expect to be employed by a single employer for many years, if not for an entire career, and earn many benefits as a consequence thereof aimed at retaining quality and/or loyal people. The cost of benefits, employment and unemployment taxes, and workers compensation insurance have to be added to the direct labor rate to determine the fully loaded rate. The labor rate becomes fully burdened when overhead costs such as equipment, facilities, supervision, supplies and utilities are added to the fully loaded rate. Fully burdened costs can easily be twenty to thirty percent more than the direct labor rate.

Some work may be performed by independent contractors, who are usually responsible for paying their own benefits, taxes, and insurance. However, strict rules apply as to whom can be classified as such. In general, the hirer of an independent contractor can control only the result of what gets done, but not how, when, or where. Many industries such as insurance, mortgage origination, real estate, and travel use independent contractors as agents to generate sales.

In the shift from the industrial to the information age, the impact of information, process, telecommunications, and transportation technologies has had a profound effect on the workplace, and has enabled globalization. The impact is across the board in entrepreneurial, leadership, and management (enterpriship) disciplines, and administrative and operational activities such finance, human resources, marketing and sales, manufacturing and distribution, and merchandising.

Globalization enables work to be strategically sourced to best-in-class or scale (low-cost) providers for each output and related activities in the value chain. Taken to an extreme, it is possible to outsource everything except strategy formulation (planning and policy development, and performance measurement) and strategic marketing activities. Information technology reduces analytical activities, and process technology reduces operational activities. Naturally outsourcing becomes popular when fully burdened rates, including telecommunications and transportation costs, are lower from third-party providers than in-house, and/or when there is less risk, especially with respect to litigation. However, there are negative consequences to local economies when employers eliminate large numbers of jobs through outsourcing. Therefore, the community costs and benefits should be considered in an outsourcing decision.

The effect of technology, and the consequential globalization, is that the need for professional staff and vocational labor in domestic employers is reduced, and in some cases quite dramatically. The traditional assumptions regarding employment in fully vertically integrated enterprises that historically performed all activities "in-house" erode. Thus many individuals find it hard to enter or remain in the traditional workplace, especially when cost and quality gaps exist between employers and with third-party outsourced providers who perform work cheaper at the same standards.

In retailing, the large "big box" stores will continue to provide scale for commodity products and/or services at discount prices, thus placing pressure on their suppliers to keep costs low. Specialty stores and boutiques will continue to provide value-added and higher quality products and/or services at premium prices. Manufacturers of new specialized personal products and/services, such as nutraceuticals, are more likely to establish networks of independent marketing representatives and sales agents, leveraging the internet where possible, than employ traditional brick and mortar wholesale and retail facilities to keep distribution costs low.

As a consequence, a newer kind of entrepreneur is emerging - the individualpreneur – an adaptation of the concept from the agricultural age. The individualpreneur has multiple streams of income from employment and/or entrepreneurship/business ownership and investing activities. The individualpreneur has to take full responsibility for their livelihood through these activities. For example, an individualpreneur may be an employee on either a full-time or part-time basis for one or more enterprises, and/or be an entrepreneur in the emerging and growth stages of an upwardly mobile enterprise, and/or be a lifestyle business enterprise owner, and/or an independent contractor in such disciplines as affiliate marketing, consulting, freelancing, and network marketing. An individualpreneur may retain employees and independent contractors in their own right for upwardly entrepreneurial and lifestyle business ownership activities, while working alone as a solopreneur and/or a webpreneur on the internet.

The notion of individualpreneurship arises when traditional employment opportunities erode but there is an opportunity for an individual to provide value-added services, or because an individual wishes to pursue an entrepreneurial activity that may not be fully sustainable in its own right.

Examples of individualpreneurial activities include working part-time for an employer while operating a retail business or restaurant; working full-time for an employer while building a network marketing business; and providing freelance technology services while performing affiliate marketing activities and selling articles, books, and seminars on the internet.

Individualpreneurship is particularly relevant for young less experienced people who are entering the workplace for the first time, and for older people who are perceived as being inefficient, too expensive, and out-of-touch with their younger peers in the marketplace. However, older people may have years of functional knowledge and technical skills expertise that is of value to emerging, growth, and mature enterprises, and can be leveraged on a consulting basis without the burden of employment costs.

Individualpreneurship is a discipline that anybody who is unemployed or under-employed can pursue if they have the passion or the need; usually opportunity is just beyond their comfort zone.

The notion of individualpreneurship changes assumptions regarding benefits, insurance, and taxes, especially when individualpreneurs become service providers to prior employers as independent contractors. Hence, governments are likely to increase their enforcement of labor and employment and taxation laws as individualpreneurship, and especially independent contracting, becomes more common. However, with technology rapidly changing the paradigms of products and/or services and infrastructures, the life expectancy for particular types of job can be relatively short compared to the past.

As the economy continues to globalize and technology becomes more ubiquitous, more individuals will be faced with the need to develop their individualpreneurship knowledge and skills in order to be able to promote themselves in competitive marketplaces for both employment and products and/or services. In effect, this means understanding enterpriship (entrepreneurship, leadership, and management) disciplines, understanding personal styles, and being able to balance both professional and personal activities.

ACHIEVING "PLAN B" THROUGH INDIVIDUALPRENEURSHIP – THE NOTION OF AN INDIVIDUAL AS AN ENTERPRISE

Individualpreneurship is an activity whereby an individual (the individualpreneur) behaves as an enterprise in their own right, and as such builds the individualprise. In effect, the individualpreneur is in business for themself. Whereas solopreneurs are independent professionals, individualpreneurs can have multiple businesses and can employ others. The individualpreneur develops multiple income streams from many sources. Thus the individualpreneur is better hedged against uncertain economic, regulatory, and social conditions than those individuals who rely primarily on one source of income.

What is entrepreneurship?

Entrepreneurship is a competency (set of knowledge, skills, and activities) required to start, develop, and assume risk for an enterprise. An entrepreneur is an individual who organizes, operates, and assumes risk for an enterprise with the intention of transforming innovative ideas in products and/or services for a profit.

An enterprise is an undertaking for a prize or cause. It is a group of activities intended to produce income organized for:

- Profit as a business of any size and type: unincorporated or incorporated; one or many entities, of which one is designated as the "holding entity" in a multi-entity structure; and such that one enterprise can incubate another

- A not-for-profit association, such as a membership group, public charity or a private foundation

- A government agency

When an enterprise is referred to as an entity, the reference is specifically to the holding entity, unless otherwise specified. The term "not-for-profit" is generic; the term "non-profit" means an entity that has been approved by a taxing authority as being exempt from income tax. "Not-for-profit" does not mean "not-for-revenue."

As a discipline, a business delivers products and/or services to a customer for a profit. As an entity, a business can be:

- Sole proprietorship (individual)

- Partnership (pass-through to individuals): general, limited, or limited liability

- Limited liability company (pass-through to one or more individuals as a partnership or as an equivalent to a "subchapter S" corporation)

- Corporation: general with directors appointed by shareholder investors, and officers appointed by directors ("subchapter C"), pass-through to one or more shareholder investor individuals who may also be directors and officers ("subchapter S"), professional (pass-through to one or more individuals), or foreign

An upwardly mobile enterprise is a small-to-large enterprise focused on large market dominance (share being either industry-wide or in niches) with local-to-global aspiration in both traditional and non-traditional industries. It has growth potential from highly innovative people, processes, and products and/or services, and/or duplication of a business system. It is financed by founders and/or third-party investors (closely or widely-held) seeking capital appreciation, and potentially cash flow from dividends and/or interest, with medium to high risk.

An upwardly mobile enterprise may be founded by one or more entrepreneurs, who either become part of a larger management team as new investors come on board, leave to form another venture as serial entrepreneurs, or retire.

Upwardly mobile enterprises are the heart of Wall Street.

A lifestyle business enterprise owner operates an enterprise in a local community, and may also be the founding entrepreneur:

- Either as an active owner-manager, making a living from its activities for their own lifestyle

- Or as a passive owner-manager, with an active management team in place

Lifestyle business enterprises are the heart of Main Street.

A lifestyle business enterprise owner can be a sole proprietor, partner, member (and usually also a manager) of a limited liability company, or a shareholder investor in a corporation (and usually also a director and an officer).

An employee is an individual who provides services in exchange for compensation under an explicit or implicit contract for hire, whereby the employer (hirer) has the right to control what work is performed and how. An independent contractor is self-employed; the hirer has the right to control only the result of the work, and not how it is performed.

What is individualpreneurship?

Individualpreneurship is a mindset for thinking about oneself as an enterprise, actively developing and managing multiple sources of income, and without being highly dependent upon any if possible.

Sources of an individualpreneur's income include:

- Employment
- Entrepreneurship/business ownership
- Investing

The individualprise represents the aggregation of all sources of an individual's income. Gross income results from wages from employment, and from both revenues (commissions, dividends, fees, interest, rents, royalties, and sales) and from capital gains from both entrepreneurship/business ownership and investing activities. Net income (profit) results from gross income less the cost of revenue and the expenses required to generate it. The cash flow generated from net income generates wealth, which can be used for investing activities and supporting a personal lifestyle.

The broadest definition of wages includes all remuneration or compensation paid for services rendered by an employee, whether in cash or in other media including bonuses, commissions, and gratuities, based on piece, task, or time.

The need to develop and manage multiple sources of income arises from increasing uncertainty about economic, regulatory, and social trends.

For many individuals, the primary source of income is remuneration from employment, and the largest asset is their home (which is not income producing). Employment is an active form of income - in effect employees exchange time for money. However, the best forms of income are those that are residual and passive.

Residual income results from an initial transaction at some time in the past for which an ongoing cash flow is received; passive income results from transactions where the individualpreneur is not actively involved.

Examples of residual income include enrolling members in systems where downstream commissions can be earned; selling items, such as subscriptions that are automatically renewable, or consumables where the ordering is processed by third-parties; and affiliate programs based upon referrals.

Examples of individualpreneurship activities include:

- Having a full-time job
- Having one or more part-time jobs
- Being a trader on online auction sites
- Being a trader in securities
- Being a part-time real estate agent
- Starting an upwardly mobile business
- Owning a lifestyle business, such as a restaurant or a retailer
- Owning a network marketing business
- Managing a real estate investment portfolio
- Managing a securities investment portfolio
- Operating affiliated lead generation websites

The rise and fall of employment opportunities

Prior to the industrial revolution, families were in effect enterprises. Augmenting farm work with other trades and crafts, families flourished in cottage industries working from home, effectively as a group of individualpreneurs. Merchants brought raw materials to homes and would take finished products to markets. Entrepreneurs would "put out" work to families, who were in effect their subcontractors.

As the industrial revolution progressed, work was transferred form homes to factories when the required machinery became too large or expensive. Initially, the "put in" system was used whereby workers in a factory were treated as subcontractors, and eventually became employees. Labor movements were founded to fight for workers' rights, from which today's employment and labor laws have evolved.

As the economy shifted from family to commercial and industrial enterprises, employment opportunities grew. Workers could expect long-term employment opportunities as manufacturing demand increased. Through improvements in manufacturing techniques, such as production lines and automation, the scale of units produced increased dramatically.

Through improvements in energy, transportation, and telecommunications technologies, reach extended into new geographic markets for acquisition of materials and supplies, and delivery of end-products.

However, recent globalization trends have changed the cost structure of certain activities through outsourcing to providers who offer economy of scale, or to lower cost production markets. As a consequence of information and process control technologies, work has shifted from manufacturing to knowledge-based services. Technology can play a major role by creating jobs in new areas and eliminating them in others.

Enterprises have been impacted dramatically by these trends. For example, "big box" and online stores have had an impact on retailers on "Main Street" - but the savvy ones offer specialty products coupled with exceptional service. Even the local coffee shop is impacted by the price of green beans in global markets. Many manufacturers have downsized through strategic sourcing of components to scale providers, and in the construction industry, general contractors take advantage of prefabricated assemblies. As industries shift from manufacturing to knowledge-based, a major differentiator is marketing capability. Marketing capability requires understanding customer needs and wants, and responding with products and/or services designed for niche or mass markets, regardless of where the components are made.

The consequence is that job markets are dramatically changing, and that old assumptions for employment have become invalid. The notion of working for one employer for forty plus years is no longer possible because technology is changing the structure of industries and the nature of employment. Downsizing has become common, and it is a challenge for the education system to keep up with changing trends in the knowledge, skills, and technical requirements for jobs in emerging enterprises and industries.

The increase in consumer debt coupled with unstable employment opportunities has created stress for many individuals and their families, especially for those who are unemployed, face foreclosure on their homes, or even bankruptcy.

What is "Plan B?"

The term "Plan B" is used to describe an alternative course of action in case the preferred or primary "Plan A" fails. For many individuals, Plan A is a combination of a good education leading to a well-paying job. This form of Plan A stresses individual achievement through successes in education and employment - failures are usually downplayed. However, changing trends in employment put pressure on most individuals' Plan A, who may face downsizing or even their employer going out of business.

For others, Plan A is a combination of entrepreneurship and business ownership. This form of Plan A can result in failure. However, ultimate success in entrepreneurship and business ownership is often achieved by learning from mistakes and failures over time, and by building teams. Plan A for entrepreneurs and business owners may change from time to time as their ventures change. Eventually, many entrepreneurs and business owners finally get it right as lessons from past failures lead to successes. Many entrepreneurs and business owners become investors in other enterprises with a sense of "wanting to put back," and often with a higher tolerance for risk than those who have, in effect, earned income in exchange for time.

The uncertainty of the economy, regulation, and social trends as evidenced by downsizing, high consumer debt, government debt and unbalanced budgets, and high unemployment has created the need for all individuals to have a strong "Plan B."

An effective Plan B begins with the notion of an individual behaving as an enterprise in their own right - the individualprise. Whereas Plan A may provide a primary source of income, developing a Plan B means understanding opportunities for earning multiple sources of income and allocating time efficiently by prioritizing on the best. Executing a Plan B may allow an individual to keep their primary form of employment, but work on other income producing activities, such as part-time employment, home-based businesses (sometimes described as micro-enterprises), or investing in real estate and/or securities.

The income statement of the individualprise is the tax return - after all, if the an individual has multiple strong streams of income, taxes are likely to be an important consideration.

The basis structure of the Individual Tax Return (IRS Form 1040) applicable to both Plan A and B activities includes:

- Wages
- Interest (Schedule B)
- Dividends (Schedule B)
- Business income from sole proprietorships (Schedule C)
- Capital gains (Schedule D)
- Supplemental income from rental real estate, royalties, partnerships, and subchapter S corporations (Schedule E)

The tax return offers clues as to opportunities for alternative sources of income; however, it is useful to separate the type of income from the forms of business, such as sole proprietorships, partnerships, limited liability companies, and corporations.

Types of income include:

- Wages - all forms of compensation for full or part-time employment
- Interest on investments
- Dividends on investments
- Capital gains on investments
- Net income from active revenue generation such as commissions, fees, rents, royalties, and sales less expenses
- Net income from passive revenue generation activities - primarily real estate rents and royalties less expenses

Types of business forms include:

- Sole proprietorship and single member limited liability company - an individual that sells products and/or renders services, including as an independent contractor to hirers
- Partnership or limited liability company - where an individual is a partner or member in an enterprise that shares profits, losses, and capital with others - the individual may be a general partner or member-manager, or a limited partner or member; a single member limited liability company is considered to be a disregarded entity
- Subchapter S corporation - where an individual is a shareholder investor in a corporation that passes its profits and losses through to its shareholders - the individual also may be a director and/or an officer, and as such earns wages as an employee in addition to receiving dividends
- Subchapter C corporation - where an individual is a shareholder investor in a corporation that is taxed separately from its shareholders, but may pay tax on the dividends received (thus is subject to double taxation) - the individual may also be an employee, and as such earns wages in addition to receiving dividends

Only individuals and corporations are legal entities, and as such, corporations have separate rights and privileges from their shareholder investors. Individuals are natural persons. However, a juristic person is a group of natural persons behaving as if they are a single group, such as in a partnership, a limited liability company, or an association. A company is a group of individuals that make up an enterprise regardless of business or legal form.

Entrepreneurs may start enterprises in any business form, but lenders and investors may require a specific form, and may place personal guarantees in individuals for contingent liabilities. Venture capital and investment firms may place specific requirements on business forms and management structure, such as being a Delaware subchapter C corporation. Thus a founding entrepreneur could become a shareholder investor in an enterprise that they are no longer in control of if an investor group brings in its own management team. Delaware is the preferred choice for incorporation for many investors because of its well established corporate laws.

Although self-employed individuals are treated as business owners through sole proprietorships, single member limited liability companies, and single shareholder corporations, they are unable to leverage their time unless they can delegate to trustworthy employees, or earn residual and/or passive income.

Individuals who are sole proprietors, partners, and members in limited liability companies are subject to self-employment taxes, and shareholder investors who are officers in subchapter S corporations are subject to employment taxes.

Achieving "Plan B"

There are many ways to develop and achieve a Plan B that has multiple income streams, and it is possible that one component may become the new Plan A eventually. Some opportunities result from converting a hobby into an income producing activity, whereas others result from leveraging professional qualifications and experience.

Examples of income producing activities include:

- Part-time employment
- Establishing a home-based business on a part-time basis, that has the potential to become full-time (lifestyle to upwardly mobile)
- Earning fees and commissions from referrals through affiliate marketing relationships
- Earning royalties and fees through writing and speaking engagements
- Investing in real estate for rental income and capital gains
- Investing in securities for interest and dividend income and capital gains

Businesses that require separate physical premises, inventories, and employees should be avoided as a Plan B because of the high overhead of carrying costs, insurance, payroll, risk of theft, and governance. Whereas the notion of owning a restaurant can be a dream to many, all too often such an enterprise becomes nothing but a nightmare.

Home-based businesses can take many forms such as buying and selling products on the internet or providing professional services on a part-time basis. It is important to note that home-based businesses are subject to licensing and zoning laws and regulations, and may be subject to property, sales, and use taxes, in addition to income tax.

Any form of revenue generating activity requires business development and marketing capability to create awareness and build relationships. The degree of selling experience necessary is a function of the type of business. These activities can be routinized through duplicable, predictable, and measurable processes that can be learned over time.

Some investing activities may require active trading to ensure that capital gains can be properly realized in up markets, and to prevent losses in down markets.

The best form of income is both residual and passive, whereby ongoing cash flow results from activity that occurred in the past, and for which little or no management activities are required in the present.

An effective way to achieve a blend of residual and passive income is through a combination of sources from membership systems and investing activities as follows by:

- Enrolling customers in membership systems where commissions are earned from ongoing sales of consumables, for which the ordering and distribution is handled by third-parties - this activity generates residual gross income

- Investing the residual income in an investment portfolio that diversifies risk, and generates cash flow from interest and dividends - this activity generates residual gross income; the income is passive if the portfolio does not require active management through trading

Note: investing in real estate may generate residual income from rents; however active management may be required for finding tenants, negotiating leases, collecting rents, paying expenses such as utilities, and performing maintenance and repairs; investing in securities may require some trading to hedge from risk, and to take advantage of capital gains.

A shorter-term objective of Plan B is provide a hedge against Plan A as an alternative. A longer-term objective of Plan B is to gain financial independence - the state of having sufficient wealth to cover expenses required by a certain lifestyle. Wealth is achieved by having sufficient income producing assets and activities to generate a gross income that exceeds all professional, physical, and personal expenses required by that lifestyle. Wealth is a source of capital for future investment. It is usually advisable to eliminate debt in the quest to achieve financial independence.

CHANGING TRENDS IN ENTERPRISES, ENTREPRENEURSHIP, AND EMPLOYMENT

Changes in the structure of trade and commerce suggest that knowing one's individual competencies is essential for success in both entrepreneurship and employment. All individuals involved in entrepreneurship or seeking employment must understand their strengths and weaknesses so as to be able to take advantage of opportunities in marketplaces and to respond to threats accordingly. This article addresses industrial transformation, industry structure, and challenges for employment in the future.

Industrial transformation...

Before the industrial revolution, families sustained themselves through farming and other trades and crafts including carpentry, cloth production, and metalwork based upon proximity to sources of materials and supplies. In this context, the term "trade" refers to an occupation. Because such activities could be performed at home, and often augmented farmwork, families flourished in cottage industries. In this system, the family was the enterprise - manufacturing products in a workshop at home. Merchants brought raw materials to homes and would take finished products to markets. Entrepreneurs and agents would "put out" work to these workshops, which were in effect their subcontractors.

Journeymen were craftsmen who had completed apprenticeships, such as in carpentry or metalwork. Journeymen traveled between local communities with the right to charge a fee for a day's work accordingly. Apprentices were new practitioners who entered programs to receive training for their careers while working.

As the industrial revolution progressed, work was transferred from homes to factories when the required machinery became too large or expensive. Production moved from a decentralized to a centralized system, creating employment opportunities for laborers in factories.

Initially the "put in" system was used, where workers were treated as subcontractors within a factory and eventually became employees. Factory working conditions were often harsh. Labor movements were founded to fight for workers' rights, from which today's employment and labor laws have evolved.

As the economy shifted from family to commercial and industrial enterprises, employment opportunities grew. Entrepreneurs provided the innovation to start new enterprises in new or existing markets, with new products and/or services, from which new industries evolved.

Enterprises were established that had an identity in their own right separate from their individual founders and owners. An enterprise is an undertaking for prize or cause. Business entities such as partnerships and joint stock companies emerged over time, and eventually the concept of a corporation was developed - a legal entity that exists separately from its shareholder owners.

Trading took place in marketplaces. In this context, the term "trade" refers to buying and selling. A market is a set of potential buyers (prospects) and/or actual buyers (customers) and potential and/or actual sellers (suppliers) who are motivated to execute transactions. Motivated buyers have the desire, want or need, authority, and resources to demand and purchase a product and/or service. Motivated sellers have the desire, want or need, authority, and inventory to supply and sell a product and/or service. A marketplace is where buyers and sellers can meet to execute transactions. Street marketplaces were common in towns along sidewalks or as squares and covered buildings, and still are popular in many places around the world. Financial transactions were conducted in bourses or exchanges where contracts representing financial instruments were traded by dealers and brokers.

Through improvements in manufacturing techniques, such as production lines and automation, the scale of units produced increased dramatically. Through improvements in energy, transportation, and telecommunications technologies, reach extended into new geographic markets for acquisition of materials and supplies, and delivery of end-products.

Chains of suppliers of raw materials, manufacturers and distributors, merchandisers (wholesalers and retailers), and end-consumer customers emerged over time. Some enterprises decided whether to make or buy materials and supplies on a case by case basis. Others became "vertically integrated" by owning and controlling most or all aspects of their supply and demand chains to make hand-offs between processes more efficient and effective. Tremendous wealth could be generated for entrepreneurs participating in chains that created value through both sales and production activities.

Governance, administrative, and operational disciplines emerged as enterprises became larger, creating the need for managers, supervisors, and staff. As a consequence, executive, administrative, professional, technical, vocational, and clerical jobs were created. As such enterprises became stable sources of employment. The word "firm" was used to describe them - suggesting the notion of steadfastness. This term is still common today, especially for professional services partnerships such as accounting, architectural, consulting, engineering, and law firms, where trust and integrity are important factors.

Through acquisition or merger, enterprises can become "horizontally integrated" - offering the same products and/or services in different markets. Through horizontal integration, enterprises can gain economy of scale and become corporate "giants." The world's largest enterprises have gained scale by doing the same thing in multiple geographic markets around the world, although offerings may differ slightly through varying customer demographics and local practices.

In many industries, such as construction, energy, financial services, and manufacturing, there are a few very large global players that have grown mainly through acquisitions and mergers, and a large number of very small players that serve local markets almost exclusively. Joint ventures are also common that share risk, resources, and expertise.

Not only did the construction industry contribute to the growth of economies by building infrastructure, but it participated in globalization trends through the development of large enterprises, such as Bechtel, Halliburton, Black & Veatch, and CH2M Hill, that have worldwide reach.

Construction activity flourished with the development of residential, commercial, industrial, and corporate real estate. Through the use of prefabricated and modular buildings, the construction and manufacturing industries became interrelated.

Energy production and manufacturing activities globalized, driven by the aerospace and automotive industries, with such enterprises as Royal Dutch Shell, Honeywell, and Ford. The financial services industry has globalized with such enterprises as Barclays, HSBC, and JP Morgan Chase. Globalization was necessary not only to achieve scale, but also to serve global customer enterprises. Global financial services enterprises may be able to better manage risk than those only serving local geographies through their ability to move resources between and within multiple markets.

The food service and hospitality industries have partially globalized, primarily through franchising, but the merchandising industry is still primarily local, although products may be sourced internationally.

As a consequence, industrialized societies have stabilized through enterprises that create employment from jobs that provide steady income streams for food, housing, health, education, transportation, taxes, and disposable income for entertainment and recreation. In effect, these enterprises finance the lower levels of Maslow's Hierarchy of Needs for many people.

The need for marketing and sales capabilities grew accordingly and media communications vehicles, such as magazines, newspapers, radio, and television, relied upon advertising revenue to cover their costs. Today, many websites rely upon advertising revenue to cover costs, and there is a gradual shift occurring from physical to electronic media of all forms as mobile devices become more popular.

Industry structure...

Today's economy is structured according to either market-driven or production-driven industries. An industry consists of a group of enterprises that share common activities, products and/or services and/or common methods of distribution.

In the market-driven approach, the economy comprises goods-producing and service-providing industries; in the production-driven approach, the economy comprises product-driven and service-driven industries. Goods-producing industries include: natural resources and mining, construction, and manufacturing; service-providing industries include: wholesale and retail trade, transportation (and warehousing), utilities, information, financial activities, professional and business services, education and health services, leisure and hospitality, and public administration. Product-driven industries comprise enterprises that manage inventories available for sale as primary activities (regardless of whether they transform them or not). Under this approach, the retail, wholesale, and food service industries are product-driven.

"Commerce" is a more general term than "trade," that refers to the buying and selling of commodities, merchandise, and services, and the associated warehousing, distribution, and transportation. Commodities are products that are indistinguishable and interchangeable with other products of the same type because there is little to no value added. Commodities include natural products such as produce, minerals, and oils. Merchandise consists of commodities and manufactured products for retail sale to consumers.

Consumers are users of products and/or services - both individuals and enterprises. Enterprise consumers are either entrepreneurial (in emerging or growth stages) or institutional (in growth or mature stages), and consist of sole proprietors, partnerships, limited liability companies, or corporations. Sole proprietors are natural persons, whereas partnerships, limited liability companies, and corporations are juristic persons, meaning that they are non-human (business) entities having the same status as a natural person for legal purposes. Juristic persons may be considered separate from their partners, members, or shareholders, for legal purposes, although the distinction is not necessarily absolute. Juristic persons may enter into contracts, own assets, incur liabilities, and sue and be sued.

Commercial enterprises are involved in light manufacturing, merchandising, retail, and professional services. They are small to medium sized enterprises, located on Main Street, in shopping centers and malls, and in office parks. Commercial enterprises are typically narrowly held.

Industrial enterprises are involved in heavy and high volume manufacturing and related industries, such as in chemicals and energy. They are medium to large sized enterprises located in dedicated facilities, such as factories and refineries and are typically more widely held.

Corporate enterprises are large service providers in finance, entertainment, health care, and transportation, and include the administrative activities of industrial concerns. Corporate enterprises are typically widely held.

Commercial enterprises are major sources of employment in local communities for entry to mid-level positions. Industrial and corporate enterprises employ both unskilled and skilled employees, and are providers of professional career opportunities.

From a governmental policy perspective, employment provides stability in the economy. An activity that is repetitious provides an opportunity for steady employment, such as food processing and service, and manufacturing in growth industries. Entrepreneurial and sales activities are more prone to uncertainty; in order to promote stability, the compensation of salespeople is incentivised to encourage results on an ongoing basis.

Government policy has also encouraged home ownership, which strengthens stability. For most people, their job provides their largest source of income, and their house is their largest asset; their mortgage and related expenses are a significant component of their monthly compensation. Home value appreciation is a creator of wealth for many families. However, the home as an asset can become a liability if it prevents the owner from relocating to a different geography to pursue new opportunities. In down markets, home values can depreciate to a point lower than the mortgages that finance them - a stressful and sometimes irrecoverable situation.

Challenges for employment in the future...

As industries mature and reposition, restructure, and reengineer as a consequence of changing buyer trends or competition, employment opportunities may erode, and current positions may be eliminated. Reengineering initiatives can lead to a strategic repositioning of an enterprise by changing its activities, pursing different methods of performing the same activity, or streamlining current activities to reduce costs. The application of technology can play a major role by creating jobs in new areas and eliminating them in others. Globalization trends have changed the cost structure of certain activities by outsourcing to providers who offer economy of scale, or to low cost production markets such third-world countries.

The consequence is that job markets have changed dramatically, and that old assumptions for employment have become invalid. The notion of working for one employer for forty plus years is no longer possible because industries, enterprises, and types of employment change quickly.

Even the methods for finding a job have changed. It's not what you know, or who you know, but who knows you that matters. Finding a job is an individual marketing initiative, and many people do not have experience in promoting products and/or services, let alone themselves. However, if individuals cannot promote themselves, how can they promote anything else? It is essential to launch an individual marketing campaign and to keep it refresh an alive in order to find a job in today's economy.

A marketing campaign for an individual begins in the same way as for an enterprise: by developing a strategy that addresses opportunities, threats, strengths, and weaknesses, and by setting objectives, goals, and specific action-oriented initiatives.

The process starts by an individual understanding the power of their own knowledge and skills - the personal, professional, technical, entrepreneurial, leadership, and management competencies that others will want to know and benefit from.

Effective personal and professional competencies are essential for gaining entry level positions in enterprises, and the initial promotions thereafter. However, the enterpriship competencies in entrepreneurship, leadership, and management disciplines determine long-term success from transforming ideas into value, influencing others to follow direction through influence, and applying resources to activities to gain results in both entrepreneurial and employment activities.

SERIAL ENTREPRENEURSHIP, MULTIPRENEURSHIP, INDIVIDUALPRENEURSHIP, AND THE SELF-RELIANT CAREER

Serial entrepreneurship, multipreneurship, and individualpreneurship are related concepts. Serial entrepreneurship is a practice whereby individuals start mainly upwardly mobile enterprises, and eventually move on to other new ventures when a change occurs. Multipreneurship is a general term used to describe individuals who pursue multiple upwardly entrepreneurial and/or lifestyle business ownership initiatives. The individualpreneurship discipline includes activities for developing and managing multiple sources of income, including employment, entrepreneurship/business ownership, and investing, without losing focus on any. An individualpreneur builds a sustainable self-reliant career by establishing the mindset of behaving as an enterprise.

A serial entrepreneur is an individual who starts mainly multiple upwardly mobile enterprises and moves on to the next, either when a new management team takes control, or if the enterprise becomes lifestyle in nature. Because serial entrepreneurs have experience with multiple enterprises, they tend to be bigger risk takers than those that have started only one enterprise. As a consequence, their experience better positions them to respond to problems and to avoid failure over time. Many have learned from past mistakes. A serial entrepreneur will typically always work for themselves, and employ others.

A multipreneur is an individual who pursues multiple upwardly mobile and/or lifestyle business activities as a portfolio, either serially or in parallel. These activities can be within one business, such as new product and/or service line extensions, new product and/or service lines, new markets, or new business units; as new related or unrelated businesses; or as varied careers. A multipreneur may move from being self-employed to being employed by others to being self-employed again.

An individualpreneur is a focused multipreneur. The term "individualpreneur" is derived from the term "individualprise," which in turn is derived from the term "individual enterprise." The notion of an individual as an enterprise is based upon the practice of all income sources on an individual's tax return being actively managed as a portfolio. Thus, individualpreneurship is a "top-down" mindset starting with the summarization of employment, entrepreneurship/business ownership, and investing activities as driven by multipreneurial initiatives. Each multipreneurial activity may be event or opportunity driven.

Multipreneurs (and hence individualpreneurs) include solopreneurs (individuals who work alone), webpreneurs (those doing business primarily on the internet), and can be employed working for others in parallel or between their entrepreneurial endeavors.

Because a married couple can file a joint individual tax return, the notion of individualpreneurship extends to both husband and wife (and their dependents as appropriate). This is notion is consistent with the concept of families pursuing many income generating activities during the agricultural age, such as farming, glassmaking, metalwork (smithy), needlework (weaving), stonework (masonry), and woodwork (carpentry).

Thinking and behaving as an "individualprise" helps an individual perform better, not only as an entrepreneur/business owner, but also for an employer, especially in an executive capacity. This is because they understand the concepts of income generation and expense, asset, liability, and capital management. They should also have a broader understanding of legal, finance, human resources, information technology, business development, and operations activities. For visionaries in the corporate world, intrapreneurial capabilities are also important for enacting and responding to change.

For many jobs, there is a lifecycle from value-added to commodity work over time. As jobs become commoditized, they are often outsourced to scale providers who perform the tasks at lower cost. Thus, to keep the economy healthy, it is necessary to provide for capital formation in new innovative enterprises that generate new job opportunities as the old jobs erode. Both serial entrepreneurs and multipreneurs who see and pursue multiple opportunities for innovation help keep the economy healthy. Typically for every one innovative job generated by an entrepreneur, there are many infrastructure and support jobs generated, either in the same enterprise, or in related.

Those seeking employment positions where such a lifecycle exists must recognize that a job search is a marketing campaign just as a business would adopt. Therefore, it must be treated as such by the job hunter if a satisfactory result is to occur. Thinking as an enterprise, the individualpreneur is more likely to achieve a satisfactory result in a job search because they are aware of the need to add value and promote it as such in the marketplace. Individualpreneurs appreciate the benefit of business relationships and networking, and the value of referrals.

Individualpreneurship is a discipline for building an individualprise for a sustainable self-reliant career. Sustainable means being able to continue over time, either by developing, enhancing, or maintaining the current state, or by changing it. Self-reliant means having the confidence to exercise one's own judgment so as to be able to continue over time in a career - endeavors of achievement in both personal and professional lives.

As a multipreneur, an individual is willing and able to consider new and emerging opportunities as existing ones mature and decline. As an individualpreneur, they focus on those opportunities that offer the best likelihood of sustaining a livelihood over time.

Individualpreneurship embraces the enterpriship disciplines of entrepreneurship, leadership, and management, which apply to every individual in business, whether as an employee, as an entrepreneur/business owner, or as an investor. In the corporate world, leadership and managerial capabilities, and especially the ability to communicate effectively, are essential for advancement through the ranks.

BALANCING INTER-PERSONAL SKILLS WITH PROFESSIONAL SKILLS

Success in business is as much based upon using inter-personal skills effectively as it is based upon using professional skills. Personal characteristics are specific to each individual, and include preferences regarding the self and relationships with others. Professional characteristics apply to occupation and public life in terms of role, qualifications, competence, and experience.

Inter-personal characteristics include oral and written communications abilities, and the extent to which an individual is a team player. Individual contributors usually have less developed inter-personal skills than experienced entrepreneurs, leaders, and managers who are able to get things done through others.

A personal style is a set of personality characteristics. Every individual has a personal style profile - specific personality characteristics that determine their preferences.

Definitions of personal styles have been used throughout history by philosophers; modern definitions trace their roots to research work by Swiss psychiatrist Carl Jung. Although there are many themes and variations, basically four personal styles exist:

- Challengers - who appreciate action and adventure
- Causals - who appreciate creativity and relationships
- Stabilizers - who appreciate law and order
- Visionaries - who appreciate innovation and understanding

By understanding how to quickly identify certain key attributes of each personal style, and to recognize them in other people, an individual can quickly relate, build a rapport, and interact with others. Hence, an individual is more likely to appear friendly and be able to influence others. "Relate" means that an individual has similar preferences to another; "rapport" means that an individual can build a relationship with another; and "interact" means that two or more individuals can do things together.

Whereas there are more scientific approaches, two ways exist to quickly identify the personal styles of others. The first is to listen to the words that others use; the second is to observe how they dress. Words and dress are key indicators of values, attitudes, beliefs, and behaviors:

- Challengers use words that suggest the notions of competition, courage, energy, excitement, and incentives. They tend to dress casually.

- Causals use words that suggest the notions of acceptance, friendship, ideals, peace, and sharing. They tend to dress fashionably.

- Stabilizers use words that suggest the notions of budgets, loyalty, responsibility, safety, and security. They tend to dress formally.

- Visionaries use words that suggest the notions of analysis, competence, explanations, research, and solutions. They tend to dress functionally.

If an individual can adapt their personal style to another's without losing their own, they can increase the likelihood of success in entertaining, informing, convincing, persuading, and negotiating to close transactions for mutual benefit.

Understanding personal styles is the key to balancing inter-personal skills with professional skills.

UNDERSTANDING INDIVIDUAL COMPETENCIES TO BUILD SUCCESSFUL PERSONAL AND PROFESSIONAL RELATIONSHIPS

The likelihood of success in both personal and professional situations depends upon knowing your own strengths and weaknesses, knowing what is expected of you, and then being able to adapt accordingly. Understanding your individual competencies, and those of others, is a necessary step to building successful relationships.

Job performance is a function of aptitude, ability, and proficiency. Aptitude determines the suitability of an individual for a role; ability determines their expected quality of performance for an activity; and proficiency defines their level of competence.

Competence is characterized by both knowledge and skills. Every individual has three competency areas to varying degrees:

- Personal
- Professional/technical
- Enterprising (entrepreneurship, leadership, management)

Personal competencies...

Personal competencies are about who we are, and have both intra-personal and inter-personal components. Intra-personal competencies are about the self. They include the basics of anticipation, aptitude, comprehension, deliberation, preferences, and stress tolerance. Inter-personal competencies include both oral and written communications, and the ability to build relationships with others.

Professional/technical competencies...

The terms "professional" and "technical" can be used broadly or narrowly.

When used broadly, the terms apply to domain knowledge in subject areas, and the accompanying technical skills. Subject areas include both arts and sciences disciplines - business is both an art and a science. Subject areas in business include: legal, finance, human resources, information technology, program management, engineering, operations, and business development. The accompanying technical skills have mental and physiological requirements, depending upon subject area.

When used narrowly, the terms apply to occupations. Professional occupations include accounting, architecture, consulting, law, marketing, medicine, and sales. Technical occupations include construction, engineering, and information technology. These terms are used by government agencies to classify jobs.

Beware of the subject matter expert - an individual who appears knowledgeable, but lacks the technical skills to achieve results. Subject matter experts may do well in interviews, but do not necessarily perform well on the job. Hence, it is important to assess the aptitude, ability, and proficiency of a candidate before hiring, or risk being fooled.

Enterpriship competencies...

Enterpriship competencies relate to the disciplines of entrepreneurship, leadership, and management. These competencies are distinct from professional competencies because they apply in both personal and professional life, and in both community-at-large and workplace settings.

Enterpriship competencies enable value to be earned and results to be achieved. They include transforming innovative ideas into value, setting direction that others will follow, and applying resources to activities to achieve results.

For example, executive directors of charities are faced with the need to find innovative ways to raise funds, to motivate others to contribute, and to manage resources on tight budgets.

For example, designers of electronic equipment have to find innovative ways to cram components into devices, be able to persuade others to use their products, and conserve resources such as batteries.

Playing to strengths and accommodating weaknesses...

When taking on any new responsibility, an individual should compare their competencies to the expected requirements of the assignment, identify the gaps, and take steps to close them accordingly. Competencies can be acquired through experience and training, if an individual is so motivated.

When building a new relationship, an individual should compare their competencies to those of the other person, identify gaps, and explore the synergistic opportunities from working together. This approach is especially beneficial in teamwork, where weaknesses in one team member can be offset by strengths in another.

Inter-personal competencies, and especially effective communications, are perhaps the most important of all. The ability to entertain, inform, convince, persuade, and negotiate with others to get things done is essential - nothing happens in business without people.

Understanding your individual competencies and those of others, so as to play your strengths and accommodate your weaknesses, is essential to success in both personal and professional relationships.

APPLYING INDIVIDUAL COMPETENCIES TO EMPLOYMENT, ENTREPRENEURSHIP, AND INVESTMENT ACTIVITIES

Some individuals seek employment opportunities for their entire careers, whereas others seek entrepreneurship and/or business ownership opportunities, either exclusively or for a change in career from the "corporate" lifestyle. In both cases, they may also become investors seeking capital appreciation and cash flows from dividends, fees, interest, rentals, or royalties. Regardless of whether an individual works for somebody else or in their own business, or has their money work for them as an investor, their success is based upon how well they apply their personal, professional, and enterpriship (entrepreneurship, leadership, and management) competencies.

Sources of personal income include activities from being an employee, an entrepreneur and/or a business enterprise owner, or an investor. The strength of an individual's competencies determines their success or failure in these activities, and their willingness to learn from failure so as to enable future successes. Competencies are about domain knowledge in academic and vocational disciplines, and in the related mental and physical technical skills. Disciplines are rules of conduct and subject areas of teaching. Individual competencies comprise personal, professional, and enterpriship (entrepreneurship, leadership, and management) knowledge and skills.

Personal, professional, and enterpriship competencies...

Personal competencies are about the self (intra-personal) and how an individual relates to others (inter-personal). Intra-personal competencies are both qualitative and quantitative. Beyond the fundamental satisfaction of human needs, the most basic competencies are the ability to read and write and to perform arithmetic operations. The ability to manage risk is essential to survival. Other inter-personal competencies include analysis, comprehension, logic, mathematics, and reasoning. Inter-personal competencies include oral and written communications, relationship building, and participating in and contributing to teams, communities, and work-places both socially and professionally.

Performance in an activity is a function of aptitude, ability, and proficiency. Qualifications are standard conditions or requirements for performing a role. Aptitude determines the suitability of an individual for a role; ability determines their expected quality of performance for an activity; and proficiency defines their level of competence.

Personal and professional competencies determine preferences for values, attitudes, beliefs, and behaviors, including appearance and communications; motivation, conflict handling, and stress tolerance; decision making, learning, occupation, recreation, and relationships; and fiscal matters.

Professional competencies address domain functional subject areas and knowledge such as law, finance and accounting, human resources, information technology, program management, engineering, operations, and business development in both product-driven and service-driven industries, and the associated technical skills.

Domain competencies also address subject areas such as arts, cookery, entertainment, numismatics, philately, and sports from which activities arise that can be monetized, such as collecting, trading, and investing in items including art, coins, sports memorabilia, and stamps.

Enterpriship competencies are enabling and embrace the entrepreneurship, leadership, and management disciplines. Enterpriship competencies determine how to transform ideas into value, how to set direction that influences others to follow, and how to apply resources to activities to achieve results.

Every individual earning income as an employee, as an entrepreneur, or as an investor must be able to apply personal, professional, and enterpriship competencies in order to create or respond to opportunities and threats. Wherever there is crisis, there is opportunity.

Being an employee...

Being an employee means working for somebody else for income (although shareholder officers of "Subchapter S" corporations are also considered employees, even though they are owner-operators). Types of employment income include wages, salaries, and incentives such as bonuses, commissions, and tips. Opportunity for ownership may also be offered to employees through awards of stock options and shares if the enterprise is a corporation, admission as a partner if a partnership, or admission as a member if a limited liability company. Benefit packages may also be available including paid vacations, healthcare, profit sharing, and retirement plans.

Some employees remain as hourly paid administrative staff or operational labor throughout their entire careers. Others become salaried professionals and rise into management and executive ranks with substantial leadership and managerial roles. In these cases, a component of income is usually incentive-based according to the performance of the enterprise and an individual's own area of responsibility. Whereas some employees prefer the predictability of a fixed wage per hour or salary per year, others prefer a high variable component with commissions and bonuses commensurate with their individual or team's performance.

Some employees want to be associated with an enterprise that is well respected for product and/or service innovation; for constituencies served; for quality, efficiency and effectiveness; for values and guiding principles; or for sustainability. Others are solely concerned about the income potential. For some, working for somebody else, especially in a well established institution creates a sense of pride or duty; for others being self-employed is more satisfying, and in some cases a necessity because of shortages of work opportunities, or because of barriers to employment such as the "glass ceiling."

Being an entrepreneur and/or business owner...

Being an entrepreneur means starting, developing, and assuming risk for either an upwardly mobile or lifestyle business enterprise, or performing as an independent contractor. Upwardly mobile enterprises are aimed at large markets with local-to-global aspirations. They are started through the "sweat equity" of founders and are initially financed by angel and venture capital investors, and may eventually become publicly traded enterprises. Lifestyle business enterprises are usually owner-operated and form the heart of "Main Street." They are financed from the owner's capital and also from secured debt if adequate collateral is available. Unsecured debt opportunities may be available if guarantors can be provided, or once steady cash flows have been established. To be successful, a lifestyle business enterprise usually needs a lot of "tender loving care" from the owner. However, such care can be a differentiator from large enterprises through detailed product and/or service knowledge and quality of service delivery.

Independent contractors are in effect enterprises in their own right and have to be entrepreneurial in order to find assignments. Individuals and enterprises who engage independent contractors have a right to control or direct only the result of the work performed, but not the methods by which it is accomplished.

Some entrepreneurs want to build an enterprise that is respected; for others, financial considerations are the motivating factors.
Artists, authors, composers, and entertainers require entrepreneurial competencies in order to earn sales, fee and royalty revenues from their work.

Being an investor...

Being an investor means placing excess or leveraged capital for a future return in assets that either are expected to appreciate in value or produce income, or both. Assets include durable items such as art, equipment, furniture, numismatic, philatelic, sports memorabilia, real estate, and securities (financial instruments representing money, debt, and equity capital and derivatives).

Capital can be accumulated wealth or leveraged through borrowings. Successful investing is about achieving returns through capital appreciation and cash flows from dividends, fees, interest, rentals, and royalties commensurate with risk. Short-term gains can be obtained from trading activities, whereas long-term gains are obtained from buying-to-hold.

Passive investors primarily buy-to-hold; active investors seek advice, make decisions for themselves, trade and buy-to-hold, and sometimes seek board positions to influence the direction of the enterprises in which they have invested. Buy-to-hold means that investments will be held in a portfolio until maturity (if applicable), or will be available for sale at some time in the future. Being an active investor means having analytical and quantitative capabilities, being willing to take risk, and being able to make decisions with anticipation and deliberation.

Whereas employees think in terms of wage per hour or salary per year, entrepreneurs and investors think in terms of returns from capital appreciation and cash flows.

Some individuals invest in stocks and bonds through employer sponsored plans, whereas others take responsibility for their own portfolios. Some individuals start early, sometimes borrowing on margin; others start late using excess cash. For some, the biggest investment is the one-time purchase of their home; for others, flipping to gain from capital appreciation in real estate properties or buying-to-hold for rental income is a routine activity, as is investing in other assets.

All investors have access to public secondary money and capital markets, but only accredited high net worth individuals and insiders have access to private offerings in primary markets. Some successful entrepreneurs put returns from their own endeavors back into the community by investing in other early stage enterprises.

Investors can become entrepreneurs by becoming dealers in certain assets and trading them. For example, collectors can generate revenue by trading collectible assets in both physical and electronic marketplaces.

Applying personal, professional, and enterpriship competencies to employment, entrepreneurship, and investment activities...

Basic personal competencies fundamental to all activities to starting, building, operating, participating, contributing, and investing in an enterprise include the ability to communicate and relate to others, and in the twenty first century, to use electronic devices for written communication and computations effectively and efficiently. Managing risk against the reward potential in terms of identifying, assessing, prioritizing, and treating opportunities and threats is essential to personal and economic survival.

Professional competencies result from the extent to which an individual pursues academic or vocational disciplines based upon personal preferences. Academic disciplines lead to occupations in law, finance and accounting, human resources, information technology, product and infrastructure engineering, marketing, and operations. Vocational disciplines lead to occupations in the trades and crafts, such as clerks, carpenters, electricians, laborers, mechanics, metal workers, operating engineers, painters, plumbers, and salespeople. Professional competencies are fundamental to getting work done.

Regardless of the academic and vocational training, understanding basic economic, business, finance, and accounting concepts, and marketing and sales techniques is essential to success as an executive, entrepreneur, or investor.

Inter-personal competencies are just as important as professional competencies because without the ability to relate to other people, it is very difficult to get anything accomplished in an enterprise on an ongoing basis. Individuals who have difficulty in building relationships with others need strong professional competencies to compensate so as to be effective as individual contributors. Being teachable is extremely important. Coaching provides guidance on the enabling competencies: entrepreneurship, leadership, and management; mentoring provides guidance on the domain competences - guidance on subject matter, developing functional knowledge and technical skills.

Enterpriship competencies determine the effectiveness of the entrepreneurial, leadership, and managerial roles played by an individual whether as an employee, an entrepreneur, or an investor.

The entrepreneurial role is about creating or acquiring new opportunities or responding to threats - in effect, enacting change. The entrepreneurial role is essential when developing new products and/or services and processes, and improving existing ones. It applies to those who can offer suggestions that earn and add value. The entrepreneurial role is essential when changing jobs, when innovating and starting a new enterprise, and when investing in or divesting from enterprises.

The leadership role is about influencing people through aspirational, inspirational, and motivational communications. This role is applicable to anybody who has to entertain, inform, convince, and persuade others. It applies to those seeking employment opportunities; to entrepreneurs, business owners, executives or managers seeking employees, customers, suppliers, and investors; or to proactive members of an investor community attempting to influence other investors, management teams including both boards and officers, and other interested parties.

The managerial role is about planning, execution, and control of processes by any individual who has to achieve results, whether as an employee, an entrepreneur, or an investor.

Understanding individual competencies...

All individuals must understand their strengths and weaknesses so as to be able to take advantage of opportunities and respond to threats accordingly. Effective personal and professional competencies are essential for gaining entry level positions in enterprises, and the initial promotions thereafter. However, the enterpriship competencies in entrepreneurship, leadership, and management disciplines determine long-term success from transforming ideas into value, influencing others to follow direction, and applying resources to activities to gain results in employment, entrepreneurial, and investor capacities.

USING COMMUNICATION STYLES THAT ENTERTAIN, INFORM, CONVINCE, AND PERSUADE EFFECTIVELY

Successful entrepreneurs and executives understand the power of effective communications - the ability to entertain, inform, convince, and persuade. Whether for recruiting, job assignments, selling, or mergers and acquisitions, negotiations cannot have a successful outcome unless these four communications styles are used effectively to reach closure.

Effective communications are essential for building both personal and professional relationships with others. First impressions count so it is important to choose words that others can relate to quickly.

Every industry and function has its jargon. For example, talking to bankers about interest rate sensitivity, to product developers about time-to-market, and to manufacturing enterprises about overhead costs builds rapport. Salespeople prefer words that convey energy and excitement; medical practitioners prefer words that suggest care and well being; accountants and attorneys prefer precise language; and technologists prefer words that convey solutions.

Because people often make decisions on emotion, and then justify them rationally, it is essential to use motivational language. Whereas ultimately that means using persuasive language, the entertaining, informing, and convincing styles are useful for raising emotion.

Successful salespeople claim that it takes multiple interactions with a prospect to make a sale - at least five is not uncommon. Unsuccessful salespeople usually give up before they have reached the threshold required to close. Many interactions are required to build trust, which is based upon communications and the accompanying actions.

Large transactions between enterprises, such as long-term contracts, or mergers and acquisitions may require field trips and site visits over multiple days. These events require discussions and presentations in meetings, and over breakfasts, lunches, and dinners. Eventually the parties meet across the table to negotiate the deal. Minimizing the amount of face time with counter parties reduces the risk of something being said that is out of place. So face time should be reserved to those situations where messages can be powerfully transmitted with anticipation and deliberation.

During negotiations, the parties must never be off guard, and all language to entertain, inform, convince, and persuade should be chosen carefully by understanding the needs of the audience and their backgrounds. Therefore, it is necessary to determine what motivates an audience and what it aspires to - their industry and functional backgrounds provide clues.

It is important to understand whether the audience prefers the "analytical" approach (findings followed by conclusions followed by recommendations), or "bottom-line" approach (recommendations based upon conclusions based upon findings). "Process-oriented" people, such as accountants, attorneys, and engineers, usually want to build the case, whereas "people-oriented" people, such as those in entertainment, health care, and sales, usually want to get straight to the point.

The four communications styles can be used to inspire the audience accordingly:

Entertaining style - appropriate as an "ice breaker" at a formal meeting or presentation:

- Start with an example of a relevant event or situation, made humorous if possible
- Describe images of the event or situation in vivid words, using poetic license if appropriate
- Relate to personal experiences with examples
- Make a transition to the current event or situation
- Make relevant points of comparison
- End with a memorable statement related to the most important point

Informative style - appropriate at larger "town hall" style meetings:

- Start with an example of a relevant event or situation
- Describe images of the event or situation with vivid words
- Discuss what the complicated the situation, what the problems were, and how solutions were reached
- Make a transition to the current event or situation
- Talk about the presentation - give an overview
- Discuss complications, problems, and potential or actual solutions
- Be fact based, using examples where possible based upon observations and experience
- Summarize key points
- Talk about the presentation - what it was about
- End with a memorable statement related to the most important point

Convincing style - appropriate for smaller meetings where the audience needs to be convinced of an idea or condition in order to modify behavior:

- Start with an example of a relevant event or situation
- Make a transition to the specific idea or condition
- Answer the "why?" - initial benefit statement regarding the idea or condition
- Answer "what is it?" - a summary of the idea or condition
- Answer "what's in it for the audience?" - benefits of the idea or condition in detail
- Describe the rationale of the idea or condition with facts, statistics, and metrics
- Respond to objections as suggestions
- Summarize the idea or condition
- Call to action - describe the behavior modification as a consequence of convincing the audience
- End with a memorable statement related to the most important point

Persuasive style - appropriate for small meetings where the audience needs to be persuaded to do something based upon an opportunity or threat:

- Start with an example of a relevant opportunity or threat
- Make a transition to the specific opportunity or threat
- Answer the "why?" - initial benefit statement regarding the action required to respond to the opportunity or threat
- Answer the "status" - what is the current situation, and what complicates it
- Answer "what is it?" - describe the problem
- Answer "where does the audience want to go?"- describe the alternative solutions
- Answer "how does the audience get there from here?" - use either the "analytical" approach or the "bottom-line" approach supported by facts, statistics, and metrics
- Respond to objections as suggestions
- Confirm the opportunity or threat with the recommendations and the principal benefit
- Call to action - describe what the audience must do
- End with a memorable statement related to the most important recommendation

Every individual operates within their own world from which they perceive events, situations, ideas, conditions, opportunities, and threats. Their personal style determines what they aspire to and what inspires them. It is important to understand the personal style of each individual member of an audience so as to use a communication style that gets results.

DELIVERING MEMORABLE SPEECHES AND PRESENTATIONS

The effective delivery of a powerful speech or presentation is just as important as the underlying message. An audience may be convinced or persuaded by a poor presentation if the message is sufficiently compelling. However, an audience is more like to be entertained, informed, convinced, or persuaded if the speaker is likable, engaging, and not annoying or irritating. It is essential for a speaker to be remembered positively if they want to build future relationships with an audience.

Speeches are given to larger audiences with whom the speaker may not necessarily have a relationship; presentations are given to small audiences where the speaker does or wants to have a relationship.

A successful speech or presentation is a package of words and techniques that deliver entertaining, informative, convincing, or persuasive messages to an audience memorably. Whereas the words must be chosen carefully based upon the wants and needs of the audience, the effectiveness of the delivery is as much based upon physical skills, content organization, and handling of questions and answers.

Physical skills:

The physical delivery should be on point and time with no distractions.

Establishing eye contact one person at a time creates a two way communication channel that draws the audience in and reduces nervousness:

- Gives the appearance of control

- Establishes thought patterns based upon audience responses

Coordinated voice and gestures enforce messages:

- Vocal projection and animation - changes in speed and tone emphasize points

- Physical animation - gestures emphasize points and project enthusiasm

Stationary feet project confidence:

- Establish a central position and posture
- Use gestures to control nervousness
- Walk around to the audience or to visual aids

Podiums create a barrier effect and should be avoided unless absolutely necessary:

- Don't touch
- Use big gestures when behind them

Content organization:

Extemporaneous content should describe stories and incidents, either prepared in advance or composed on the spot, that is delivered without a script or notes.

Prepared content should be organized to inspire the audience. Scripts work best for speeches to larger audiences and for formal presentations where precision is essential. Notes should be used as a guide:

- Collect thoughts by point and then address the audience with eye contact
- Don't read verbatim
- Use pauses to make the points more distinct

Visual aids support spoken words:

- Keep simple
- Visualize the verbal messages
- Use blanks for pauses
- Explain the highlights then the details
- Use up to seven bullet points that are mutually exclusive and collectively exhaustive, with up to seven key words per point

Lighting and music must not distract but can change the mood of the audience:

- Relax and soothe
- Stimulate

Questions and answers:

Asking for questions engages the audience. The speaker should clarify when questions will be invited - throughout or at a designated point before the summary and wrap-up. For large audiences, questions can be submitted on cards, but must be treated fairly.

Use questions as an opportunity:

- Acknowledge the questioner and thank them for their insight
- Restate the question back the the audience - rephrased to help frame or clarify the original
- Respond rationally and unemotionally
- Relate to the material

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A successful speech or presentation is not accident. It requires knowledge of the background and expectations of the audience to whom thoughts have been prepared and translated in words that are delivered memorably.

Delivering memorable speeches and presentations requires understanding the personal styles of the audience.

ENTERPRISHIP
- THE ART AND SCIENCE OF ENTREPRENEURSHIP, LEADERSHIP, AND MANAGEMENT

Enterpriship is the process of building enterprises with sustainable advantage within a framework of three related disciplines: entrepreneurship, leadership, and management. It is about the competencies of individuals and the capabilities of enterprises. Sustainable means being able to continue over time, either by developing, enhancing, or maintaining the current state, or by changing it. Advantage means favorable, superior, and beneficial.

Every individual who starts, owns, or is a member of the management team of an enterprise, should strive to build sustainable advantage. Sustainable advantage is essential to value creation because cash flows become predictable and reliable over long periods of time. As a consequence, it is easier to plan for investments in new endeavors and to maintain contingency reserves for downturns.

Building sustainable advantage requires proficiency in the disciplines of entrepreneurship, leadership, and management. Collectively, these three disciplines embrace "enterpriship."

Enterpriship is both an art and a science. Art is an occupation that requires both knowledge and skills; science is method for systematizing knowledge. Through both knowledge and skills, enterpriship provides a systematized approach to building sustainable enterprises by employing the techniques of entrepreneurship, leadership, and management.

Entrepreneurship is a competency for starting, developing, and assuming risk for an enterprise. Leadership is a competency for aspiring, inspiring, and motivating others. Management is a competency for directing and controlling events and activities - management as a "team" has the authority and responsibility for the enterprise.

Being proficient in all three competencies requires experience. Entrepreneurs may lack the leadership and management competencies, leaders may lack entrepreneurial and management competencies, and managers may lack the entrepreneurial and leadership competencies to build a sustainable enterprise.

Upwardly mobile entrepreneurs have to demonstrate to investors that they can build large markets. Lifestyle business enterprise owners, such as dry cleaners, hairdressers, professional service providers, restauranteurs, and retailers, are responsible for everything in their businesses. Executives and managers in larger enterprises are under constant pressure from investors to generate quality earnings on an ongoing basis.

The enterprise depends upon the use of all three enterpriship competencies as do the employees, customers, suppliers and investors.

When entrepreneurs start enterprises, they tend to focus on the benefits and features of their products and/or services. Intrapreneurs, who are agents of change in established enterprises, tend to do the same thing. However, focusing on products and/or services alone is insufficient for building sustainable advantage over time.

Without people there is nothing in business. Processes must be effective and efficient at delivering quality products and/or services conveniently. If an enterprise can't deliver, a competitor will.

Hence, the management team collectively must be proficient in entrepreneurial, leadership, and managerial roles that dictate successful people-oriented, process-oriented, and product and/or service capabilities.

The entrepreneurial role is both process-oriented and product-oriented, through which innovative ideas are transformed into value at every stage of an enterprise's development.

The leadership role is people-oriented, through which direction is set that others will follow to achieve results - equally applicable to top-level executives, team leaders within functions, or anywhere in between.

The managerial role is process-oriented, through which resources (time, materials, and supplies) are applied to activities to achieve results.

These three roles embrace the planning and policy development, deployment and execution, and performance measurement activities of the enterprise. Deployment means positioning the resources of the enterprise in the best markets for its products and/or services. Execution means getting things done through people and processes effectively and efficiently.

Unless the management team employs these three enterpriship competencies collectively to address people, process, and product and/or service capabilities, the enterprise will be unable to build sustainable advantage over time, and will ultimately decline, and maybe fail.

If the management team can systematize building sustainable advantage through the effective and efficient use of people and processes, then there is more time to spend on developing the benefits and features of products and/or services. Enterpriship provides the approach.

CREDO FOR SUCCESS - THE ENTERPRISHIP MODEL FOR ENTREPRENEURSHIP, LEADERSHIP, AND MANAGEMENT

Successful entrepreneurs and executives have enterpriship competencies that enable them to know what to do and how to do it repeatedly. They can adapt to situations involving differing products and/or services and people because they have knowledge, skills, and experience in process execution. These competencies enable serial entrepreneurs to systematically transform innovative ideas into value; enable leaders to influence varied groups of followers; and enable managers to apply alternative resources to activities to achieve results. These competencies are characterized by the enterpriship model.

Enterpriship is the process of building enterprises with sustainable advantage within a framework of three related disciplines: entrepreneurship, leadership, and management. It is about the competencies of individuals and the capabilities of enterprises.

The word "entrepreneur" is derived from French origins meaning to undertake; the word "executive" is derived from the notion of execution of laws and affairs; and the word "manager" is derived from Latin origins meaning to handle with skills.

Successful entrepreneurs, lifestyle business owners, executives, and managers are "principals" that are well sought in business. Whether explicitly or implicitly, they can address what needs to be done and how effectively. In doing so, they resolve the key issues of who, when, and where - and perhaps the most important question of all in business: why?

Whether consciously or unconsciously, these principals apply their principles through models and methodologies to get things done. Their competencies consist of knowledge, skills, and experience acquired from training and on-the-job experience. The models represent forms and patterns for expected outcomes, and the methodologies describe the activities required to achieve them. These principals may also have preferences for certain tools such as systems, and reference and training materials. Collectively, such models, methodologies, and tools form their "credo for success."

The enterpriship model is the basis for a credo for success. It describes the four activities that guide entrepreneurship, leadership, and management: establishing the mindset, enabling action, building relationships, and establishing order. It is a model through which all other models, methodologies, and tools that transform ideas into results can be enabled.

Establishing the mindset - an entrepreneurial role:

Radio show host Earl Nightingale offered "The Strangest Secret - we become what we think about" as a motivational statement. Results cannot be achieved without establishing a mindset first. The mindset should be future-oriented and holistic. Once established, a future mindset can be rolled back to the present, so that the direction for achievement is clear. The mindset should be based upon understanding and communicating the whole, not just a collection of components. Thus, ideas should be thought through from the "top down" holistically, even though they may be deployed from the "bottom up" in components.

For example, an architect starts with a sketch of an entire edifice, and engineers decompose the design into structural, electrical, mechanical, and plumbing components; the builder constructs it brick by brick. The design work is performed "top-down" and the construction work is performed "bottom-up."

Enabling action - a leadership role:

Actress Lucille Ball popularized the saying, "if you want something done, ask a busy person to do it - the more things you do, the more things you can do."

Transforming mindset into action requires the self motivation to aspire and inspire others towards motions to get tasks accomplished. It is essential to build momentum with anticipation and deliberation - the forces for organizing events and performing activities.

Both David Brewer, founder of Friends of the Earth, and futurist Frank Feather have suggested the notion of "thinking globally and acting locally." Once successful results have been achieved locally, the "duplicable principle" of earning value through growth can be applied on a "local-to-global" basis. This approach suggests building momentum step-by-step within the context of a holistic mindset.

Building relationships - leadership and managerial roles:

The notion of building relationships applies to both people and processes. Nothing gets done without people, and ultimately everything gets done for people. Therefore, is important for enterprises to have positive relationships with their employee, customer, supplier, investor, regulator, and competitor constituencies. Understanding personal styles is essential to being able to relate, to build rapport, and to interact with others. Successful entrepreneurs, leaders, and managers know how to balance inter-personal skills with professional skills so as to entertain, inform, convince, and persuade their constituents.

However, in order to deliver products and/services through processes to people, it is essential to define structure. Structure is the enabler of the relationships between an enterprise's infrastructure, products and/or services, markets, and constituencies. Infrastructure consists of processes, functions, facilities, and equipment.

Establishing order - a managerial role:

Transforming innovation into results is a haphazard process of trial and error to determine what works and what doesn't. Lessons for success result from the experiences of failure. Whereas ideas may start out with elegance, the pressures of expectations to meet scope, objectives, budget, and schedule often lead to implementations in chaotic circumstances. However, it is usually the response from the marketplace after implementation that determines what really needs to be delivered.

As the environment stabilizes, it is necessary to add structure to unstructured situations, and establish order.

Plans to deploy ideas must include a provision for continuous improvement after implementation to adapt innovative ideas into results that are sustainable. Continuous improvement activities include repositioning in markets with selected products and/or services, restructuring operations, and reengineering processes.

It is important to have a feedback loop from performance measurement to planning activities to ensure that the lessons from the past are considered when preparing for the future. As successful entrepreneurs, leaders, and managers know, history does repeat itself.

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The enterpriship model provides the credo for entrepreneurial, leadership, and managerial success because it characterizes the what and how of getting things done: transforming mindset into action with relationships and order.

THE ENTERPRISHIP MANIFESTO - SEVEN GUIDING PRINCIPLES FOR BUILDING ENTERPRISES AND SOCIETIES

Enterpriship is the art and science of entrepreneurship, leadership, and management - disciplines for building enterprises and societies. The enterpriship manifesto for building enterprises and societies is characterized by seven guiding principles: equality, education, environment, energy, economy, employment, and effectiveness.

Enterpriship is the process of building enterprises with sustainable advantage. Enterpriship is both an art and a science. Art is an occupation that requires both knowledge and skills; science is method for systematizing knowledge. Through both knowledge and skills, enterpriship provides a systematized approach to building sustainable enterprises within a framework of three related disciplines: entrepreneurship, leadership, and management.

Sustainable means being able to continue over time, either by developing, enhancing, or maintaining the current state, or by changing it. Advantage means favorable, superior, and beneficial.

Entrepreneurship is a competency for starting, developing, and assuming risk for an enterprise. Leadership is a competency for aspiring, inspiring, and motivating others. Management is a competency for directing and controlling events and activities - management as a "team" has the authority and responsibility for the enterprise.

The entrepreneurial role is about transforming innovating ideas into value. The leadership role is about setting direction that others will follow through influence to get results. The managerial role is about applying resources to activities to achieve results.

The word "enterprise" means "undertake for a prize or cause." One could argue that a society is a metaenterprise, representing the social relationships of all people in a community, and their wants, needs, and causes. Therefore, the enterpriship disciplines are also applicable to building societies.

A manifesto is a public declaration of intentions - the "Enterpriship Manifesto" is a declaration of intentions to build both enterprises and societies based upon seven guiding principles:

- Equality - treating everybody in the same way
- Education - enabling everybody to reach their full potential academically, professionally, and vocationally so as to act responsibly
- Environment - striving for sustainability for both current and future generations with clean air, water, and soil
- Energy - searching for sources that do not waste or pollute resources
- Economy - striving for the development, enhancement, and maintenance of opportunities for production and distribution of goods and services that meet or exceed the needs, wants, and causes of constituents
- Employment - participating in the process of production and distribution of goods and services for others as a basis for providing for oneself and dependents
- Effectiveness - acting efficiently and productively to earn results with quality

The enterpriship disciplines rely upon the competencies of individuals and the capabilities of people, processes, and products and services to deliver results; and the utilization of natural, human, financial, and intellectual capital to produce income and create opportunity and wealth for all constituents.

HIGHLIGHTS OF ENTREPRENEURSHIP, LEADERSHIP, AND MANAGEMENT - THE DISCIPLINES OF ENTERPRISHIP

Enterpriship consists of the entrepreneurship, leadership, and management disciplines within which are distinct roles. The roles are either appointed or emerge through need. The disciplines are shared between entrepreneurs, executives, managers, and others in an enterprise. Anybody can turn innovative ideas into value, attract followers, and apply resources to activities to get results if they so choose.

A discipline is field of study and a system of rules governing activities; competence is characterized by knowledge, skills, and experience in the field. Enterpriship competencies include:

- Entrepreneurship - starting, developing, and assuming risk for an enterprise

- Leadership - aspiring, inspiring, and motivating

- Management - directing and controlling events and activities of an enterprise

- Intrapreneurship - fostering a culture of change within an enterprise

Enterprises consist of one of more organizational units. A role within an organizational unit, such as a manager or supervisor, has a certain authority to command or influence within an area of delegated responsibility and span of control. The area can be a business unit, business line, or product line, subdivided as divisions, departments, plants, and branches. Responsibility within the area includes portfolios of activities, which consist of people, processes and functions, and products and/or services, with custody of assets. Individuals are accountable to higher authorities when they are required to report actual performance against plans and policies.

Definitions of roles:

- Entrepreneur - organizes, operates, and assumes risk for an enterprise
- Leader - sets direction that others will follow through commands or influence
- Intrapreneur - agent of change
- Management - overall authority and responsibility for directing and controlling events and activities as a team
- Executive - top line of management and official representative of an enterprise
- Manager - member of the management team, with a well defined area of responsibility in a reporting line to an executive, either as an official or non-official representative of an enterprise
- Entrepreneurial - transforming innovative ideas into value with both a product and/or services and a process orientation
- Leadership - setting direction that others will follow with a people orientation
- Managerial - applying resources to activities to achieve results with a process orientation

Key points:

1. Entrepreneurs intend to earn profits in businesses ("for profit" enterprises) or to give back to the community through not-for-profit associations

2. Entrepreneurs operate in unstructured environments, where there is little or no hierarchy

3. Intrapreneurs operate within structured environments, where there is well-defined hierarchy

4. Managers are responsible for processes in both unstructured and structured environments, which may include the assignment of people resources, but not necessarily

5. Leaders can exist anywhere in the organization from executives to team leaders within functions

6. Managers must be leaders when they are responsible for people

WHAT DISCIPLINES DO ENTREPRENEURS, LIFESTYLE ENTERPRISE OWNERS, AND EXECUTIVES REALLY HAVE TO KNOW?

Business disciplines include subject areas such as finance and accounting, marketing and sales, operations, and information technology. However, subjects related to the humanities and social sciences are just as relevant, given that business is all about people. By understanding individual preferences, such as values, attitudes, beliefs, and behaviors, enterprises can better relate, build a rapport, and interact with their constituencies, and manage their human resources.

New entrepreneurs and lifestyle business enterprise owners, and to some extent executives and managers, are often somewhat astounded by the breadth and depth of knowledge and skills that they require to earn a profit. Without education and experience, they have to rely upon either their intuition or senses, or both, to assess situations and make decisions that influence, convince, or persuade employees to perform, customers to buy, suppliers to deliver, investors to finance, and competitors to retreat.

Lifestyle enterprise owners have a major burden because they are solely responsible for their enterprises, have personal capital and livelihood at risk, and are constrained by time and money.

Beyond finance and accounting, marketing and sales, operations, and information technology, other overlapping disciplines that impact business include: economics, engineering, program and project management, politics, philosophy, physiology, sociology, and psychology. Environmentalism is an emerging philosophical and social discipline.

It may be difficult to imagine entrepreneurs, lifestyle enterprise owners, executives, and managers as philosophers, sociologists, or psychologists. However, understanding individual values, attitudes, beliefs, and behaviors, and crafting enterprise values statements and guiding principles, missions, and visions are consequences of these disciplines among others. This understanding is essential to positioning the enterprise and its products and/or services in the marketplace. The impact of misunderstanding how markets accept and use products and/or services can be significant, especially if there is potential for a major loss of capital.

Formulating strategy requires knowledge of competitive, economic, environmental, political, regulatory, social, and technological trends. Strategy impacts marketing and sales, operations, finance, information technology, and human resources.

Economics...

The economics discipline addresses the production, distribution, and consumption of products and/or services. The factors of production include land, labor, and capital. Economics addresses human behavior related to scarcity. Economic models describe the effects of price and quantity on supply and demand in competitive markets. However, in a networked society of telecommunications and the internet, human behavior is also determined by abundance of nodes. For example, cell phones, email, and websites have utility when there is a critical mass of users, and a network operating at scale.

Engineering...

The engineering discipline addresses the transformation of natural capital into items that are useful and beneficial to people. Both entrepreneurs and intrapreneurs are often engaged in structural, mechanical, electrical, and plumbing engineering opportunities for both consumable and durable products, and the related facilities and equipment. Agriculture, mining, oil and gas, construction, and manufacturing are engineering-based industries. However the engineering mindset has been applied to financial and information management disciplines also.

Program and project management...

The program and project management disciplines address the transformation of ideas into value. Project management is the application of knowledge, skills, and enabling technologies to the development of new or enhanced products and/or services, processes, and systems, including facilities and equipment. Program management is both a function that coordinates the management of projects across the enterprise, and a set of techniques.

Politics...

The politics discipline addresses governance, authority, and power, and how decisions are made, both individually and collectively, to formulate plans, policies, and programs. However, individuals "play politics" by positioning themselves for authority and power or protection, often at the expense of the enterprise and its constituencies.

Government agencies establish laws and regulations that impact business enterprises in terms of licensing, fees and taxes, and compliance reporting.

Philosophy...

The philosophy discipline addresses understanding and knowledge, and is the practice of developing concepts and guiding principles that impact attitudes, beliefs, values, and behaviors. This discipline is relevant to the development of aspirational and inspirational statements that motivate followers to action, including employees, customers, suppliers, investors, regulators, and competitors. Such messages are not only used in transformational and empowered leadership situations, but also in enterprise and product and/or service branding, which impacts marketing and advertising, and ultimately sales.

Physiology and sociology...

The physiology discipline addresses human function. Physiological considerations are necessary for compliance with occupational, safety, and health laws and regulations, and for product design. The sociology discipline addresses how individuals are influenced by groups, and the products and/services that they either use or avoid. Such understanding is particularly useful in mass marketing efforts, and in the definition of market segments.

Psychology...

The psychology discipline addresses the human mind and behavior, and is essential to understanding the preferences of employees, customers, suppliers, investors, regulators, and competitors. Maslow's Hierarchy of Needs and Jung's Psychological Types are two examples of psychological theories that are relevant to business.

Maslow's Hierarchy of Needs states that human needs are instinctive and characterized by levels of motivation for satisfying deficiencies or growth, and hence products and/or services. Maslow suggested that everybody has a "philosophy of the future" - what their ideal life would be like in about five years time. Their answer reveals where they are today - useful input for strategic planning, product development, marketing and sales.

Jung's Psychological Types are personality models and styles from which many personality tests used in business are derived. Every individual has a personality style - specific personality characteristics that determine their preferences.

Every entrepreneur, lifestyle enterprise owner, executive, and manager has to know their own personal style and those of others. Understanding personal styles:

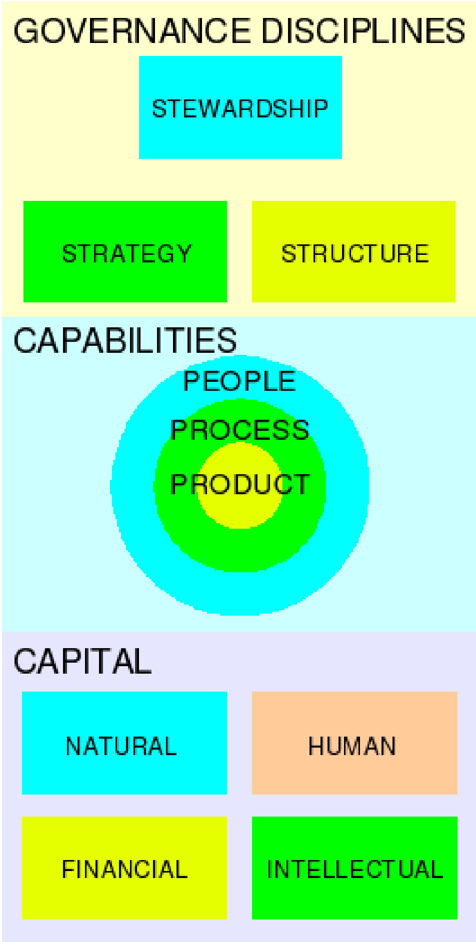
- Increases the likelihood of success in both social and professional relationships...
- ...which is based upon the ability to relate, to build a rapport, and to interact with others by...
- ...being able to entertain, inform, convince, persuade, and negotiate with them

***

By understanding personal styles, the humanities and social sciences disciplines can be applied using the enterpriship model - transforming mindset into action with relationships and order based upon the preferences of constituencies. That way, theoretical concepts earn practical value.

Understanding personal styles is an enterpriship (entrepreneurial, leadership, and management) competency.

THE FRAMEWORK FOR
BUILDING SUSTAINABLE ADVANTAGE



Building sustainable advantage means gaining a favorable, superior, and beneficial position for an enterprise that will continue over time, either by developing, enhancing, or maintaining the current state, or by changing it. It is an ongoing process from the creation of a vision to the delivery of value. The Framework for Building Sustainable Advantage is a fundamental tool for establishing the mindset and actions required to transform vision into value on an ongoing basis within an environment of change - either by causing it or responding to it.

"Sustainable" means the ability to continue on an ongoing basis; "advantage" means being better off now or in the future relative to the past, or to other entities. Being advantaged applies both to individuals in their communities, and to enterprises in their marketplaces.
The sustainable enterprise employs three criteria in all decision making - are the mindset and intended actions responsible:

- Environmentally?
- Economically?
- Socially?

The sustainable enterprise gains a beneficial position that will continue over time by building advantage:

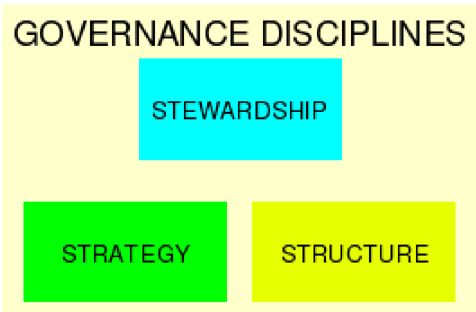
- Aspirational - stated values and enacted values are consistent; loyal relationships exist with constituencies
- Competitive - position and posture that offer constituencies better value than competitors
- Collaborative - relationships between suppliers, or customers, or peers as a partnership with a common mission, operating dependently for mutual value
- Cooperative - relationships between suppliers, or customers, or peers as an association with a similar mission, operating independently for mutual value

Employees, customers, suppliers, and investors participate with an enterprise as primary constituencies because they contribute to the value-creation process. Regulators and competitors participate as secondary constituencies.

Building sustainable advantage requires:

- Establishing the governance disciplines required to form a vision based upon innovative ideas, to enact change, and to deliver value through...
- ...the capabilities of people, processes, and products and/or services to take advantage of opportunities in the marketplace...
- ...and the effective utilization of natural, human, intellectual, and financial capital resources to provide a strong foundation for all activities

Governance disciplines...



Governance disciplines are the attitudes and behaviors required to build sustainable advantage for a vision, including taking responsibility for an enterprise, positioning it, and enabling the necessary relationships that deliver value.

Governance disciplines include:

- Stewardship - the responsibility for the performance of an enterprise and the delivery of value to constituencies. Stewardship competencies have three components: enabling, domain, and core. Enabling competencies depend upon the effectiveness of entrepreneurial, leadership, and managerial roles. Domain competencies represent the specific functional knowledge and technical skills required to perform an activity. Core competencies represent activities well done that give the enterprise an advantage.

- Strategy - the beneficial positioning of an enterprise in marketplaces so as to deliver value over time. Strategic plans are long-term statements of direction - typically three-to-five years or more, with short-term initiatives as necessary from the point of departure to one-to-three years out. Strategic plans decompose into enterprise aspiration and industry position and posture, competitive position and posture, performance improvement, constituency-based, functional, and governance components.

- Structure - the enabler of relationships between an enterprise's infrastructure, products and/or services, markets, and constituencies that deliver value. An enterprise's infrastructure includes processes, functions, facilities, and equipment.

Capabilities...

Capabilities represent the capacity and ability of people, processes, and products and/or services to realize potential quality and value. Capacity is a measure of utilization of resources. Ability determines expected quality of performance for activities; potential suggests possible outcomes of activities.

Capabilities include:

- People - the constituents of an enterprise: employees who devote careers, customers who are loyal, suppliers who advance credit and quality materials and supplies, and investors who source capital.

- Processes - the arteries of an enterprise. Every enterprise has a set of processes - groups of activities that take one or more kinds of inputs from which value is delivered to either internal or external customers, or both. The outputs are either end-products or components that are assembled into end-products in downstream processes within the enterprise or in its customers. Processes are the intersection of people and products and/or services. Macro processes cross functions and decompose into micro processes within functions. The highest level macro processes are planning and policy development, deployment, and performance measurement. The deployment process subdivides into research and development, and sales and production.

- Products and/or services - outputs from processes that are of value. The term "product" is associated with something that is tangible; the term "service" is associated with something intangible - capabilities delivered at the time of sale or shortly thereafter, and/or in support downstream. The term "products and/or services" describes collectively all types of products and services, including "service-oriented" products that are definable, duplicable, and repeatable.

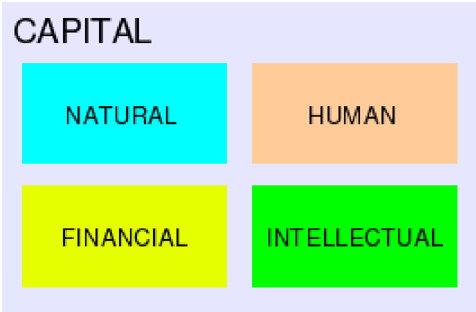
Capabilities are delivered through functions. Functions are groups of knowledge-related (subject area) activities that have a purpose. Functions house people who deliver value through processes. Functions form the first level of organizational structure within an enterprise.

Every enterprise has three macro functions: governance, administrative, and operational. The governance function (the board of directors and the chief executive officer of a corporation, the members of a limited liability company, the partners in a partnership, or a sole proprietor) has the ultimate responsibility for the performance of the enterprise to its investors. The administrative functions include: enterprise, legal, finance, human resources, and information technology; the operational functions include research and development, operations, and business development. Operations subdivides into procurement, manufacturing (or equivalent), and distribution; business development subdivides into marketing, sales, and service. The enterprise function provides support activities for planning and policy development, and performance measurement; brand management; facilities management; community, employee, investor, and government relations; and internal audit. The research and development function is "cross-functional" and heavily project-oriented. It represents a set of processes for program management and engineering, and market, product and/or service, and infrastructure-related activities.

A functional organizational structure is suitable for entrepreneurial and small lifestyle enterprises. As an enterprise grows into multiple markets and product and/or service lines, more complex matrix organizational structures are necessary with business line, geographic, and demographic characteristics. Business lines separate activities such as merchandising, manufacturing (or equivalent), and financial, and enable concepts such as centers of excellence and utilities that support multiple organizational units. Organizational units may be decomposed into divisions, departments, branches, and plants, and also into reporting, responsibility, profit and cost centers.

Building sustainable advantage from vision to value requires optimizing the capabilities of people, processes, and products and/or services.

Capital...



Capital represents the resources used to generate income from economic activity. Capital resources include:

- Natural - anything related to the environment invested in the enterprise, and is the initial source of all raw materials
- Human - the characteristics of an individual person in terms of their ability to be economically productive
- Intellectual - knowledge that provides an advantage and must be protected
- Financial - money (or monetary equivalents and property) invested in an enterprise in the form of equity and debt

Enterprises are built on a foundation of natural, human, intellectual, and financial capital, which must be managed effectively and efficiently. Understanding the costs, risks, returns, and rewards associated with each form is essential to building sustainable advantage. Invested capital is employed for both operating and investment purposes. Equity capital represents ownership in an enterprise, and consists of the enterprise's assets less its liabilities. Assets represent opportunities - what is owned by the enterprise, and what is owed to it. Liabilities represent obligations - what is owed by the enterprise.

In free markets, production and distribution activities are intended for profit, and the prices that determine gross revenue are ultimately set by supply and demand. Net income results from operating profit - gross revenues (dividends from other enterprises, fees, net interest, sales, rents, and royalties) less costs and expenses, net gains on sales of capital assets, less income taxes where applicable. Net interest revenue comprises gross interest revenue less interest expense. Cash flow represents differences between cash provided and used in operating, financing, and investing activities. On an accrual basis, net income is adjusted by non-cash charges and credits to determine cash flow.

The return on financial capital creates wealth, which is a source of future capital. There are many measures of return on financial capital based upon earned income before and after interest, taxes, depreciation, and amortization, and based upon invested capital with or without the inclusion of cash and investment assets. Whatever the measure, for an enterprise to be sustainable, the cycle of generating a return on financial capital must repeat indefinitely. In turn, wealth enables investments in natural, human, and intellectual capital.

Building sustainable advantage...

Building sustainable advantage is a migration path from an entrepreneurial enterprise as a venture to an intrapreneurial institutional enterprise. Whereas entrepreneurs organize, operate, and assume risk for an enterprise, intrapreneurs foster a culture of change within so as to keep it sustainable over time.

An entrepreneurial enterprise is not yet fully established as an ongoing concern, may have to rely upon external capital as opposed to bootstrapping to finance future growth, and is either in the emerging or growth stages of development (or decline stage, if it cannot institutionalize).

An institutional enterprise is established (stable with predictable constituency patterns emerging); is becoming, is, or was an ongoing concern; and is in the growth or maturity stages of development (or decline stage, if it cannot remain as an ongoing concern).

The stewards of an enterprise include management (the governance function, officers, and non-official managers) and associates (supervisors and staff). Every employee is a steward if they share the values, mission, and vision of the enterprise. Stewards administer the affairs of the enterprise, and protect its assets.

The stewards of an enterprise must be able to enact change, either by causing it or responding to it, which in turn generates change, and hence adapt to the changed environment accordingly.

Stewards build sustainable advantage by performing three roles:

- Entrepreneurial - transforming innovative ideas into value
- Leadership - setting direction that others will follow to achieve results
- Managerial - applying resources to activities to achieve results

Building sustainable advantage from vision to value is an enterprish (entrepreneurship, leadership, and management) competency.

BUILDING SUSTAINABLE ADVANTAGE FROM VISION TO VALUE

Building sustainable advantage comprises the activities required to build a position in the marketplace and community-at-large that is responsible, meets both current and future needs, is advantageous, and achieves performance excellence. It is applicable from the creation of a vision to the delivery of the resulting value on an ongoing basis.

In the twenty first century, community and business leaders in both public and private sectors are addressing sustainability - meeting the needs of the present without compromising the future. Sustainability is an important issue for enterprises.

Whereas an enterprise may be started by a single entrepreneur to transform an innovative idea into a valuable product and/or service, there is mutual responsibility with its constituencies to perform and deliver value over time. Constituencies build vested interests in an enterprise as a consequence of its efforts to attract and acquire, expand, and maintain relationships with them. Employees rely on jobs, customers rely on products and/or services, suppliers rely upon orders, and investors rely upon return on investment from generation to generation. If an enterprise reduces or discontinues operations, the effect is disruptive on its constituencies, markets, and the community-at-large, if not devastating.

Accountants and auditors consider whether an enterprise is a "going concern" based upon its ability to meet its financial obligations. Doubts may arise from the inability of an enterprise to generate sufficient cash flows from operating activities, sell assets to generate cash, or restructure debt. Being an "ongoing concern" is an extension of the concept.

Continuing as an ongoing concern means that the management of an enterprise has the confidence, competencies and commitment to operate indefinitely. To do so requires fostering the entrepreneurial mindset and actions through the discipline of intrapreneurship, and reaching beyond business-as-usual by building sustainable advantage.

Considering sustainability responsibly in all decision making...

The sustainable enterprise employs three criteria in all decision making - are the mindset and intended actions environmentally, economically, and socially responsible?

Being environmentally responsible impacts the capabilities of people, processes, and products and/or services. It means taking care of the ecological biosphere by protecting natural resources; avoiding pollution of air, water, and soil; being energy efficient; and reusing and recycling materials, supplies, and products to reduce waste.

Being economically responsible means applying the disciplines of stewardship and value management to constituencies. Employees are offered fair compensation in exchange for loyalty and productivity. Customers are offered quality and value in exchange for loyalty and timely payments. Suppliers are offered loyalty and timely payments in exchange for quality and value. Investors are offered returns above the cost of capital in exchange for commitment. Regulators are offered compliance in exchange for freedom to do business within laws and regulations. Competitors are offered challenges in exchange for fairness. As a consequence, natural, human, intellectual, and financial capital is not just preserved but appreciates over time.

Being socially responsible impacts the markets and communities that the enterprise serves and is served by. The minimum standards for social responsibility include not engaging in deceptive or fraudulent practices, and providing safe facilities and equipment, processes and functions, and products and/or services.

Meeting the needs of both current and future generations...

What is widely used today may be extinct tomorrow; what is commonplace tomorrow may not even have been thought of today. So it is necessary to anticipate the wants and needs of the future while deliberating in the environment of the present.

The sustainable enterprise ensures that the entrepreneurial, leadership, and managerial roles are performed throughout on an ongoing basis to transform innovation into value. Plans and policies must be deployed and executed with anticipation and deliberation, and with contingency because events may take a different course from those envisioned.

Gaining a beneficial position that will continue over time...

Enacting change, either by causing it or responding to it, is essential for sustainability. Maintaining business-as-usual is insufficient - an enterprise must stretch beyond its comfort zone because the only certainty is uncertainty.

The sustainable enterprise gains a beneficial position that continues over time by developing, enhancing, or maintaining its current posture in marketplaces, or by being willing to change.

From the creation of a vision to the delivery of value on an ongoing basis, the sustainable enterprise builds:

- Aspirational advantage - loyal relationships between employee, customer, supplier, and investor constituencies because stated values and enacted values are consistent

- Competitive advantage - the position and posture that offers consistencies better value than competitors

- Collaborative advantage - relationships between suppliers, or customers, or peers as a partnership with a common mission, and operating dependently for mutual value

- Cooperative advantage - relationships between suppliers, or customers, or peers as an association with a similar mission, but operating independently for mutual value

Achieving performance excellence...

The sustainable enterprise tries to do the right things, and then do them well. It is not afraid to change direction when it is doing the wrong thing, or when things aren't going well. It is not afraid to admit mistakes, learn from them, and move on. It is willing to take preventive action, but when cure is necessary, it takes remedial action swiftly. It strives to deepen relationships with current constituents with existing and new products and/or services, but also broaden relationships in existing and new markets.

Achieving performance excellence requires alignment between the enterprise and its constituencies externally, and between organizational units internally. It means exceeding requirements and expectations in terms of commitment to values and vision, and strength of financial and non-financial results including market share, resource utilization, productivity, time-to-market, cycle time, quality, satisfaction, and sustainability.

Building sustainable advantage from vision to value is an enterpriship (entrepreneurship, leadership, and management) competency.

ENTERPRISE STYLES - LIFESTYLE AND UPWARDLY MOBILE

Entrepreneurs organize, operate, and assume risk for enterprises with the intention of transforming innovative ideas into products and/or services as businesses for profit, or meeting the needs of communities through not-for-profit associations. Enterprises are formed with the intention of being either lifestyle – serving the needs of local communities, or upwardly mobile – serving the needs of large markets. By applying the duplicable principle, a lifestyle enterprise can become upwardly mobile.

Lifestyle enterprises are the heart of Main Street. Lifestyle enterprises are focused on serving the needs of local communities. They are founded by an entrepreneur who either becomes a lifestyle business enterprise owner or eventually sells to one. They are closely held by a single owner, family, friends, or close business associates. They operate in traditional industries such as, but not limited to agriculture, automotive, contracting, food service, hospitality, light manufacturing and distribution, professional services, retail, travel and entertainment, and wholesale. They can operate from a single location, or several locations in a close geographic area, such as a municipality, county, state, or group of neighboring states.

Whereas the start-up risk can be high, it lowers as the enterprise gains a presence in local communities. Lifestyle transactions are predictable and repeatable in local communities because they relate to everyday activities - people are creatures of habit. However, location does matter. Business activity can change due to local, regional, national, and global economic conditions. Lifestyle enterprises are particularly prone to changes in transportation systems and demographics, and the impact of new or deteriorating neighborhoods. New residential, retail, office, and industrial developments can bring business if located nearby, or take it if located far away. Declining neighborhoods can be challenging if crime rates increase. Competition from scale providers, such as "big box" retailers or franchise systems can be challenging. Hence, a major differentiator for lifestyle enterprises is quality of service.

The lifestyle enterprise owner may be an active owner-manager or a passive investor with a delegated management team in place. In either case, the owner must pay attention to the enterprise because nobody else gives it and its constituencies the same level of care and attention. Owners must pay attention to the risk of theft, fraud and embezzlement too, especially when passive.

Upwardly mobile enterprises are the core of the activities of angel investors, venture capitalists, and Wall Street.

Upwardly mobile enterprises are focused on large market share, either industry-wide or in niches, with local-to-global aspirations. Their growth potential stems from highly innovative people that offer new products and/or services in existing markets, or existing and new products and/or services in new markets, or transform non-traditional industries into traditional ones over time. They create wealth.

Upwardly mobile enterprises start as narrowly held, first by the founders, and later by private investors seeking capital appreciation. They may become widely held publicly traded enterprises to gain scale. Upwardly mobile enterprises have a high risk in the early stages where capital appreciation opportunities exist. As they they gain market share and scale, the risk lowers. However, they must always be aware of changing market conditions. Long-term growth usually results from entry into foreign markets. Upwardly mobile enterprises require a professional management team of executives and other managers, which may or may not include the founding entrepreneur. A major differentiator for upwardly mobile enterprises is brand name recognition.

Upwardly mobile enterprises are particularly common in the high technology industries, where large markets are necessary to generate the cash flows required to command a respectable return on investment. However, if a technology really catches on around the world, the opportunity for capital appreciation can be significant. As fads fizzle, capital can depreciate too.

However, many upwardly mobile enterprises rely on a narrow set of well known products that are found in multiple markets around the world.

Lifestyle enterprises may become upwardly mobile enterprises over time. They grow by applying the duplicable principle: duplicating processes, functions, facilities, and equipment with proven products and/or services in one market that offer potential in others.

The duplicable principle can be applied to concepts ranging from single products to entire business systems, both corporate and franchised.

For example, Coca-Cola, Heineken, and Pepsi-Cola are recognizable worldwide. Although local practices may differ regarding packaging and distribution, these products have been duplicated on a worldwide basis. For example, Starbucks grew through the process of duplication from a local lifestyle enterprise, owned by businesses associates, to an upwardly mobile public enterprise with global aspirations. It has expanded through its own and licensed locations, and with joint venture partners in selected markets.

Franchise systems offer a hybrid approach where the franchisor enables a lifestyle concept to become upwardly mobile by employing franchisee capital in exchange for a proven business system operating as a network.

For example, many car rental companies, fast food restaurant systems, and hotel chains operate as franchises around the world, such as Thrifty, Subway, and Holiday Inn.

Not-for-profit enterprises can be upwardly mobile also. Lions Club, Red Cross, Rotary Club, and Scouts are examples that have a worldwide presence.

Upwardly mobile enterprises may default to lifestyle enterprises it they cannot capture large markets.

The enterpriship disciplines of entrepreneurship, leadership, and, management apply to both lifestyle and upwardly mobile enterprises. Lifestyle enterprises differ from upwardly mobile in mindset. Lifestyle enterprises serve local markets locally, whereas upwardly mobile enterprises aspire to serve local markets globally.

ENTERPRISES, ENTITIES, AND ALL THAT

The word "enterprise" means "undertake for a prize or cause." An enterprise is a group of activities organized as a business for profit, as a not-for-profit association, or as a government agency, and comprises one or more entities. An entity is formed, organized, and operated under Federal and/or state laws, which may permit or deny certain activities. Operators of enterprises have to be aware of those entities that are suitable to their situation.

Enterprises...

Entrepreneurs transform ideas into products and/or services or causes through activities that may ultimately become enterprises. Under Federal and/or state laws, these activities must be conducted through appropriate legal vehicles. A legal vehicle is the type of entity for a specific situation based upon purpose, location of property (situs), and physical presence (nexus). The choice of legal vehicle and nexus determines the protections that are available for assets and the methods of taxation or exemption from taxes.

Associations, organizations, businesses, and not-for-profits...

An association represents a group of individuals who have voluntarily formed an organization to achieve a certain purpose. An organization is a generic term for an enterprise, entity, or a component thereof.

A business is an occupation, profession, or trade delivering products and/or services for an intended profit. "Not-for-profit" is a general term; "non-profit" entities include those that are exempt from certain taxes under the Internal Revenue Code and state laws. Non-profits are associations that are either unincorporated or incorporated, or trust funds and foundations. Their activities address agricultural, arts and entertainment, educational, health care, labor, religious, social, scientific, sports, or other charitable causes. Government agencies exist at Federal, state, county, and municipal levels.

An organizational unit is a component of an enterprise, such as a division, department, branch, plant, product line, business line, or business unit. Organizational units can exist within or across entities.

Entities...

A legal entity exists either as an individual or a corporation; a business entity has an accounting and tax reporting structure. A legal (juristic) person is either an individual natural person, or an entity as a group of natural persons behaving collectively as if they were a single individual. An entity is domiciled in the jurisdiction where it is organized or incorporated, or lives permanently if a natural person. If an entity has nexus in multiple jurisdictions, then it is subject to both domestic laws and foreign for local transactions, including taxation. All jurisdictions have licensing requirements for certain activities, and may have to grant authority to transact business before operations can begin locally.

For example, an entity incorporated in Arizona is considered to be foreign in California; an entity incorporated in the United Kingdom is considered to be foreign in both Arizona and California.

Sole proprietorship:

- Simplest business structure
- Unincorporated business owned by one individual proprietor
- Proprietor liable for obligations
- Files schedule C or F on the individual proprietor's "1040" tax return

Partnership:

- Formed by an agreement as a general partnership between two or more persons (active partners), or as a limited partnership (one or more passive partners and one or more active general partners) - includes joint ventures and syndicates

- General partners are liable for obligations

- Files "1065" tax return; tax liability is passed to individual partners via schedule K-1

- If a husband and wife operate an unincorporated business, then it is treated a partnership - however, they may be able to elect for treatment as a qualified joint venture if there are no other partners and if they are both active - this election creates two sole proprietorships on an individual joint tax return

For profit corporation:

- Formed by articles of incorporation

- Owned by persons who are shareholders, who elect directors, who in turn appoint officers

- Legal entity separate from its shareholders with its own bylaws

- Liable for its obligations separate from the shareholders, directors, and officers

- Files "1120" tax return and is either taxed on income in its own right with dividends taxed on the shareholders' returns (C corporation), or as a pass-through where the entire income tax liability is passed to shareholders via schedule K-1 (S corporation)

- As a "professional" corporation, activities may be restricted to licensed professions

Limited liability company:

- Formed by articles of organization
- Owned by one or multiple persons under an operating agreement, who are members and in turn may appoint managers if not member managed
- Liable for its obligations separate from the members and managers
- If it comprises multiple members, files a tax return and elects to be treated as either a partnership or a corporation; if it comprises a single member only, then it may file a tax return as a corporation, or be disregarded and treated as either a division of a corporation or a sole proprietorship

Limited liability partnership:

- Formed as either a general limited liability partnership or limited liability limited partnership by two or more persons
- Activities may be restricted to certain licensed professions
- Qualifies for limited liability status with the approval of its partners
- Liable for its obligations separate from the partners
- Files "1065" tax return; tax liability is passed to individual partners via schedule K-1

Unincorporated association:

- Formed by a group of individuals by a charter or agreement, whether organized for profit or not
- May have to file its charter or agreement with a government agency in the local jurisdiction
- May obtain tax exempt status if organized for not-for-profit activities

Non-profit corporation or limited liability company:

- Formed by articles of incorporation or organization
- Organized by persons who are members, who elect directors or trustees, who in turn appoint officers
- Legal entity separate from its members with its own bylaws or operating agreement
- Liable for its obligations separate from the members, directors or trustees, and officers
- Has obtained tax exempt status from Federal and/or state jurisdictions
- Files "990" tax return if exempt from Federal income tax, which are open to public inspection
- May be eligible to receive public and private grants

Other types of entities include estates, trusts, employee benefit plans, and debtors in bankruptcy.

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The enterpriship disciplines of entrepreneurship, leadership, and management apply to businesses, not-for-profits, and government agencies because they all have to transform ideas in income, influence others, and manage resources. Whether organized for profit or not, management has to be concerned about managing capital, net assets, or funds, and earning income, whether it be revenue sourced from sales, membership fees, or taxes.

CHARACTERISTICS OF CORPORATIONS, ENTERPRISES, COMPANIES, AND BUSINESSES

The terms corporation, enterprise, company, and business are often used interchangeably; however, they have distinct meanings. In law, only individuals as natural persons and corporations are legal entities. A juristic person is a group of natural persons behaving as if they are a single group as a partnership, limited liability company, or corporation, and can exist for many reasons. An enterprise is either a sole proprietorship associated with a natural person, or a juristic person. A business can exist to earn revenue from customers in order to generate a profit for its owners regardless of legal form.

A corporation is a legal entity that is separate and distinct from its owners. In the United States, corporations are organized under state law according to articles of incorporation. However, both the Federal and state governments may form corporations for commercial and governmental activities. Federally chartered banks are designated as national associations or national trust and savings associations. According to law, there must be some indication in the name of the corporation that it is incorporated. For example, "The Business Leadership Development Corporation" and "Javazona Cafes, Incorporated" (abbreviated to "Javazona Cafes, Inc.") are two incorporated legal entities.

An enterprise is a group of activities intended to produce income for profit as a business, as a not-for-profit association, or as a government agency. An enterprise can consist of one or more legal entities.

In its simplest form, a company is a group of individuals who are associates or companions, as opposed to a group of individuals assembled with no distinct purpose. A team is a tightly coupled group working coherently with mutual accountability. In effect, a company is set of teams working together with common purpose.

The term "company" is used in the theatrical profession to describe a group of actors with their accompanying equipment. The term is also used to describe a group of individuals operating a business as employees and owners as juristic persons, regardless of legal form. In the United States, the term "company" can be associated with partnerships, limited liability companies, and corporations. A limited liability company that has a single owner is "disregarded" by the Internal Revenue Service if the owner elects that the entity be taxed as a sole proprietorship. However, in some states and countries, the term "company" is synonymous with "corporation" - meaning that it has a legal form separate from its owners. Hence, "American Express Company" and "Ford Motor Company" are corporations. In some countries, the term "associates (and company)" is synonymous with "partnership," and "anonymous society" is synonymous with "corporation."

The earliest forms of companies were unincorporated associations, followed later by partnerships. Individual corporations were initially established by governmental charter. However, the concept of a joint stock company was created over time, which had individual owners with unlimited liability. A joint stock company was similar to a partnership, but had certain rights distinct from the individual owners. A modern corporation is in effect a joint stock company with limited liability of the individual owners.

A tradename is often used to establish a brand separate from the legal name of a sole proprietorship, partnership, limited liability company, or corporation. For example, "BLD" is a tradename of The Business Leadership Development Corporation; "Achieve Plan B" and "Vitaprise" are tradenames of Nigel A.L. Brooks. Tradenames are common in franchise and licensee systems, where different legal entities are part of the same system, and thus share a common identity, such as Enterprise Rent-A-Truck, Holiday Inn, McDonald's, and Subway. The tradename is owned by the franchisor or licensor, but can be used by the franchisees and licensees. However, whenever business is done in a name other than a legal name, it is fictitious and must be registered as a certified "doing business name" in whatever jurisdictions are required under state law. For example, if Nigel A.L. Brooks is doing business as "Vitaprise," that name must be registered as fictitious in each jurisdiction where it is used.

A business is formed to earn a profit from revenues from commissions, dividends, fees, interest, rents, royalties, and sales less expenses from costs of revenue and operating items, and capital gains from investments. An entity such as a sole proprietorship, partnership, limited liability company, or corporation may be formed, organized, or incorporated for the purpose of conducting business before revenue is earned. As such the entity is separate from but related to the business enterprise. A venture is a start-up or early stage enterprise (as opposed to a hobby), which may be classified as a "development stage entity" because it has little or no income. Its future may be uncertain until the business concept has been proven.

The business becomes established when there is a commitment from the owners to earning revenue as an ongoing concern, and predictable patterns among the constituencies start to appear. Thus a business enterprise can be established much later than when the holding entity for it was formed. The entity can be changed as conditions dictate, without changing the nature of the business enterprise. For example, the initial business entity may be a limited liability company organized in Arizona, but later changed to a corporation incorporated in Delaware. Assets of the enterprise and associated revenue streams can be sold separately from the entity, or the entire entity itself can be sold. Similarly, assets and revenue streams, and entire entities can be acquired.

Regardless of the marketing efforts of the management of an enterprise and its legal form, its fate is ultimately determined by the frequency, recency, location, and value of the transactions of its customers based upon their needs and wants. Such transactions are in turn are influenced by the behaviors of employees, regulators, competitors, and market trends in general.

Operating enterprises is an enterpriship (entrepreneurship, leadership, and management) competency.

STEWARDSHIP
- THE RESPONSIBILITY FOR THE PERFORMANCE OF AN ENTERPRISE AND THE DELIVERY OF VALUE

Stewardship is the discipline of administering the affairs and assets of others. Religious institutions apply the concept to those who administer their finances. The concept has been extended to the notion of household servants taking care of residents, and crews taking care of passengers on planes, ships, and trains. The stewardship discipline applies to enterprises also.

An enterprise is a group of activities intended to produce income organized as a business for profit, as a not-for-profit association, and even as a government agency.

This discussion is about stewardship in enterprises organized as businesses. However the same principles apply to not-for profit associations and to government agencies.

When organized for profit as corporations, partnerships, or limited liability companies, enterprises have shareholder, partner, or member investors. Investors delegate responsibility to a management team for directing and controlling the activities. The investors elect a board, who in turn appoint the officers, who in turn hire and retain other employees to enact the values, and to achieve the mission and vision.

The stewards of an enterprise include management (board of directors, officers, and non-official managers) and associates (supervisors and staff). Collectively they administer affairs and protect assets. As stewards, unincorporated sole proprietors should separate their personal assets from those being used in their enterprises.

Every employee of the enterprise is a steward if they share its values, mission, and vision. An employee who sits on the side lines, does nothing constructively, speaks negatively, delivers poor service, or is otherwise uncommitted, is not a steward. Such individuals should seek opportunities elsewhere because only stewards can be trusted as custodians of the enterprise.

The stewardship discipline is about the effective application of the individual competencies of the stewards to the benefit of the enterprise and its constituencies. Competencies consist of knowledge and skills in personal, professional/technical, and enterpriship disciplines. Enterpriship embraces entrepreneurship, leadership, and management disciplines. The discipline applies to owner-managed enterprises also because there is a mutual responsibility between any enterprise and its constituencies to perform and to deliver value to all concerned.

Constituencies include employees, customers, suppliers, investors, regulators, and competitors. Employees are owed fair compensation and a safe environment in exchange for loyalty and productivity. Customers are owed quality and value in exchange for loyalty and timely payments. Suppliers are owed loyalty and timely payments in exchange for quality and value. Investors are owed returns above the cost of capital in exchange for commitment. Regulators are owed compliance in exchange for freedom to do business within laws and regulations. Competitors are owed challenges in exchange for fairness.

For sole practitioners the burden is high because of the breadth and depth of proficiency required to operate in regulated and competitive environments - even sole practitioners have to delegate sooner or later if their enterprises are to build momentum.

Stewardship competencies have three components: enabling, domain, and core.

Enabling competencies depend upon the entrepreneurial, leadership and managerial roles played not only by management, but by every steward in the enterprise. Enabling competencies drive efforts to realize opportunities.

The entrepreneurial role - both a process-oriented and a product-oriented role - is that through which stewards turn innovative ideas into value for the enterprise and its constituencies. Stewards must exercise this role at every stage of an enterprise's development, not just the early stages.

The leadership role – a people-oriented role – is that through which stewards set the direction that others will follow to achieve results. The role is applicable to top-level executives and team leaders on the front-line, or anywhere in between.

The managerial role - a process-oriented role - is that through which stewards apply resources to activities to achieve results.

The enabling competencies of enterprises are based upon the enterpriship competencies of the individual stewards collectively. There is a mutual responsibility among all stewards to ensure that individual competencies of all concerned are being used beneficially.

Stewards often assume two or even all three roles. A steward's ability to multitask is critical to the enterprise's agility, and increases the value of their contribution.

For example, an individual may play the entrepreneurial role by introducing an innovative idea, act as a leader by influencing others to adopt the idea, and leverage managerial skills to obtain positive results from the implementation of the idea. Entrepreneurial skills are essential at any stage of development, not just the emerging stage.

For example, an employee on the front line in a retail establishment can play the entrepreneurial role by upselling or cross-selling other products and/or services, and by asking customers for suggestions; play the leadership role by showing other employees how to better serve customers; and play the managerial role by using time, materials, and supplies efficiently and effectively, such as by reducing waste, recycling, and eliminating redundancy.

Domain competencies represent the specific functional knowledge and technical skills that are required to perform an activity. Domain competencies are found within subject areas such as legal, finance, human resources, information technology, program management, engineering, operations, marketing, and sales.

Core competencies are activities done well that can give the enterprise a competitive advantage.

When stewards work together in teams, synergistic effects can fill gaps in the competencies of individuals. Collectively they determine how competencies can be applied beneficially, and which activities give the best advantage.

Constituents make commitments to an enterprise when they are confident that it can perform and deliver value - employees devote careers, customers are loyal, suppliers advance credit, and investors source capital. The key success factor of stewardship is to ensure that the enterpriship competencies of individual stewards be transformed into the enabling competencies of the enterprise to deliver value.

INTRAPRENEURSHIP
- FOSTERING CHANGE WITHIN ESTABLISHED ENTERPRISES

Intrapreneurship is a competency required to foster a culture of change within an enterprise so as to build sustainable advantage over time. The practice applies to developing and launching new products and/or services within established enterprises. It applies also to entering new markets, and building new or reengineering existing infrastructures.

An intrapreneur is an agent of change within an enterprise who takes risk to transform an innovative idea into value. Intrapreneurs are found in institutional enterprises and are the equivalent of entrepreneurs in entrepreneurial enterprises. Intrapreneurs can be appointed by management, but often emerge from within based upon a perceived need for change.

An entrepreneurial enterprise is not yet established as an ongoing concern; an institutional enterprise is established - the term refers to small, medium and large enterprises.

Entrepreneurial enterprises migrate through three broad waypoints: transforming an innovative idea into a product and/or service (as a venture); transforming a product and/or service into an entrepreneurial enterprise; and transforming an entrepreneurial enterprise into an institutional enterprise.

Institutional enterprises migrate through three broad waypoints iteratively: transforming an innovative idea into a product and/or service; integrating the product and/or service into the enterprise; and building sustainable advantage. Sustainable means being able to continue over time, either by developing, enhancing, or maintaining the current state, or by changing it. Advantage means favorable, superior, and beneficial.

For example, Microsoft is an institutionalized provider of office application and operating system software, but began as an entrepreneurial enterprise offering a BASIC programming language interpreter. The General Electric Company, one of the largest enterprises in the world, has its roots in Thomas Edison's laboratory.

Institutional enterprises must either innovate internally through the practice of intrapreneurship, or acquire entrepreneurial enterprises in order to survive. Entrepreneurial enterprises and intrapreneurial institutional enterprises usually have well-developed research and development capabilities; otherwise innovation has to be acquired from external sources in order for an institutional enterprise to remain competitive.

For example, even though IBM Corporation is an innovative institutional enterprise in its own right, it acquired Lotus Development Corporation in order to strengthen its position in client/server and collaborative software markets.

For example, Digital Equipment Corporation was an innovator of minicomputer products, but as it institutionalized, it struggled in the personal computer market. It was acquired by Compaq Computer Corporation, who in turn merged with The Hewlett-Packard Company.

The practice of intrapreneurship can result in the incubation of entrepreneurial enterprises, which can be spun of as either entrepreneurial or institutional enterprises. For example, Medco Health Solutions, Inc. is an institutional spin-off from Merck & Co., Inc.

Change is often unwelcome and unpopular. Change management can be highly controversial - the consequential internal politics can be highly risky for intrapreneurs.

Whereas new product and/or service ideas, and new market entry and infrastructure initiatives often originate in strategic planning exercises, new ideas come frequently from the "front-line." The front-line is the listening post to the marketplace, especially to customers, suppliers and employees at competitors. However, sometimes these ideas conflict with the views of the vested interests - often the middle-management layer. As a consequence, some intrapreneurs have to initiate change from the "grassroots" instead of in the "blue skies." Reengineering initiatives are usually very unpopular because when processes are redesigned, unnecessary activities are eliminated.

Intrapreneurs have to find internal sponsors for their ideas and initiatives who have political clout just like entrepreneurs have to find investors. In fact, even initiatives that were previously approved by top management can lose momentum over time, and be subject to cancellation.

Just like entrepreneurs, many intrapreneurs move on before their ideas are fully implemented (if at all) because they don't have the patience for the long time frames required to enact change in institutional enterprises. The enterpriship competencies of entrepreneurship, leadership, and management apply equally to intrapreneurs as they do to entrepreneurs.

EXPLORING THE ENTREPRENEURIAL ROLE - TRANSFORMING INNOVATIVE IDEAS INTO VALUE

The entrepreneurial role is essential to developing new products and/or services and processes, and improving existing ones, in both entrepreneurial and institutional enterprises. The role applies to entrepreneurs and intrapreneurs who enact change. It also applies to those individuals in planning and research and development capacities, and to others who can offer suggestions that earn and add value. The role applies throughout the life of an enterprise, and has both strategic and tactical applications.

The entrepreneurial role is about delivering value to both internal and external customers, and architecting the infrastructure through which it is earned and added. The role is essential in both new business development and continuous improvement activities, which include increasing efficiency and effectiveness, and reducing costs and expenses. The role should be actively encouraged throughout the enterprise so to keep it innovative, and both able to cause and respond to change.

The entrepreneurial role is performed within the context of planning and policy development, deployment, and performance measurement activities. Innovation can occur when change opportunities are identified in such areas as:

- New markets or changes in market demographics and psychographics
- New technologies that will enable new products and/or services
- Regulatory changes
- Offensive or defensive moves of competitors

In reality, breakthrough ideas can arise at any time by an entrepreneur who starts an enterprise, or from any individual within. Ideas arise in research and development activities, and through employee suggestion programs or similar activities. Ideas may be disruptive if plans and programs are already in place. However, the implementation of strategic ideas cannot be ignored until the next planning cycle, and must be addressed on a timely basis. In order to do so, a "hi-spot" review project should be conducted as soon as possible, on an "ad-hoc" basis, to determine the scope and impact of ideas on current plans and programs.

Strategic ideas result from higher order effects that enhance existing products and/or services or processes. New products and/or services may result from earlier successes. Rebranding may increase attractiveness of existing products and/or services in selected markets. Tactical ideas may involve small refinements to existing functions and features that can nevertheless make a difference, such as adding a product line extension or model variations.

Innovation is just as important in process development as it is product and/or service development. Strategically, technologies such as computer aided design and manufacturing can make a major difference to process planning, execution, and control. Tactically, the notion of incorporating simple procedures to upsell and cross-sell products and/or services at the point of sale, or changing product displays, can earn extra sales revenue with almost no additional effort.

Before large investments in market, product and/or service, and infrastructure development are made, ideas should be prototyped on a proof of concept basis so as to gain feedback from the marketplace at large and potential users. However, once the idea shows promise, proper planning is necessary to bring an idea to market, or to incorporate it within the infrastructure with the anticipated scale effects.

The entrepreneurial role comprises:

- Development of idea into a product and/or service or process that earns and adds value

- Adaption based upon feedback from users in the marketplace (both internal and external)

- Enhancement of the idea over time

- Maintenance of the idea over time

Adaption comprises:

- Tuning the product and/or service or process to make it more effective and efficient

- Standardizing the product and/or service or process

- Integrating the product and/or service or process into the overall strategy and structure of the enterprise

The creation of innovative ideas involves investments in natural, human, intellectual, and financial capital. If intellectual capital is developed, it must be protected.

The entrepreneurial role transforms innovative ideas into value in conjunction with the leadership and managerial roles. The entrepreneurial role is an enterpriship (entrepreneurial, leadership, and management) competency.

EXPLORING THE LEADERSHIP ROLE - SETTING DIRECTION THAT OTHERS WILL FOLLOW TO ACHIEVE RESULTS

The leadership role is about influencing people through aspirational, inspirational, and motivational communications. This role is equally applicable to top-level executives, team leaders within functions, or any individual in between.

The leadership role provides direction through values, mission, vision and teamwork to transform innovative ideas into value.

The role enables either formal or informal agreements between leaders and followers to be reached, including employees, customers, suppliers, and investors. If the vision is compelling enough, members of all constituencies will follow, including regulators and competitors.

When agreements are negotiated, there is a clearer understanding of direction and what is both required and expected. Both parties may have to make trade-offs to reach a negotiated agreement. Agreements affect culture and morale. Culture results from knowledge and skills learned from leaders and role models that determine shared values, attitudes, behaviors, and beliefs. Culture influences future behaviors. Morale is the willingness to maintain beliefs in values, mission, and vision.

The leadership role is performed at two levels:

- Macro level - transformational: enacting change in the environment within which the enterprise operates, or within the enterprise itself, or both

- Micro level - transactional: the relationship between a leader and a follower in task accomplishment

Transformational leaders influence results from followers, as individuals and in teams, by changing their aspirations, wants and needs, objectives and goals, and by affirming shared values, mission, vision and learning.

Transactional leaders are either power-centric or empowering. Power-centric leaders use a command and control oriented approach, where results are delivered to order with rewards, or else punishments are inflicted. By contrast, empowering leaders develop successors through a process of migrating from a directive style to a supportive style based upon the commitment and competence of followers. An enterprise cannot grow unless it develops future leaders.

The leadership role is performed within the context of planning and policy development, deployment, and performance measurement activities. It comprises self-motivation, aspirational leadership, inspirational leadership, and establishing an environment for motivating others.

Self-motivation - developing enthusiasm for an innovative idea and/or commitment to values:

- Positive attitude
- Ambition
- Confidence
- Commitment
- Self assessment

Aspirational leadership - establishing the mindset for communications:

- Values and guiding principles
- Mission
- Vision
- Value proposition

Inspirational leadership - communicating to and building relationships with followers:

- Attracting and acquiring
- Expanding
- Maintaining
- Retaining
- Focusing

Establishing an environment for motivating others:

- Influencing the motion to action
- Enabling followers to motivate themselves

The consequence of effective leadership is that followers achieve the intended results through their own self-motivation.

The leadership role sets direction that others will follow to achieve results in conjunction with the entrepreneurial and managerial roles. The leadership role is an enterpriship (entrepreneurship, leadership, and management) competency.

EXPLORING THE MANAGERIAL ROLE - APPLYING RESOURCES TO ACTIVITIES TO ACHIEVE RESULTS

The managerial role is about process planning, execution, and control. The role is performed by any individual who has to achieve results, not necessarily just appointed executives and managers.

The managerial role is essential for earning the value inherent in innovative ideas. It applies the notion of planning, execution, and control to both project-oriented and perpetually-oriented activities. Planning involves organizing activities and resources; control involves reporting and evaluating status, and making adjustments accordingly.

Research and development activities are project-oriented with a finite beginning and end. Sales and production activities are either perpetually-oriented or project-oriented depending upon the nature of the products and/or services offered.

Mass manufacturing work is perpetually-oriented enabling large volumes of products to be delivered from a single design. Orders may repeat indefinitely provided that the market doesn't tire. Custom manufacturing work is project-oriented requiring a product to be built to order from a unique or tailored design. Through the use of computer-aided design and manufacturing, it is possible to achieve a hybrid of mass manufacturing with custom design.

Within the context of planning and policy development, deployment, and performance measurement activities, the managerial role comprises organization, execution, evaluation, and adjustment.

Organization:

- Confirming scope, objectives and goals (budget, schedule and quality standards)

- Assigning people to tasks

- Securing facilities and equipment, materials and supplies

- Training

Execution:

- Communicating to the team, and to sponsors
- Assigning and accomplishing tasks
- Solving problems
- Handling exceptions

Evaluation:

- Monitoring the earned value in terms of scope, objectives, budget, schedule, and quality
- Assessing the people
- Assessing the facilities and equipment, materials and supplies

Adjustment:

- Tuning (scope, objectives, budget, schedule, quality, resources)
- Taking corrective actions for future performance

Work is organized in terms of:

- What is to be accomplished and why (scope, objectives and goals)?
- How it is to be accomplished (resources and work units)?
- When it is to be accomplished (schedule)?

As tasks are executed, progress is evaluated periodically in terms of variances from:

- Budget
- Schedule
- Quality
- Resources (people, materials, supplies, facilities, and equipment)

Adjustments in plans must be made as necessary until the results are delivered, the work is rescoped, or canceled.

The managerial role benefits from the use of both operational and analytical systems for people, products and/or services, processes, and project management that deliver both financial and non-financial information for performance measurement activities.

The managerial role applies resources to activities to achieve results and earn value in conjunction with the entrepreneurial and leadership roles. The managerial role is an enterpriship (entrepreneurship, leadership, and management) competency.

STRENGTH OF THE MANAGEMENT TEAM - THE KEY TO ATTRACTING INVESTORS

Potential investors in entrepreneurial enterprises place significance on the ability of the management team to enact change in receptive markets as to earn a multiple of their original investment. It is the ability of the management team to generate confidence that they can deliver results that makes the difference to investors. They must be able to demonstrate their ability to deploy people to execute processes that deliver products and/or services to large markets.

Potential investors will more readily finance an entrepreneurial enterprise on the basis of the strength of its management team, and when the market is large, ready and aware of its products and/or services, than the underlying benefits and features of the products and/or services themselves.

A successful management team may be able to repeat their successes as serial entrepreneurs by knowing how to entertain, inform, convince, persuade, and negotiate with people, and manage processes.

The management team must be able to demonstrate that they can enact change, both by being able to cause it or respond to it depending upon opportunities and conditions (especially crises). Causing change affects competitors, but being able to respond to change caused by competitors is essential to sustainability also.

The acceptance of new products and/or services in existing markets, or existing products and/or services in new markets is based upon employee, customer, and even supplier constituencies being willing to change their behaviors.

Hence management must play the leadership role in order to establish an environment that motivates specific constituents to change. This means being able to communicate both aspirational and inspirational messages that cause others to change their behaviors to adopt a product and/or service, either de novo or as a substitute. Such change occurs by understanding the difference between what people need and what they want, and creating emotional messages that cause them to act with urgency.

Therefore, a management team seeking financing is likely to lose their investor audience if they focus solely on presenting a products and/or service. This rule generally applies even if the value propositions offer strong benefits and features.

Effective leadership and management techniques are enterpriship (entrepreneurship, leadership, and management) competencies.

CULTURE - THE CONSEQUENCE OF GOVERNANCE AND THE TEAM AT THE TOP

Whereas entrepreneurial enterprises have few internal barriers, larger institutional enterprises risk forming organizational silos that cause fragmented communications, and foster internal competition among members of management. To build a sustainable enterprise with a strong positive culture, the Chief Executive Officer must establish a team at the top. When stated and enacted values are consistent among members of management as a team, a positive culture will emerge throughout the enterprise. However, the reward system impacts both performance and culture.

The Chief Executive Officer (CEO) has the overall responsibility for the administrative and operational activities of an enterprise, and is accountable to the board of directors, which in turn is accountable to the shareholder investors. Collectively, the CEO and the board comprise the Governance function, from which all constituencies expect leadership, and to which the investors look for results. Top management consists of executives with major areas of authority and responsibility for functional or business units, supported by other managers, supervisors, and staff.

If the CEO is an effective leader, the enterprise will follow, and the appointed leaders will be respected. If not, emergent leaders will develop from within the organizational units based upon needs.

Entrepreneurial enterprises have limited resources and are focused on survival and growth. Institutional enterprises risk becoming large bureaucracies operating according to multiple internal agendas instead of the needs of the marketplace. To build sustainable advantage, the CEO must focus the organizational units and the individuals within them on a common agenda in line with enterprise's objectives, goals, and longer-term targets. The process starts by ensuring that the executives are functioning as a team.

The culture of the enterprise is the consequence of governance. Culture comprises knowledge and skills learned from leaders and role models, and consists of shared values, attitudes, behaviors, and beliefs that influence future behaviors. Culture cannot be manufactured. Every enterprise forms its own culture over time, which is hard to change.

The CEO must strive to ensure that the organizational units and the individuals within them are aligned with the values, mission, vision, and value proposition of the enterprise, and with each other. Alignment is a function of leadership - the ability of the CEO to:

- Aspire - communicating purpose
- Inspire - influencing the achievement of results
- Establish an environment for motivating teamwork

Ideally, the enterprise is one team with shared values and vision. In reality, the notion of an enterprise as a team is hard to achieve, especially in large institutional enterprises. Teamwork is harder to establish at the top of an enterprise than at the bottom because of competition between organizational units. Even though the leaders may preach teamwork, it will be hard to achieve if the performance evaluation and compensation policies reward individuals over teams and the enterprise itself.

The more the evaluation and compensation policies skew towards individual performance, the more competitive and less collaborative the employees become. The more the policies skew towards the enterprise, the greater the likelihood of team motivation. Therefore policies must be set in terms the enterprise's objectives and goals, the expectation for teamwork, and for results that are individually controllable.

Effective performance evaluation and compensation policies have fixed and variable components. The fixed component is a salary or wage; the variable provides performance incentive awards including bonuses, commissions, profit sharing, option and stock awards, and phantom stock programs. The variable component has three attributes: the individual, the organizational unit, and the enterprise. The role and responsibility of the individual, and their influence on others, affects the proportion of fixed to variable compensation, and the weightings between the attributes. For management, awards based upon organizational unit and enterprise performance must reflect long-term value building versus purely short-term gains, and therefore may be paid out over several years. For tipped employees, the payout is immediate.

For individual contributors, the weightings skew towards personal contribution. For salespeople who are operating truly autonomously, the variable component should be high to stimulate continued performance - periodically raising the bar for expected performance helps too. Incentive-based competition should always be encouraged among salespeople, provided such programs are not detrimental to the enterprise and other individuals within it.

For those that influence the ability of the enterprise to achieve its objectives and goals, the weightings should be blended. Compensation for executive management should be heavily incentive-based, reflecting both the performance of their organizational units and the enterprise as a whole. Unless the enterprise attribute has a significant weighting, it is difficult to encourage teamwork at the top. Almost all of the CEO's compensation should be incentive-based, solely reflecting the performance of the enterprise.

The integrity of incentive-based compensation policies is based upon the effectiveness of the managerial accounting and reporting system. The policies within such systems must be clear, especially with respect to cost allocation and transfer pricing. Endless debates about managerial accounting policy should be avoided. Care must be taken to ensure that incentive compensation programs and the managerial accounting and reporting system are not being abused to favor specific organizational units, or individuals within them, at the expense of others. Attention should also be paid to out-of-pocket expense management policies.

If management is not functioning as a team, the enterprise will fracture and organizational silos will form. The employees will become cynical of management, trust will be lacking, and the culture will be weak. Learning within the enterprise will be based upon the limited sharing of "tribal knowledge" on a need-to-know basis within political camps. It is difficult for an enterprise to be sustainable when fragmentation exists. However, teams will form under emergent leaders for anywhere within the enterprise in order to get work accomplished, even on a cross-functional basis.

The CEO can take several actions to build teamwork within the management and throughout the enterprise:

- Ensuring that roles and responsibilities of each member of management are clearly defined, understood, and communicated

- Ensuring that policies for performance evaluation and compensation are aligned with accountability, and balance individual, organizational unit, and enterprise performance

- Ensuring that the managerial accounting and reporting system is aligned with performance evaluation policies

- Regularly communicating values and guiding principles, mission, vision, value proposition, and performance updates throughout the enterprise via town hall meetings, newsletters, cross-functional employee round tables, and an intranet (ensuring that sensitive and confidential information such as competitive strategy is protected)

- Ensuring that new employees are rotated through multiple functions according to predefined career paths adjusted for individual preferences, and that cross-functional experiences and learning are shared

- Ensuring that exceptional performance that benefits the enterprise and its constituencies is recognized and rewarded

- Encouraging feedback from employees through suggestion programs, an ombudsman, and values surveys, because not all employees express their views and opinions publicly for fear of retribution

The CEO must encourage the executive team to take the same actions and cascade the process throughout the enterprise. When the team at the top "lives the values" and "walks the talk," role models will emerge from which a positive culture will form.

Executive team building is an enterpriship (entrepreneurship, leadership, and management) competency.

IDEATION - IT'S A GREAT IDEA FOR TRANSFORMING INNOVATION INTO VALUE

Breakthrough ideas cannot be ignored if an enterprise is to be sustainable over time. The entrepreneurial role includes the process of ideation - forming and testing ideas in strategic planning, ad-hoc, and research and development activities. The process includes brainstorming and focus group sessions.

Entrepreneurs and intrapreneurs use innovative ideas as an enactor of change to narrow gaps based upon wants and needs. Drivers of change include competitive, economic, environmental, political, regulatory, social, and technological trends. Ideas can be sourced from anywhere in an enterprise, especially from those on the "front line" through employee suggestion programs.

Opportunities for innovative ideas occur for both existing and new paradigms - assumptions, concepts, practices, and values regarding a community. In existing paradigms, ideas result from narrowing product and/or service gaps in markets; narrowing market gaps for products and/or services; narrowing gaps in product and/or service lines, functions, and features; and improving effectiveness and efficiency by reengineering current processes. New paradigms form from the development of new technologies, from structural reengineering - different methods of achieving the same result, and from strategic reengineering - changing the result.

It is essential for every enterprise to develop plans that address both development and reengineering initiatives to be sustainable. Strategic plans address both long-term direction and short-term initiatives. Tactical action plans address the deployment and execution of strategy in short-term steps. Operational plans address sales and production activities - quantifiable targets for markets, products, and constituencies in terms of growth, share, rates, volumes, quality, and satisfaction. Financial plans address the translation of strategic, tactical, and operational plans into financial targets for cash flow, income, and capital utilization.

Ideally, innovative ideas would be generated during planning activities. However, the innovation process is not linear. When breakthrough ideas occur, they can actually be disruptive to planning and deployment processes, and to markets. Ideas require scrutiny before being implemented, and feedback is also essential from the community.

New ideas can be examined during the next planning cycle if time permits. However, a "hi-spot" review project can be initiated at any time on an "ad-hoc" basis to determine the scope and impact of new ideas on current plans and associated programs. Ideas that merit further analysis can be examined in research and development activities.

Ideation is the process of forming and testing ideas in planning, ad-hoc, and research and development activities. The process begins with some candidate ideas for discussion, or with a "blank sheet." Either way, the higher order effects often kick in during discussions that lead to either a "reshaping" of the candidates, or to the formulation of better ideas that would not have emerged otherwise.

The ideation process includes brainstorming sessions that are designed to identify problems and create solutions through spontaneous group discussion. Brainstorming sessions can be used to discuss ideas by bringing representatives together from different functions of the enterprise, and lead to the establishment of cross-functional teams for implementation. However, brainstorming sessions require strong facilitation in order to be effective based upon well defined objectives and goals.

Brainstorming cannot be performed in a vacuum. It requires input from posts that can be established to observe the behaviors of employee, customer, supplier, investor, regulator, and competitor constituencies, and listen to their feedback. Brainstorming also requires the use of critical thinking - the process of analyzing, evaluating, and applying information obtained from observations, experience, and communications.

Ideas which offer merit can be subjected to further qualitative and quantitative research. The qualitative research discipline attempts to understand human behavior; the quantitative research discipline attempts to explain behavior using models, methodologies, and tools.

Focus groups are a form of qualitative research, and are intended to obtain attitudes from samples of prospective or actual constituents based upon a group discussion with a moderator. In a focus group meeting, participants are asked to share their reactions, opinions, and recommendations regarding ideas and concepts. Focus group meetings provide an informal environment for discussion. However, their success is tied to the skills of the moderator in keeping the discussion on track, the feedback focused, and ensuring that certain members of the group do not dominate or influence others.

Whereas facilitators help individuals, groups, and teams achieve results, moderators encourage discussion.

The ideation process is essential to transforming innovative ideas into value for constituencies, developing new intellectual capital, and building a better educated team-based workforce. Intellectual capital developed from ideation must be protected.

Ideation is an "enterpriship" (entrepreneurship, leadership, and management) competency.

STRATEGY TO BUDGET
- SEVEN TYPES OF PLANS FOR
BUILDING SUSTAINABLE ADVANTAGE

Building sustainable advantage begins with high-level planning and policy development activities. Plans are subsequently drilled down into greater levels of detail by purpose and activity as more information becomes available. Plans include strategic, information technology, tactical, operational, financial, financing, and budgets.

A plan is a proposed statement of direction and course of action to achieve a desired result. The planning horizon is the period over which the end-result is expected to be delivered, and can range from months to years. The planning cycle either refers to the process by which plans are prepared, or represents the time frame between planning activities. The budget cycle is the most common, and is usually annual with quarterly updates aligned to the fiscal year.

Many enterprises have planning methodologies that describe the scope, objectives, approach, estimating guidelines, deliverables, roles, and responsibilities of the activities. They also have formal schedules for preparing plans that tie to financial reporting periods. However, sometimes it is necessary to prepare or update a plan at any time as, or as a consequence of, a "hi-spot" review - an "ad-hoc" project to determine the impact of new innovative ideas on existing plans, programs, and projects.

The seven types of plans are:

- Strategic plans: long-term statements of direction - typically three-to-five years or more, with short-term initiatives as necessary from the point of departure to one-to-three years out. Strategic plans decompose into enterprise aspiration and industry position and posture, competitive position and posture, performance improvement, constituency-based, functional, and governance components. Strategic decisions are made in the present about the future, and are about doing the right thing.

- Information technology strategy: a special case functional strategy because information technology impacts all functions within the enterprise.

- Tactical plans: activities to implement strategy - tactical decisions are those made in the present about the present, and are about doing things well.

- Operational plans: address sales and production activities - quantifiable targets in terms of markets, products and/or services, and constituencies based upon market share and penetration, product and/or service usage, satisfaction, quality, time-to-market, cycle time, productivity, and asset capacity and utilization.

- Financial plans: pro forma sets of projected financial statements with assumptions. These plans represent the translation of tactical and operational plans into financial targets in terms of revenue, costs and expenses, profits, cash flows, financial capital, operating capital, investment capital, and returns on investment based upon rates, quantities of input, and volumes of output.

- Business plans for financing: abstracts of strategic and tactical plans aimed specifically at raising capital from third-party investors - applicable to both private and public enterprises, and commonly used by early stage entrepreneurial enterprises. Financing plans can also be used for internally for bootstrapping new product lines, business lines, and business units, or for research and development initiatives. Plans are funded when commitments are actually made and when sources are available.

- Budgets: annualized financial plans at working levels of detail. Budgets are the translation of strategic, tactical, operational, and financial plans into specific period-based financial and non-financial goals.

Plans are implemented through programs, projects, and perpetual processes within and between functions.

Periodic checkpoints should be established to review progress and measure performance as plans are deployed and executed. A feedback loop should be established between performance measurement and planning and policy development activities so that adjustments can be made in estimating guidelines, projections, and assumptions accordingly.

Developing plans is an enterpriship (entrepreneurship, leadership, and management) competency.

STRATEGIC POSITIONING FROM POINT TO POINT

The strategy discipline addresses the positioning and posture of an enterprise in the marketplace so as to gain competitive, collaborative, and cooperative advantage, and to achieve performance excellence. It has both long-term and short-term components, as determined by aspirations and near-term vision. Strategy is a journey from a point of departure to a point of arrival, whether planned or unplanned.

To formulate and deploy strategy, the management of an enterprise must develop aspirations that establish direction for the long-term, and a reasonably achievable vision for the near-term. Even the achievement of near-term vision has both short-term and long-term components. Short-term components consist of "quick hits" that can be addressed immediately. They are consistent with the vision, even though some rework may be required in the future. Therefore strategy is not just about the long-term, but also about positioning that can make a difference over time.

Values and guiding principles should always be developed first because all downstream activities are dependent upon them. Values provide the basis for how the employee, customer, supplier, investor, regulator, and competitor constituencies are to be treated.

In entrepreneurial enterprises, a vision statement is developed as the ideas for products and/or services emerge. A mission statement may be developed later as the emerging products and/or services are transformed into the enterprise. Value proposition statements for both the enterprise and its products and/or services add specificity as to the benefits and features offered.

Institutional enterprises have a track record. Therefore, the development, enhancement, or maintenance of a mission statement will usually precede the development of a vision statement. It is a long process for an institutional enterprise to change its mission, and extensive planning, policy development, and communications are necessary.
For example, IBM has made a transition over time from being a "computer company" to a "provider of business insight and information technology solutions, which include hardware, software, and services."

The aspirational statements provide the foundation for industry position and posture. Thus the competitive position and posture in selected markets with specific products and/or services can be determined. The performance improvement component of strategy sets the agenda for continuous improvement between breakthroughs through repositioning, restructuring, and reengineering activities.

These activities address both revenue increase and cost and expense reduction opportunities aimed at excellence. Strategy is further elaborated in constituency-based objectives, goals, and strategic initiatives that form the basis for collaborative and cooperative relationships.

Strategic plans are translated into tactical functional plans that lay out the steps for the achievement of both short-term and long-term vision.

Breakthroughs arise from cultivating innovation. They rarely result from planned events, but rather unexpected events including competitive moves. In fact, breakthroughs often occur right after the strategic plan has been finalized, when the planning team steps back and looks at its work holistically. Hence the plan is a living document, and must include a process for updates.

The time frame required for new innovations and technologies to fully mature and be common in the marketplace is about ten-to-fifteen years. For example, debit cards, mobile phones, personal computers, and even the internet have taken at least a decade to become widely accepted and used.

Hence aspirations should be set over ten-to-fifteen years, with a near-term vision over a three-to-five year period for the achievement of realistic and reachable results.

When management divides time frames for strategic plans into three-to five-year chunks, the likelihood of success increases. With technology rapidly changing the methods by which business is conducted, even five years can be a long time. Therefore one-to-three years may be best in highly technological environments. However, management may be surprised at how long it really takes to develop new products and/or services, and for the marketplace accept them.

Most major product development projects run behind schedule. For example, the projects to develop the Airbus A380 and Windows Vista both delivered results much later than anticipated. Both the projects and the products were extremely complicated. Many software products have to migrate through several rewrites until they are usable by the community-at-large. These rewrites are necessary because of the difference between the process-orientation of the developers and the people-orientation of the users, which affects usability.

The strategy formulation process begins by rolling back the aspiration to the present. That means starting with the end-game - the aspiration itself, and management's first thoughts on getting there from the present.

Starting from the first point of departure, a strategic plan targets a point of arrival three-to-five years out. Quick hits should be identified from the point of departure to one-to-three years out.

The actual point of arrival will most likely differ from the planned point in terms of what is delivered and when. However, management can determine from that point of departure what the characteristics of the next point of arrival will be.

As new information about constituency preferences emerges, and as high order effects kick-in, mid-course corrections will be necessary, sometimes causing the original point of arrival to be abandoned. Therefore the strategy has to be enhanced or maintained, and perhaps even redeveloped.

Higher order effects are events or situations that could not have been envisioned or anticipated at the point of departure, but impact the point of arrival. They arise from competitive, economic, environmental, political, regulatory, social, and technological issues. Higher order effects often reveal where the real opportunities or threats lie.

For example, in the financial services industry, changes in regulation have enabled what was North Carolina National Bank to become one of the largest financial institutions in the world, now as Bank of America Corporation. It traveled from point-to-point through time, taking advantage of changes in the economic and regulatory conditions. It had a breakthrough when it found a way to enter the Florida market, thus opening possibilities that led to national expansion over time.

Formulating and deploying strategy from point to point is an enterpriship (entrepreneurship, leadership, and management) competency.

NARROWING THE GAP
- FORMULATING CONSTITUENCY-BASED STRATEGY

Constituency-based strategy is about narrowing the gap between where an enterprise is and where it wants to be with respect to its employees, customers, suppliers, investors, regulators, and competitors. The same concept applies to its processes and products and/or services.

The constituencies of an enterprise are:

- Employees
- Customers
- Suppliers
- Investors
- Regulators
- Competitors

Constituencies represent the people-oriented capabilities of an enterprise and its related-parties. The other capabilities are processes and products and/or services.

A process is a group of activities that:

- Takes in one or more kinds of input
- Creates output that is value to both external and internal consistencies

A product is a tangible output from a process that represents something of value - an item that meets a customer's want or need. Products are component parts as single items or sub-assemblies, or end-products. Products are either commodities, such as oil or coffee, or value-added, such as manufactured items. Hard products are tangible; soft products are service-related. However, services are usually delivered with a product, regardless or whether it is hard or soft.

Constituency-based strategy narrows the gap between the enterprise and its related-parties. Narrowing the gap between where the enterprise is and where it wants to be with respect to its processes and products and/or services is usually a related set of activities to those for its constituencies. This is because everything ultimately relates to the primary constituencies of employees, customers, suppliers, and investors, in the context of the secondary constituencies of regulators and competitors, and the community-at-large. Constituency-based strategy can be expressed in terms of a "from to" relationship.

Constituency-based strategy is set in terms of related-party, processes, and products and/or services within a framework of objectives, targets, goals, strategic initiatives, and priorities.

Objectives are specific statements of direction and intended results for narrowing the gap between where an enterprise is and where it wants to be - from the current to the future state.

Targets are measurable criteria for achievement over time, and are expressed in terms of intermediate and final goals. Targets represent the points of arrival from a point of departure over time in a "from to" relationship.

Goals are specific statements of achievement for each objective in time, such as for one, three, or five-year targets. Goals should always be specified according SMART criteria:

- Specific in terms of why, what, who, when, where, which, and how?
- Measurable
- Actionable, attainable, and agreed to
- Realistic
- Tangible and time-specific

Stretch goals are set at one hundred and fifteen percent of the base, and may deserve reward for extra achievement.

Strategic initiatives are the specific action items to achieve the targets. High priority action items are called strategic imperatives. The action items should always be expressed in terms of specific tasks and steps.

Priorities can be classified as high, medium, or low using value-based criteria, such as return on investment, time-to-market, or improvement in efficiency, productivity, or utilization. Priorities are set by executives and/or the board of directors (or equivalent) of an enterprise by objectives and strategic initiatives. No more than twenty percent of the priorities should be classified as high, and no less than ten percent should be classified as low.

Constituency-based strategy sets the framework for "management by objectives" programs.

Formulating constituency-based strategy is an enterpriship (entrepreneurship, leadership, and managerial) competency.

VALUES-BASED GOVERNANCE DISCIPLINES - A THREE-LEGGED STOOL

Whether they are applied by an entrepreneur on a first-time venture, or by the management of a well established enterprise, values-based governance disciplines provide a control mechanism for investors. The three disciplines of stewardship, strategy, and structure regulate the three processes of planning and policy development, deployment, and performance measurement. When these disciplines are in place, the processes are under control; investors can "rest assured" on "the three legged stool."

The Governance function, which consists of the board of directors and the chief executive of a corporation, the members of a limited liability company, or a sole proprietor, has the ultimate responsibility for an enterprise to its investors. This responsibility includes taking care of the affairs of the enterprise, and protecting its assets.

Management, which refers to the board of directors, officers, and non-official managers, has the authority and responsibility for directing and controlling the events and activities.

The governance disciplines of stewardship, strategy and structure dictate relationships among employee, customer, supplier, regulator, and competitor constituencies for enacting change and earning value. The management team must be able to demonstrate that they can enact change, both by being able to cause it or respond, depending upon opportunities and conditions.

Stewardship, strategy, and structure...

Stewardship is the responsibility for the performance of an enterprise and the delivery of value to constituencies. The responsibility includes ensuring that the enterpriship (entrepreneurship, leadership, and management) competencies of individual employees are used judiciously. If so, ideas are transformed into value innovatively, directions are set that others can follow effectively, and resources are applied to achieve results efficiently.

Strategy addresses the beneficial positioning of an enterprise in the marketplace so as to deliver value over time. It begins by establishing the values and guiding principles, mission, vision, and value proposition, and ends with delivered value. The results are only as good as the underlying assumptions.

Values form the basis for behavior within the enterprise, because they describe a system of management's beliefs that set expectations for individuals, establish positions and priorities, and provide a framework for decision making. As a consequence, the governance disciplines must be values-based, because if management doesn't live the values, nobody else will.

Strategy establishes the direction for competitive, collaborative and cooperative advantage, and performance excellence.

Competitive advantage is about the position and posture that offers constituencies better value than competitors. Causing change affects competitors, but being able to respond to change caused by competitors is essential to sustainability. Collaborative advantage is about the relationships between suppliers, or customers, or peers as a partnership with a common mission, and operating dependently for mutual value. Cooperative advantage is about the relationships between suppliers, or customers, or peers as an association with a similar mission, but operating independently for mutual value.

Performance excellence means doing the right things, and then doing those things well.

Structure is the consequence of strategy, and defines the business model - the enabler of relationships between an enterprise's infrastructure, products and/or services, markets, and constituencies that deliver value. The infrastructure itself consists of processes, functions, facilities, and equipment. Products and/or services are delivered through the infrastructure to both external and internal customers.

Planning and policy development, deployment, and performance measurement...

The values-based governance disciplines are enacted through the enterprise process model. This model defines three processes: planning and policy development, deployment, and performance measurement. The deployment macro process subdivides into the research and development, and sales and production micro processes. All activities that earn and add value are embraced by this model.

Developing, enhancing, and maintaining plans and policies is best accomplished first on an enterprise basis with with strategic objectives and goals, and then on a tactical basis by function. Functional plans include business development, operations, finance, human resources, and information technology.

Deployment activities include research and development, and sales and production. Research and development activities are project-oriented with a finite beginning and end. Sales and production activities are either perpetually-oriented or project-oriented, depending upon the nature of product and/or services offered.

For example, the sales and production activities of a food service enterprise are perpetually-oriented, whereas the activities of an aircraft manufacturer are project-oriented, varying by each contract negotiated.

Perpetually-oriented means occurring continually, but not necessarily permanently. For example, operators of food service establishments must maintain standards, and offer exciting new menu items from time-to-time to preserve sales levels. However, contract manufacturers have to drum up new business before current contracts expire, otherwise production activities can come to a hard stop. Sales levels in food services establishments may be seasonal, and can fluctuate with consumer confidence, impacting staffing levels. However, once contracts booked, manufacturing workloads should be reasonably stable.

Performance measurement processes must address both financial and non-financial measures. Revenues, costs and expenses, profits, cash flows, and returns on investment involve financial measurements based upon rates, quantities of input, and volumes of output. Financial performance must be evaluated in terms of non-financial measures, such as market share and penetration, product usage, employee and customer satisfaction, quality, time-to-market, cycle time, and asset utilization.

Full compliance with laws and regulations is an essential performance criterion, and should be measured; otherwise values are meaningless.

Control mechanism...

The values of the enterprise must promulgate the notion of trust and integrity; management has the responsibility to behave accordingly. Such behavior includes being willing to fully disclose both satisfactory and unsatisfactory performance and results.

Actual performance should compared to planned through a feedback loop that provides timely actionable information, so that problems can be better anticipated, and solutions implemented with deliberation. It's difficult to "save face" when things go wrong, but early prevention is better than cure.

An internal audit function should provide independent assessments of the effectiveness of processes in medium to large enterprises directly to the Governance function. These assessments should be in addition to external audits.

If the governance disciplines are applied routinely, the processes executed consistently in accordance with plans and policies with independent audits, then the investors have a control mechanism in place. This mechanism ensures that the affairs of the enterprise are being taken care of and its assets are protected.

The values-based governance disciplines of stewardship, strategy, and structure provide a three-legged stool upon which the investors can "rest assured." Leveraging values-based governance disciplines is an enterpriship competency.

LIVING THE VALUES - WALKING THE TALK

Values form the basis for enterprise behavior because they describe a system of management's beliefs that set expectations for individual behavior, establish positions and priorities, and provide a framework for decision making. Values statements must be well crafted and unambiguous to be useful to employees.

The notion of management "walking the talk" boosts an enterprise's advantage if the words are perceived as genuine. If employees sense that management really is "living the values," they will have a positive attitude towards the enterprise.

"Walking the talk" means that management is "out on the floor" communicating with employees about expectations. "Living the values" means that stated and enacted values are perceived by employees as being the same. It's not just the words that matter, but how the words are said, and the integrity of the accompanying actions that are important.

The notion of management living the values and walking the talk establishes an environment for employee motivation, assuming that the employees agree with what is being espoused. If management doesn't live the values and doesn't walk the talk, then the employees will display superficial allegiance to the enterprise. If individual employees don't agree with the values, perhaps they should lobby for change, or seek employment elsewhere.

Breakdowns occur when management blames others for decisions that they responsible for, when they don't provide support for decisions that they have made, or when they abstain from decision making altogether.

Once there is a fit between stated and enacted values among the members of management as a team, values-based behaviors should cascade throughout the enterprise. When everybody is living the values, an advantage occurs in the marketplace because employees, customers, and suppliers learn is negotiable, and what isn't. The policies of the enterprise should not be ambiguous because decisions can be made in the context of the values.

If management can empower employees to make decisions in accordance with the values, the enterprise becomes more effective and efficient because issues can be addressed on the "front line," thus improving nimbleness in the marketplace.

Walking the talk is an example of "management by walking around." The concept of management by walking around was a principle espoused by Bill Hewlett and Dave Packard when they established The Hewlett-Packard Company in 1939.

By creating The Hewlett-Packard Company, they established an enterprise that initially was based upon the principles of staying together, without knowing what the exact nature of the products and/or services would be.

Other principles espoused by Hewlett-Packard include the "open door" policy, "positive expectations," and "management by objectives" - a concept developed by Peter Drucker.

An illustrative set of values includes statements for the enterprise itself, its constituencies, and the environmental ecosystem within which it operates:

Enterprise:

- Maintaining an environment of trust and integrity
- Being a good citizen in the community and industry
- Striving continually for innovation, quality, and continuous improvement
- Avoiding conflict of interest

Constituencies:

- Developing employees as teams
- Listening to customers
- Treating suppliers as partners
- Delivering superior returns to investors
- Complying rigorously with laws, regulations, and agreements
- Encouraging healthy competition

Ecosystem:

- Being environmentally responsible
- Being economically responsible
- Being socially responsible

If management does not live the values, lack of trust and cynicism set in among employees because of perceived (and hence real) double standards. Such double standards can cause breakdowns leading to poor performance, misconduct, including conflicts of interest, and even the risk of fraud and embezzlement.

Enacting stated values are "enterpriship" (entrepreneurship, leadership, and management) competencies.

VALUES, PURPOSE AND DIRECTION - BUILDING ASPIRATIONAL ADVANTAGE

Aspirational advantage is about building loyal relationships between employee, customer, supplier, and investor constituencies because an enterprise is values-based. Values-based means that stated values and enacted values are consistent. If the values display the notion of trust and integrity, then the enterprise is respected. If the values display the notion of quality, then the enterprise is perceived as predictable and reliable.

When the management of an enterprise communicates aspirational and inspirational messages for values, purpose and direction, others follow.

An aspiration is a dream of a future state. It may be hard or impossible to achieve from the current state of affairs without higher-order effects kicking in.

Higher-order effects are events or situations that could not have been envisioned or anticipated at the beginning of an endeavor, but become apparent as activity proceeds. They provide additional opportunities or threats.

For example, the operator of a cafe learns after opening that it is necessary to establish a high volume catering business unit to help cover the fixed costs of the "on premises" business unit.

Higher order effects make it possible to achieve an aspiration through some activity that seemed unachievable when the endeavor was started. Conversely, higher offer effects can destroy any aspiration or vision from ever being achieved.

For example, continued advances in technology have transformed computers from requiring large air conditioned rooms to fitting in briefcases, with considerably more power and memory than could ever have been imagined when the first machines were developed. Many traditional jobs have disappeared as a consequence.

An aspirational statement is long-term statement of direction, augmented by a near-term vision. An inspirational statement is a highly descriptive and compelling message that impacts mind, body, and soul. A motivational statement communicates the four drivers of influence that create motions for action: association, opportunity to gain, influence, and fear of loss.

Followers are not limited to employees. Customers, suppliers, and investors are attracted too if an enterprise's aspirational and inspirational statements are influential enough.

A mission is an aspirational and inspirational statement of purpose, supported by a set of high level objectives. A mission statement addresses the core competencies of the enterprise - the activities it performs well.

A vision is an inspirational statement of a future state, which is reasonably achievable, within the context of the longer-term aspiration. Visions have external and internal components. The external component is what a community (local-to-global) can become as a consequence of the enterprise's activities, and the products and/or services that it offers. The internal component describes what the enterprise itself can become to its employees, customers, suppliers, and investors.

For example, an external vision could be "changing our community, one customer at a time" - the near-term vision could be the in local community; the long-term aspiration could be in the global community. Internal visions could include "best place to work," and "easy to do business with."

Strong aspirational, inspirational, and motivational statements define both enterprise and product and/or service brands. A brand is a collection of ideas, symbols, logos, images, tag lines, and slogans that represent a enterprise and its product and/or services. An enterprise can communicate to customers, suppliers, and investors through its brands and associated service marks, and trademarks, if they are memorable and recognizable.

For example, Apple, Inc. has created a strong following among its customers; its logo is memorable and instantly recognizable. HSBC Holdings, plc, defines itself as "the world's local bank," and Delta Air Lines, Inc. offers "a world of possibilities." The customers of Federal Express Corporation called it "Fed Ex," thus causing a name change to FedEx Corporation. The verb "to fedex" is a proprietary eponym, derived from the corporate name, meaning "to ship a package overnight."

Customers buy because they want to be associated with brands or earn incentives. Designer brands command loyalty among consumers for quality and perception of lifestyle. Customers, suppliers, and investors want to be associated with enterprises with strong aspirational and inspirational images and messages that suggest sustainability.

For example, Prudential Financial, Inc. uses the "rock" as its logo.

Both suppliers and investors perceive that defaults are less likely with enterprises that have loyal employee and customer bases that can generate and process transactions reliably on an ongoing basis.

Aspirational advantage tightens the fit between an enterprise and its employees, customers, suppliers, and investors. When an enterprise has constituency advantage, its position in the marketplace is strengthened. Constituents are loyal, and are less likely to switch to competitors.

Building aspirational advantage strengthens predictability and reliability, and is an enterpriship (entrepreneurship, leadership, and management) competency.

GUIDING PRINCIPLES FOR ACHIEVING PERFORMANCE EXCELLENCE

The sustainable enterprise strives to achieve performance excellence - doing the right things, and doing them well. Values and guiding principles establish the basis for decision making; guiding principles set standards for behavior and provide directives for what is expected.

The sustainable enterprise has to be aware, willing, able, and ready to enact and to respond to change in the markets that it currently serves, or intends to. This means being able to exceed both the requirements and expectations of customers by offering better value propositions than competitors, either through differentiated product and/or services or price. Value includes convenience and quality.

Maintaining a competitive position means that it is difficult for others to replicate an enterprise's people, process, and product and/or service capabilities because of the tight fit between them. Achieving a tight fit requires alignment between the enterprise and its constituencies externally, and between organizational units internally. Alignment is achieved through guiding principles that determine the expectations for behavior between the enterprise and its constituencies, and between and within organizational units internally. With both external and internal alignment, the enterprise is more likely to be able to meet the wants and needs of its constituencies.

The guiding principles for achieving performance excellence include:

Has shared values and vision...

Values set expectations for behavior, establish positions and priorities, and provide a framework for decision making. Guiding principles aid the process. To ensure alignment with constituencies, values must be set within context of the societal cultures of the markets within which the enterprise has a presence.

A vision statement is an inspirational description of a reasonably achievable future state of what both a community and the enterprise can become as a consequence of its activities.

The individuals within the organizational units must share the values and vision of the enterprise, and must be aligned with each other in order to achieve a tight fit. Sharing values and vision promotes the notion of stewardship. Stewardship is the responsibility for the performance of an enterprise and the delivery of value to its constituencies. It involves the administration of affairs and the protection of assets. Employees cannot be stewards unless they share values and vision. If they cannot be stewards, they belong elsewhere.

Has an energized productive workforce dedicated to both individual and enterprise learning...

Being sustainable means being able to continue over time either by developing, enhancing, or maintaining the current state, or by changing it. Competitive conditions can change from mild to intense, and demand can change from strong to weak without notice. Paradigm shifts result from changes in assumptions, concepts, practices, and values. New technologies can cause paradigm shifts that change products and/or services, and how they are delivered.

The workforce must be motivated to perform under the pressure of changing and uncertain conditions. Leaders must be self-motivated, and must establish an environment that enables others to motivate themselves.

As change occurs, higher-order effects kick-in - events or situations that could not have been envisioned or anticipated in the past. Consequently mistakes may be made with the benefit of "twenty-twenty" hindsight, but provide learning experiences for the future. Continued learning is an intangible benefit that can lead to tangible results. When the workforce believes that it is sharing in benefits, it is more likely to have a positive attitude and be productive. Learning how to be successful results from the experience of failure.

Because employees come and go, it is important that "tribal knowledge" is preserved within the policies, processes, procedures, and systems of the enterprise. However, knowledge is power. In an environment where trust and integrity are lacking, both vertical and lateral communications channels close for fear of retribution, or loss of power and position. In such situations, the chief executive officer is often the last one to find out what those on the front line take for granted. Cross-functional sharing of experience and learning should be encouraged to break down barriers and to recognize differing points of view.

Makes fact-based decisions through open discussions, and with the risk/return assumptions of opportunities and threats in mind...

Facts are data about events and conditions, and provide information about situations that are assumed to be true, and can evaluated objectively. Facts describe the past and the present. Whether facts can predict the future is a matter of experience and judgment. It may not be possible to obtain full knowledge of the facts due to time or cost considerations - an enterprise that gets tied up with "analysis paralysis" may miss opportunities that are staring it in the face. Sometimes it is necessary to move ahead with little information and break from tradition.

Decisions should be framed with an understanding of opportunities and threats, and the expected risks and returns from being active or passive, and offensive or defensive. Decisions should be made with anticipation and deliberation. However, the process by which a problem is solved is just as important as the decision itself:

- With the knowledge of the facts that are available under the circumstances

- Based upon an assessment of strengths and weaknesses of the enterprise and its constituencies

- Justified on the basis of rational criteria

- With open discussions, both vertically and laterally, that encourage obtaining differing viewpoints and building consensus

Discussions can only occur in an environment of mutual trust and respect. If differing viewpoints are not heard and responded to, then it is difficult to achieve agreement and alignment. However, crises break down barriers and can cause decisions to be made in an emotional state.

Once decisions are made, they should be executed with confidence, commitment, and competence, but supported by contingency plans.

Applies core competencies to competitive advantage...

Core competencies are activities done well that can give an enterprise a competitive advantage - it should hone and promote them.

Balances innovation with continuous improvement...

To be sustainable, an enterprise should strive continually for innovation, quality, and continuous improvement. However, sometimes it is necessary to consider putting innovation ahead of continuous improvement, or vice versa. Innovative ideas, and the associated new business development activities, provide opportunities to take positions in existing markets with new products and/or services, or in new markets with both existing or new products and/or services. Innovation is about new paradigms, whereas continuous improvement is about the effectiveness and efficiency of existing ones. Continuous improvement is about repositioning the enterprise in existing markets, restructuring its product lines, business lines, and business units, and reengineering its processes. Innovation is usually riskier. However, the cost of continuous improvement programs eventually outweighs the benefits. Therefore, management should foster an environment of intrapreneurship to ensure that innovative ideas are available because continuous improvement opportunities will become exhausted.

Focuses on results...

An enterprise gets what is measures. It is important to determine what needs to be measured in planning and policy development activities, instead of as an afterthought. Performance measures must be set holistically and exhaustively, addressing both financial and non-financial indicators.

Financial indicators include: revenue, costs and expenses, profits, cash flows, and gains and losses (returns on investment); non-financial indicators include: market share and penetration, product usage, satisfaction, quality, time-to-market, cycle time, productivity, and asset capacity and utilization.

Standards for measures determine requirements; achieving performance excellence means exceeding them.

Achieving performance excellence is an enterprising (entrepreneurship, leadership, and management) competency.

EVALUATING OPPORTUNITIES AND THREATS - THREE KEY QUESTIONS

The enterpriship model describes the four activities that guide entrepreneurship, leadership, and management: establishing the mindset, enabling action, building relationships, and establishing order. Inherent within this model are three questions that must be considered when evaluating opportunities or responding to threats that affect either the current or future state. These questions address possibilities, assumptions, and probabilities.

Enterpriship is the process of building enterprises by transforming innovative ideas into value, influencing others, and managing resources. Every successful idea starts as a vision in an individual's mind, and is transformed in value through hard work (and maybe luck too).

Mindsets can become fixed and difficult to change. Even the most innovative and action-oriented people can become comfortable in their current state, and may not want or perceive a need to change. Without an incentive, they justify prior behaviors and decisions, even if they suffer some pain or inconvenience as a consequence.

However, the only certainty is uncertainty, and business conditions can change rapidly. When presented with an opportunity or threat, entrepreneurs, leaders, and managers must consider options and then challenge them in the context of three questions from which decisions can be made:

- What are the possibilities?
- What are the assumptions?
- What are the probabilities?

These questions are addressed during the planning and policy development process, where alternative scenarios are considered, and decisions to commit are made based upon thorough analysis. In this process, facts and information may be widely available from which conclusions are drawn, and recommended courses of action are formulated. However, sometimes it is necessary to make a quick decision in a short period of time with only limited facts and information.

Whether time is available or is of the essence, and whether facts and information are widely available or not, answers to questions regarding possibilities, assumptions, and probabilities establish the mindset and intended actions going forward to address opportunities and threats.

What are the possibilities?

Possibilities define what can be achieved within the capabilities of resources that are available or can be acquired. Capability defines the capacity and ability of people, processes and functions, and products and/services to realize potential quality and value within certain time and cost parameters. Possibilities lead to options from which decisions can be made.

What are the assumptions?

Assumptions define assertions and propositions about the past, present, future. An assertion is a declaration about an event or condition; a proposition is a statement for consideration and acceptance.

Assumptions support options and are fundamental to decisions. Decisions to invest in research and development, build infrastructure, enter markets, offer products and/or services, and build relationships with constituencies are all based upon assumptions, whether right or wrong.

It is not so much the decision itself, but the assumptions behind it that matter. Assumptions are often justified, not challenged, leading to wrong decisions regarding ideas, time, or place. It is hard to earn back destroyed value if a wrong assumption is made. Typical quotes resulting from wrong assumptions include:

"Location, location, location!!!"

"An idea that was ahead of its time."

"That idea's moment has passed."

"The value proposition offered too many features and not enough benefits."

"Actual revenue was about half of expectation, and expenses were about double."

What are the probabilities?

There is an adage that suggests that "one should never assume." However, business cannot be conducted without assumptions. Options and assumptions lead to potential outcomes. It important to know what to do when certain outcomes arise, whether expected or not.

Probability is the likelihood of outcome - that an event can occur or a condition can arise. Therefore, every option and assumption should be challenged in terms of potential outcomes, even if on a simple "high, medium, and low" scale. Outcomes can then be framed in terms of "what if" scenarios that describe the best and worst cases, and those somewhere in between, with alternative courses of action. Hence decisions can be made based upon intended actions, with known contingencies in place, just in case an actual outcome differs from expected.

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The cost of no decision may be higher than the wrong one. Therefore, opportunities and threats should be evaluated in terms of possibilities, assumptions, and probabilities, and then decisions to proceed should be made with anticipation, deliberation, and contingency.

Considering possibilities, assumptions, and probabilities is an enterpriship (entrepreneurship, leadership, and management) competency.

ORGANIZING FUNCTIONAL KNOWLEDGE AND TECHNICAL SKILLS TO DELIVER VALUE

A frequent issue facing entrepreneurs and executives alike is how to organize an enterprise. There are many options including those based upon product lines, business lines by markets, and business units by industry. However the process starts by properly identifying the functions - areas of subject matter expertise that are relevant to earning value.

The domain competencies of individual employees represent the specific knowledge and technical skills that are required to perform activities. Domain subject matter areas include legal, finance, human resources, information technology, program management, engineering, operations, and business development. These knowledge-related activities can be grouped together to form the first level of organizational structure within an enterprise - the enterprise function model.

Processes and functions are components of the infrastructure of an enterprise. Functions house the knowledge and technical skills of an enterprise; processes represent the activities to turn knowledge and skills into value. Processes are horizontal, flowing through the enterprise, and functions are vertical. Macro processes cross functions whereas micro processes are contained within functions.

Enterprise function model...

Every enterprise has three macro functions: Governance, Administrative, and Operational, whether management chooses to specifically identify them or not. They form the basis for the enterprise function model. Each macro function decomposes into micro functions, which in turn can further divide into subfunctions.

The Governance function, which consists of the board of directors and the chief executive of a corporation, the members of a limited liability company, or a sole proprietor, has the ultimate responsibility for the enterprise to its investors.

The Administrative and Operational functions are headed by top-level executives.

The Administrative functions include legal, finance, human resources, and information technology; the Operational functions include operations and business development.

The finance function includes the treasury (funds management) and control (financial, managerial, and regulatory accounting and reporting). The operations function includes procurement, manufacturing (or its equivalent in non-manufacturing enterprises), and distribution. The business development function includes marketing, sales, and service.

There are two additional functions that must be considered in any organizational design - the "enterprise" function and the research and development function.

The enterprise function (Administrative) is where activities such as support for planning and policy development and performance measurement, brand management, facilities management, relations (community, government and investor), ombudsman, and internal audit are housed. It provides support to the Governance function. It may be consolidated as one, or split into many. It is rarely called the "enterprise" function, so that term is purely descriptive.

The research and development function (Operational) houses program management and engineering expertise. It relies upon "cross-functional" participation from elsewhere in the enterprise. It is heavily "project-oriented" focusing on market, product and/or service, and infrastructure-related activities. Employees should be rotated in and out of the research and development function so that a real-world orientation is always present, as opposed to purely a laboratory environment.

Any of these functions can be insourced or outsourced depending upon the core competencies of the enterprise, although the ultimate responsibility must remain in-house. An argument can be made that the responsibility for marketing must always be in-house, because without marketing, nothing else in the enterprise matters. This is why there is a tight relationship between strategy and marketing.

Organizational structure...

A functional organization is suitable for emerging enterprises and small businesses. As an enterprise grows into multiple markets and product lines, more complex organizational structures are required.

As organizational structures become more complex, so does the risk of the formation of "silos." Silos create barriers to communication and teamwork between functions.

In larger enterprises, organizational units may be made up of divisions, departments, branches, and plants. Units may be further be organized into product lines, business lines by geographic and demographic markets, and business units by industry.

Domestic geographies include North, East, South, West, and Central; and global geographies include Americas; Europe, Middle East and Africa; and Asia-Pacific. Demographics include individuals (consumers) and enterprises (commercial, corporate, industrial, financial, and government). Industries include (but not limited to) manufacturing, merchandising, credit, and services.

In general, it is better to keep a segregation of duties between the Administrative functions and the Operational functions to avoid conflicts of interest. The exception is the research and development function, which should involve cross-functional participation. Whereas the program management and engineering subfunctions may be staffed permanently, all other employees should be rotated in and out to encourage the sharing of experience across the enterprise.

Every employee should have the opportunity to rotate among functions over time so to broaden knowledge and skills, and build cross-functional teamwork.

For example, the activities of the finance function should be kept separate from the operations and business development functions, so that all payables and receivables processing is kept separate from the individuals that generate the transactions.

Enterpriship...

A key success factor in designing the enterprise function model is to ensure that it embraces the knowledge and skill requirements to deliver value in compliance with all laws, regulations, and best practices, and that there is no redundancy.

Designing and deploying the enterprise function model is an enterpriship (entrepreneurship, leadership, and management) competency and is usually performed in conjunction with enterprise process model design to ensure that value is earned effectively and efficiently.

CONSTITUENCIES
- ENTERPRISES CAN'T EXIST WITHOUT THEM

Constituencies are the groups with whom an enterprise has relationships so as to conduct business. Constituencies form the basis for the governance disciplines: stewardship, strategy, and structure. The relationship between an enterprise and its constituencies is tightly coupled and can't be ignored.

The governance disciplines of an enterprise include:

- Stewardship - the responsibility for the performance of an enterprise and the delivery of value to constituencies

- Strategy - the beneficial positioning of an enterprise in the marketplace so as to deliver value to constituencies over time

- Structure - the enabler of relationships between an enterprise's infrastructure, product and/or services, markets, and constituencies that deliver value

Constituencies are the common element.

Constituency-based stewardship:

The consistencies of an enterprise consist of:

- Primary - employees, customers, suppliers, and investors

- Secondary - regulators and competitors

- Community-at-large

Primary constituencies are directly associated with income earning activities: employees perform, customers buy, suppliers deliver, and investors finance. Employees take care of customers who create demand for suppliers and provide potential for investors to earn a return. Secondary constituencies either permit activities or challenge them. Constituents are individual members of a constituency group.

Employees (primary):

- Full-time and part-time
- Permanent (including leased) and temporary

The definition of employment is determined by Federal immigration, and Federal and state labor and taxation laws and regulations. They are numerous and complex.

A common law employee is an individual performing services for salary or wages, under an oral or written contract, on an ongoing basis, and under the control of a principal for an enterprise.

Corporate officers are treated as employees if they perform services and are compensated; partners in firms, members in limited liability companies, and sole proprietors are not treated as employees.

An independent contractor performs work for a principal who may determine the end result, but not how the result is achieved, and is assumed to be temporary in nature. Severe penalties can result from the misclassification of employees as independent contractors. Independent contractors are enterprises in their own right.

Leased employees are technically employed by a Professional Employment Organization (PEO), but the client is responsible for the control of the work. The administrative burden of the human resources function, including payroll processing, is moved the PEO. In effect, the employees are working for the client with an outsourced human resources department. By pooling employees from multiple clients, the PEO can reduce processing costs and can gain favorable rates for insurance due to the scale effect. Clients pay fees and amounts to cover payroll, taxes, and benefits directly to the PEO.

The rules regarding employment, self-employment, and unemployment taxes are complex. In some cases, independent contractors are considered to be statutory employees for employment tax purposes under the Internal Revenue Code. If not, they are responsible for their own employment taxes.

Customers (primary):

- Acquire "hard" products and "soft" service-related products
- Receive services at the time of product delivery
- Acquire supporting services

Customers may be internal or external to an enterprise. Internally, one unit can provide products and/or services to another, or pass work-in-process. For example, the administrative functions are service providers to the operational functions. Externally, customers can be individuals or enterprises. The relationship between enterprises is always with individuals. Hence, the reputation of an enterprise with its customers is very much dependent upon specific individual relationships, attitudes, and behaviors that may or may not be consistent with management's values and intentions.

Relationships with enterprises that consist of multiple entities and operate in multiple markets can be complex. Corporations often have subsidiaries and affiliates that are separate but related entities under a holding company structure for various business and legal reasons. A specific management team may be common to multiple entities, or just one. As a consequence, business practices may differ between entities within the same structure. Therefore, when establishing a customer relationship, it is important to obtain information about the exact business entity including legal name, especially for credit reporting purposes.

Customers begin relationships as prospects, which are either contractual or non-contractual. However, once a prospect becomes a customer, they should always be treated as such, regardless of whether they are active or not, and unless there is a legal reason to terminate the relationship. An existing customer is also a prospect for marketing products and/or services outside of the current active relationship.

Customers of professional services firms are generally referred to as "clients."

Suppliers (primary):

- Trade and professional
- Real estate
- Financial services
- Industry associations

Because enterprises are customers of suppliers, the same issues apply with respect to individual relationships and multi-entity structures.

Supplier relationships can begin either informally or formally through a "request for proposal" process. Quite often, a relationship begins on an "occasional" basis, and then migrates to a "recurring" basis based upon quality and value.

Trade and professional suppliers deliver materials and supplies, merchandise, and services. Trade suppliers may also extend credit. Real estate services include leasing, purchasing and sales, and facilities management. Financial services providers include commercial banks, finance companies, and insurance companies. As lenders, commercial banks and finance companies extend credit to the entities that make up enterprises. Industry associations provide memberships services, and provide forums where principals in enterprises can discuss common issues.

Investors (primary):

- Individuals
- Enterprises

Investors acquire and divest money market, debt, and equity securities (including derivatives) in entities under Federal and state securities laws and regulations. These laws and regulations are very strict. Investors include individuals and enterprises such as venture capital firms; commercial, corporate, and industrial companies; insurance companies; investment banks; and mutual and pension funds.

The United States Securities and Exchange Commission (SEC) facilitates capital formation by overseeing both private and public issuers of securities, and participants in markets such as brokers, dealers, exchanges, funds, and underwriters. Investors are either accredited or unaccredited under SEC regulations, which determine who may invest in private entities for which there is no market.

Bondholder investors are debt capital holders and shareholder investors are equity capital holders and owners. Partners in firms, members in limited liability companies, and sole proprietors are investors in their enterprises and owners.

Regulators (secondary):

- Federal
- State
- County
- Municipal

Regulators include domestic and foreign governments. Professional boards and institutes also serve as regulators, and may be closely tied to governments.

Regulators supply the right to do business in their jurisdictions in exchange for compliance with laws and regulations and the payment of fees and taxes. They may require licenses and permits. Laws and regulations vary between jurisdictions regarding property (situs) and physical presence (nexus).

Competitors (secondary):

- Traditional
- Non-traditional

Traditional competitors consist of providers of similar or substitute products. Non-traditional competitors consist of new entrant providers of similar or substitute products and disruptive providers. Disruptive providers are either existing or new, and introduce either replacement products and/or services or new delivery systems, often using new and emerging technologies. Disruptive providers are often responsible for paradigm shifts.

Community-at-large:

The community-at-large consists of markets where an enterprise offers its products and/or services; obtains materials, supplies, and services; has employees; or owns or leases property. The community-at-large can spread from local-to-global depending upon the influence and presence of an enterprise, ranging from a small radius around a single physical location to the entire world.

An enterprise can also be influenced by such groups as:

- Labor unions
- Unaffiliated industry, trade, and political groups
- Media outlets including the press, radio, television, and internet
- Philanthropic associations

Because of the effects of outsourcing and the internet, enterprises can extend their reach from a single physical or virtual location to worldwide markets. However, because of the effects of social networking, they have to aware of how they are perceived in local-to-global communities, whether they wish to take action or not.

Constituency-based strategy:

Constituency-based strategy narrows the gap from where the enterprise is to where it wants to be with respect to each of its constituencies. Constituency-based strategy is expressed in terms of specific objectives, goals, and strategic initiatives.

Constituency-based structure:

Constituency-based structure lays the ground work for efficiency through processes that are designed to serve constituencies. If processes are not designed to serve constituencies then chaos can result. As an employee, customer, supplier, or investor, it can be extremely annoying to be switched from organizational unit to unit because nobody knows exactly how to resolve an issue. The further removed a unit is from a constituent, the lower the likelihood of its ability to solve problems.

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The "value chain" is the set of all activities that earn and add value to materials and supplies resulting in finished products and/or services. The value chain links suppliers and customers, through processes are performed by employees, and with facilities and equipment financed by lenders and investors.

Understanding constituencies is an enterprish (entrepreneurship, leadership, and management) competency.

CONSTITUENCY ADVANTAGE
- COMPETITIVE, COLLABORATIVE, AND COOPERATIVE

An enterprise's constituencies are the six key groups that influence its success: employees, customers, suppliers, investors, regulators, and competitors. An enterprise's advantage rests with these groups. The challenge is finding it.

Employees, customers, suppliers, and investors participate with an enterprise as primary constituencies because they contribute to the value-creation process. Regulators and competitors participate as secondary constituencies. Regulators develop laws granting the right for enterprises to do business in certain arenas, and competitors impact enterprises by forcing them to select counter-moves in response to competitive initiatives.

The community-at-large can be considered to be a tertiary constituency, which can be local-to-global as an enterprise develops markets for customers and participates in markets of suppliers around the world.

A constituent is a member of a group of employees, customers, suppliers, investors, regulators, or competitors, i.e., a specific individual or enterprise. Whether "B to B" or "B to C," all constituents whether incorporated or not, are made up of people. Without people there is nothing in business, because people make the decisions.

Three types of advantage can be built with constituencies: competitive, collaborative, and cooperative.

Competitive advantage...

Competitive advantage about the position and posture that offers consistencies better value than competitors. Competitive advantage applies to employees, customers, and investors. The advantage results for employees in terms better working conditions and opportunities; for customers in terms of convenience, quality of products and/or services, and price; and for investors in terms of returns above the cost of capital.

Successful enterprises have tight coupling between people and processes. Tight coupling of constituencies with business processes increases the likelihood of realizing competitive advantage. The result of tight coupling is a differentiated, distinctive enterprise that is hard to replicate by others, but easy to duplicate by the enterprise itself.

Employees whose activities are efficiently integrated with the enterprise reduce inefficiencies and increase competitive advantage.

An example of the use of tight coupling is Southwest Airlines, which has built an entire culture around its processes for providing air transportation. Southwest relies upon a high degree of standardization in processes, facilities, and equipment.

Southwest also demonstrates that competitive advantage is found in the intangibles - people and the resulting culture and processes are difficult to separate because they are so tightly coupled. For example, the employees "luv" to work at Southwest (New York Stock Exchange: LUV - for Love Field - Southwest's home base).

Other airlines have tried to mimic Southwest but have been unable to replicate the concept because they could not achieve the same degree of coupling between people and processes.

Customers become tightly coupled with the enterprise through loyalty programs and products and/or services that convenient and easy to use.

For example, frequent flyer programs tightly couple customers to airlines; internet banking systems tightly couple customers to banks. When tight coupling occurs, switching from enterprise to enterprise is hard and costly to customers - therefore, competitive advantage results.

The Walt Disney Company is another example of an excellent fit between people and processes. Disney uses its employees, who are in effect "cast members," and processes to bring magic to its customers - the product is very much vested in the experience.

Competitive regulatory advantage exists when an enterprise finds a loophole in laws and regulations that others have yet to find. For example, North Carolina National Bank found a loophole in banking laws that enabled it to expand into Florida. It went on to become NationsBank, and eventually acquired Bank of America, making Charlotte, North Carolina a major international financial center.

Collaborative advantage...

Collaborative advantage is about the relationships between suppliers, or customers, or peers as a partnership with a common mission, and operating dependently for mutual value. This type of arrangement is common in general contractor/subcontractor relationships, where many different enterprises are working together to complete a common project, such as in the aerospace and construction industries.

No major project can be completed without collaborative efforts from multiple parties who bring diverse knowledge and skills to the endeavor.

The more tightly coupled the supply chain is between suppliers and customers, the more advantage the participants have in the chain collaboratively. The use of information technology can make a big difference in the tightness of the coupling.

For example, suppliers who send package tracing information to their customers as provided by Fedex and UPS establish a three way relationship between themselves, their suppliers, and the customer.

Suppliers who share information with customers, and vice versa, about demographics and psychographics of customers, product preferences and usage, have a much greater advantage than those who are locked out of the chain.

Cooperative advantage...

Cooperative advantage is about the relationships between suppliers, or customers, or peers as an association with a similar mission, but operating independently for mutual value. This type of arrangement is common in outsourcing relationships, where one enterprise is providing services for another, but is managed independently.

For example, in the business of outsourced telemarketing call centers, the service provider initiates and responds to telephone calls in the names of their clients - the customers think that they are talking to employees of the enterprise itself.

Cooperative relationships are popular when enterprises move away from being fully vertically integrated, and no longer control the entire process from raw materials to finished products and/or services.

Enterpriship...

Understanding constituencies and building competitive, collaborative, and cooperative advantage through tight coupling are enterpriship (entrepreneurship, leadership, and management) competencies that are essential to value creation.

ARCHITECTING PROCESSES FROM BEGINNING TO END

A process is a group of activities that takes in one or more kinds of input and creates output that is of value. Processes are the arteries of enterprises. A process model describes the inputs, outputs, procedures, standards, and expected results. Every enterprise has a set of processes through which it delivers its products and/or services to either internal or external customers, or both. The performance of the enterprise depends upon how well processes fit together effectively and efficiently - that means how well they are architected.

An enterprise's infrastructure consists of a set of processes, functions, facilities, and equipment.

In order for the enterprise to create the most value, the infrastructure must be "well architected." "Well architected" means that there is no unnecessary duplication or redundancy of assets or effort, and that the activities fit together systematically.

Architecting the infrastructure...

Architecting the infrastructure begins by developing the "enterprise process model." This model describes the highest level activities within the enterprise that deliver value to either external or internal customers, or both. If an activity does not deliver value, then it is not part of the enterprise process model.

The "value chain" is the set of all activities that earn and add value to materials and supplies, resulting in finished products and/or services. A finished product and/or service from one enterprise, may be raw material or supplies, or a subassembly to another.

Management must ensure that not only do processes in the chain add value, but that they do so in an effective and efficient manner, thus increasing the value earned.

A process is the intersection of people and products and/or services. The people include external and internal suppliers who provide the inputs, the employees who execute the procedures, and internal and external customers to whom the resulting outputs are delivered. In effect, the employees apply their knowledge and skills to the procedures to the benefit of the customers. Management must ensure that the "tribal knowledge" in the heads of the employees of how the processes really work is adequately documented, or else they can be held hostage.

The more tightly coupled the processes are in the value chain, the more sustainable the enterprise will be, provided that changes in strategy can be accommodated.

As changes in strategy cause market entrances and exits, product and/or service introductions and withdrawals, and organizational changes over time, the infrastructure becomes unarchitected. If so, value leaks and performance degrades, and consequently the infrastructure has to be reengineered.

Changes in strategy may require an infrastructure upgrade or replacement, as is common when new systems are implemented.

Successful franchise business system operators are grand masters at designing architected infrastructures. The tightness of the infrastructure is a distinguishing factor from "mom and pop" enterprises, especially in the fast food industry.

In fast food franchises, the branding blends with the service delivery. There is a tight fit between the menu items offered and the equipment used to prepare them. There is no redundant equipment, and only items that can be prepared using the installed equipment can be offered for sale. Facilities design is standardized, not just for effectiveness and efficiency, but also to make the experience easier for employees, customers, and suppliers.

For example, in a hypothetical fast food establishment, fries are on the left and shakes are on the right. However, only chocolate and vanilla shakes are offered, because there is no equipment to prepare fruit.

From macro to micro...

An enterprise has tens, if not hundreds, if not thousands of processes. The "enterprise process model" represents the highest level "macro" processes.

The model starts with just three macro processes: planning and policy development, deployment, and performance measurement. The deployment process subdivides into research and development, and sales and production micro processes.

Macro processes cross functions and decompose into micro processes within functions. These terms are relative because a micro process at the enterprise level, is a macro process at the function level. Because functions decompose into subfunctions, there are "ladders" of macro and micro processes from the top of the enterprise down to the simplest activities on the "floor."

The terms "macro" and "micro" are common in engineering-related industries, such as information technology and manufacturing. For example, Microsoft Corporation began as a developer of software for microprocessors, when mainframe computers were considered to be macroprocessors. Microchip Technology, Inc. is a manufacturer of small electronic controllers used in cars and electronic devices.

For example, the sales macro process embraces everything that is required to deliver a product to a customer, including the supporting services. The sales macro process crosses three functions: marketing, sales, and service. However, each function has its own set of distinct micro processes. The micro processes within the sales function itself are just one set in the entire sales macro process because the marketing and service functions are also heavily involved.

For example, the marketing function deploys processes to create awareness of products and/or services, whereas the sales function deploys processes to close a transaction with a customer. Although micro processes to the enterprise, the macro processes within the marketing function include promotion, pricing, packaging, and placement, and are very important to generating business that can ultimately be closed by people in the sales function.

For example, the production macro process embraces everything that is required to transform raw materials into finished products. The inputs are raw materials and supplies; the outputs are either end-products, or subassemblies, which become inputs to further processes "downstream."

The production macro process crosses three functions: procurement, manufacturing, and distribution. Although micro processes to the enterprise, the macro processes within the manufacturing function include fabrication, assembly, and packaging. The fabrication macro process decomposes into cutting, molding, machining, and welding micro processes.

Process mapping...

Without an overall map, it is very easy for the processes to become fragmented and fit together haphazardly, especially when changes are made on an "ad-hoc" basis to accommodate short-term needs and "quick fixes."

To architect the infrastructure effectively and efficiently, the processes in the value chain should be mapped periodically to determine where there are opportunities to improve workflows, or to eliminate duplication and redundancy altogether.

"Reengineering" is the process of improving the effectiveness and efficiency of infrastructure, and transforming it from unarchitected to architected.

When architecting an infrastructure, processes should be designed so that their results are predictable and measurable, and are trainable and repeatable. Where possible, closed systems should be developed where feedback loops enable actual results to be compared to planned.

Architecting infrastructures is an enterpriship (entrepreneurship, leadership, and management) competency that is essential to earning value.

PRODUCTS AND/OR SERVICES - DEFINING "SERVICE-ORIENTED" PRODUCTS AND THE RELATED ROLE OF TECHNOLOGY

Enterprises deliver value through products and services that are intended to meet the wants or needs of both external and internal customers. Service-oriented products, also described as product-oriented services, have the characteristics of both products and services. Technology plays a major role in the definition and delivery of the functions and features of service-oriented products. As technology becomes more ubiquitous, so do service-oriented and digital products as contributors to the economy. Industries such as "digital-construction" and "digital-manufacturing" are evolving.

The economy can be analyzed using both market-driven and production-driven approaches to industry classification. The North American Industry Classification System (NAICS) uses a market-driven approach; the older Standard Industrial Classification (SIC) uses a production-driven approach.

Under a market-driven approach, the economy comprises goods-producing and service-providing industries. Goods-producing industries include: natural resources and mining, construction, and manufacturing; service-providing industries include: wholesale and retail trade, transportation (and warehousing), utilities, information, financial activities, professional and business services, education and health services, leisure and hospitality, and public administration.

Under a production-driven approach, the economy comprises product-driven and service-driven industries. Product-driven industries comprise enterprises that manage inventories available for sale as primary activities (regardless of whether they transform them or not). Under this approach, the retail, wholesale, and food service industries are product-driven. (The kitchens of food service providers are equivalent to factories.) Product-driven enterprises may have extensive cost accounting and operations practices for inventory management.

Industry classifications can be applied to an enterprise as a whole (the primary industry), and to the establishments within it, which may be in differing secondary industries. Establishments are facilities that include plants (factories and warehouses) and branches (retail and wholesale outlets).

For example, the hospitality industry is service-driven; under the production-driven approach, the bar and restaurant establishments within a hotel are product-driven. The entertainment industry is service-driven; under the production-driven approach, the retail and bar establishments within a theater are product-driven. The health care industry is service-driven; under the production-driven approach, the retail pharmacy establishment within a hospital is product-driven. Under the market-driven approach, all of these establishments are service-providing.

For example, a manufacturing enterprise is goods-producing under a market-driven approach, and product-driven under a production-driven approach. If it also operates a retail delivery system, the stores are service-providers under a market-driven approach, and are product-driven under a production-driven approach. If all sales revenue is sourced from its own products, the enterprise is in two primary industries. However, if forced to decide, its selection should be based upon core competencies - activities that it performs well. The enterprise can be divided into two separate business units: manufacturing and merchandising. The merchandising unit is an internal customer of the manufacturing unit. However, depending on strategy and policy, the manufacturing unit could sell products to wholesalers and other retailers, and the merchandising unit could buy products from other manufacturers and wholesalers. Under a market-driven approach, the manufacturing unit is goods-producing and the merchandising unit is service-providing, whereas under the production-driven approach, the merchandising unit is product-driven.

The make-up of the economy changes over time as newer industries emerge and grow and older industries mature and decline. For example, the manufacturing industry is shifting from vertically integrated to strategically outsourced. Strategic outsourcers may manufacture specialized components and assemble finished products. However, by outsourcing the manufacturing of utility components to specialty scale manufacturers, strategic outsourcers can lower their production costs.

Biotechnology and nanotechnology are emerging industries. The information industries are growing as technology becomes more ubiquitous, and as knowledge is packaged in digital products. Knowledge is information that has been learned and retained. In the future, knowledge will be retained extensively in electronic form.

Products and services...

The term "product" is associated with something that is tangible - the resulting inventory from agricultural, mining and drilling, construction, and manufacturing activities. Outputs are either end-products, or components that are assembled into end-products in downstream processes within the enterprise or in its customers.

The term "service" is associated with something that is intangible - capabilities either delivered at the point or time of sale, or shortly thereafter, or as a supporting service. Supporting services can be purchased at the time of sale for downstream use, or later, and consist of such items as warranties beyond those bundled with the product, preventive maintenance, and routine cleaning and repairs.

Functions and features of products are easier to discern than those of services, which are event or activity driven, and may occur in the future.

The term "time of sale" means when a contractual or non-contractual agreement between a buyer and a seller is made, and does not necessarily mean when revenue is recognized and earned. Revenue is recognized and earned according to the accounting principles that fit the service offering, which may be over a period of time.

A commodity is a product or service that is indistinguishable and interchangeable with another of the same type because there is little to no value added. Many commodities are natural, such as produce, minerals, oil, and gas. Services can be commoditized too. The distinguishing factors of a commodity provider include convenience, quality of service, and price.

Product-driven enterprises also offer delivery and supporting services. Delivery services include arranging for transportation, dealer preparation, training, and gift wrapping. Supporting services include cleaning, repairs, and maintenance. To remain competitive over time, enterprises have to add services with their product offerings that exceed customer expectations. However, if customers require such services, then they must become part of the basic offerings. For example, bathroom facilities and color TV are included in modern hotel rooms, even though the primary purpose is providing a place to sleep.

Although services are intangible, their effects are not. Transportation services move people, cleaning services remove dirt and stains, and repair services restore items to working order. Services require facilities, equipment, and supplies that are bundled in. When products are bundled in, the enterprise pays sales or use tax, if applicable; when products are sold with services, the customer usually pays sales or use tax, if applicable.

Service-driven enterprises can produce tangible deliverables. For example, dry cleaners produce clean and pressed clothes; professional service firms, such as architects, accountants, attorneys, and consultants produce reports; and engineers produce design drawings that can be transformed into facilities, equipment, or other tangible products.

The recording and movie industries employ technologies that can capture sound and pictures. Starting in laboratories, these industries transform science into art. Hence, live entertainment performances (services) can be transformed into recorded products. As a consequence, an event or activity can be reproduced, duplicated, distributed, and repeated to the public-at-large indefinitely. Digital products are impacting traditional manufacturing, distribution, and consumer buying behaviors, and placing intermediaries at risk.

Process control and information technologies have enabled seamless integration between designers and manufacturers. The "design-to-construction" process becomes ubiquitous as computer-aided design and manufacturing technologies (CAD/CAM) enable a designer in one location to transmit specifications to manufacturers in others. The designs are virtual, and result in instructions that control manufacturing equipment in both local and remote locations. As a consequence, manufacturing can be outsourced strategically to any manufacturer that can accept electronic designs anywhere at any time. Because the process is seamless, the precision is higher.

As more enterprises adopt the design-to-construction model, dramatic changes will occur in the structure of industries. For example, in the publishing industry, books can be printed on demand from electronic files upon receipt of orders placed over the internet, eliminating the need for physical inventory available for sale at printers, publishers, and bookstores. The electronic files represent a virtual finished goods inventory from which physical products can be made when necessary. As a consequence, inventory carrying costs are lower.

Both product-driven and service-driven industries render service from centers that receive inbound and place outbound service and telemarketing calls. Call center activities can be outsourced in a similar fashion to manufacturing.

The notion of strategic outsourcing can be applied to almost every function in an enterprise provided intellectual property is protected. However, although management consultants may be used in the development of strategy, the ultimate responsibility for planning, deployment, execution, and performance remains in-house with the governance function.

Products and/or services...

The term "products and/or services" describes collectively all types of products and services.

Service-driven industries are evolving into providers of both "product-oriented" and "service-oriented" services. In order to differentiate product-oriented services from the delivery and supporting services, the term "service-oriented" products provides more clarity. Service-oriented products must be definable, duplicable, and repeatable. They are intangible outputs of processes that are represented by tangible items, packaged in a definable form. Technology plays a major role in the delivery through hardware, software, and both voice and data telecommunications. "Hard" products are tangible and "soft" products are intangible.

For example, traditional land phone line services were offerings with few differentiating features, primarily in the style of equipment. As the telephone system migrated from electro-mechanical to electronic, the offerings were transformed into service-oriented products with features such as call forwarding, caller identification, call waiting, and voice mail. Cell phone offerings are service-oriented products with more extensive functions and features than land lines. Cell phone service-oriented products have cameras built-in, and have delivery and supporting services bundled in such as account information, internet access, and application software for calculators, calendars, contact information, notes, games, music, pictures and movies. Cell phone and computer technologies are converging.

In the financial and business and professional services industries, service-oriented products are packaged with such items as accounts, agreements, brochures, contracts, databases, documents, equipment, facilities, policies, procedures, and statements.

In the leisure and hospitality industries, service-oriented products such as flights, hotel rooms, car rentals, and limousine services are packaged with facilities, equipment, and supplies. The types of facilities and equipment define specific offerings. For example, an Airbus A380 renders a different experience from a Douglas DC3 even though the principal service is the same: providing air transportation. A hotel room with a view of the ocean renders a different experience from one with no windows at all, even though the principal service is the same: providing accommodation. The quality of the accoutrements such as blankets, pillows, towels, newspapers, cable TV, internet access, and fruit baskets can affect the overall experience. A Cadillac renders a different experience from a Chevrolet, even through the principal service is the same: providing a rental car to drive, or a limousine.

Travel-related service-providers bundle air, hotel, car rental, and limousine services into packages to make the buying decisions easier for consumers. Event planners bundle travel-related services with conference and convention services for enterprises.

Consumables, durables, and facilities...

Manufactured products consist consumables and durables.

Consumables are products change or wear out as they are used and comprise food, clothing, personal care, health care, household supply, and office supply items. Media such as books, records, audio and video CDs, and DVDs are classed as consumables - the intellectual property is worth far more than the media.

Durables are long lasting equipment items such as appliances, furniture, and vehicles.

Digital products may involve no media if they delivered electronically other than the server of the publisher and the electronic device of the user.

Facilities are the outputs of construction activities and are made of durable materials.

Contractual or non-contractual products and/or services...

Agreements are contractual or non-contractual based depending upon the type of offering, and the nature of the relationship between buyers and sellers.

Consumable products can be sold with the right to return for exchange or refund within a certain period of time. Durable products can be sold with agreements that define warranties and maintenance.

Service-oriented products and services can be sold with agreements that specify exactly what is to be delivered and when, with procedures for reporting problems or complaints.

In negotiations, discussions should embrace the specific functions and features of hard and soft products, and the delivery and supporting services. Experienced negotiators pay attention to both the tangibles and intangibles because the total cost of ownership comprises both.

Digital-construction and digital-manufacturing...

As technology continues to develop, service-oriented products will become more common because it makes intangible items definable. New knowledge-based industries will emerge.

The reproduction of software on physical media is classified as goods-producing, and all other development and publishing activities are classified as service-providing under NAICS. However, software and other digital products are durable because they can last indefinitely, even if they have to be transferred among storage media. Software products are developed by service-providers such as business and professional services firms, publishers, and "in-house" developers. Nevertheless, software development activities require the project management disciplines of goods-producing industries, such as construction and manufacturing, to be successful.

The "digital-construction" and "digital-manufacturing" industries are evolving: digital construction delivers software; digital manufacturing delivers soft service-oriented, information, and knowledge-based products. However, through CAD/CAM processes, software delivers hard products too. In the future, almost all hard and soft products will result from digital-construction and digital-manufacturing processes.

Defining product and/or services is an enterpriship (entrepreneurship, leadership, and management) competency.

PRODUCT AND ENTERPRISE INSTITUTIONALIZATION - STRIVING TO LAST INDEFINITELY

For an enterprise to be sustainable, it must offer products or services that become institutionalized, regardless of whether the founding entrepreneur or lifestyle enterprise owner stays or not. Institutionalized products or services are those that have become permanent features in society or in a community as determined by the marketplace. As a consequence, the enterprise becomes institutionalized also. However, achieving the state of product and enterprise institutionalization requires an effective management team that can deliver the right products or services into the best markets.

Thomas Edison once said that he had not failed, but just found 10,000 ways that didn't work. He also said that he didn't want to invent anything that wouldn't sell, because sales are proof of utility, and utility is success.

Upwardly mobile entrepreneurs start enterprises to transform innovative ideas into products and/or services that are attractive in large markets. One reason for doing so is to create wealth. Another reason is to make a statement by creating a product and/or service that delivers value and makes a difference in the marketplace. Yet another reason is to make a contribution to society and leave a legacy regardless of whether they create wealth for themselves or not.

High-tech enterprises usually have to be upwardly mobile. This is because the capital requirements for product, market, and infrastructure development require large markets that have enough critical mass to generate a return on investment. It is hard to generate a basic income from an upwardly mobile enterprise in the emerging and growth stages unless the idea is so compelling that it can attract capital to fuel growth early on.

Over the long haul, upwardly mobile enterprises can generate significant wealth as demonstrated by the energy providers, such as Exxon Mobil and Royal Dutch Shell. However, they can have downturns too as demonstrated in the automotive industry by Chrysler, Ford, and General Motors. Coca-Cola is an upwardly mobile enterprise with huge brand equity.

Some upwardly mobile enterprises are unable to reach large markets but default to becoming lifestyle enterprises in a scaled down form.

Many lifestyle entrepreneurs and owners either start or acquire enterprises to provide a basic income to sustain themselves. This is a risky approach unless the owner puts the customers' wants and needs ahead of their own, and has sufficient working capital to survive until the enterprise makes a profit, if at all. These enterprises are found on Main Street as automotive body and repair shops, gas stations, restaurants, retail stores, and service providers. Many famous names such as Albertsons, Kroger, Macy's, Marriott, Walgreens, and Wal-Mart began as lifestyle enterprises.

Without attractive products and/or services, building empires of enterprises is a waste of capital, as is building enterprises on hope - it takes a compelling value proposition to achieve product and enterprise institutionalization, although convenience and quality of service can be differentiators also.

A lifestyle enterprise can migrate to an upwardly mobile enterprise if there is demand for its products and/or services in multiple markets. Franchising provides a way of transforming a lifestyle enterprise into an upwardly mobile by applying the duplicable principle to enable expansion in multiple markets. Kentucky Fried Chicken, Holiday Inn, and McDonald's reached multiple markets in this way.

Whatever the approach, founding entrepreneurs and owners strive to see their products and/or services and enterprises become permanent features of society, and to earn a return on their investment of time and money. Ideally the enterprise will become sustainable over time. Permanence is a condition of lasting indefinitely, but not necessarily forever.

Products and/or services become institutionalized within society or in a community over time if customers in the marketplace adopt, use, and rely upon them on an ongoing basis, regardless of the effort to promote them. If the products and/or services become institutionalized, then the enterprise that produces and sells them becomes institutionalized too. If not, the products and/or services and the enterprise will eventually blend into the background. For example, products from Campbell's, Colgate-Palmolive, Heinz, Johnson & Johnson, Procter & Gamble, and Unilever are institutionalized, as are the enterprises themselves.

If the product and/or service causes a paradigm shift through changes in assumptions, concepts, practices, and values, a major promotional campaign over a prolonged period of time may be necessary to achieve widespread adoption. Many high-tech products and/or services, such as automated teller machines, cell phones, portable digital assistants, radio, and television, have caused paradigm shifts, but over long periods of time.

Successful products and/or services institutionalize out of the wants and needs of the marketplace. Product and enterprise institutionalization is not an accident. It takes an effective management team to develop the right people, process, and product and/or service capabilities in large markets that are ready, willing, aware, and able to buy.

Founding entrepreneurs and owners may be able to translate an innovative idea into a product and/or service that earns and adds value. They may not necessarily have the leadership and managerial competencies to attract the right employee, customer, supplier, and investor constituencies through whom institutionalization can occur, or deliver results consistently through engineered processes.

Institutionalization starts with plans and policies. Attracting the right constituencies requires aspirational, inspirational, and motivational communications that entertain, inform, convince, and persuade. Delivering results requires organizing, executing, evaluating, and adjusting resources and activities based upon performance measures that can capture feedback from constituencies. Both new products and/or services and enterprises require adaption based upon how the marketplace responds. Adaption involves tuning and standardizing functions and features. As the product and/or service migrates through its life cycle, enhancement and maintenance will be required to optimize the value opportunities. Adaption is the intersection between what the entrepreneur had envisioned and how the marketplace responds. As the enterprise migrates through its life cycle, intrapreneurial, leadership, and management competencies are required to balance new innovation with improvement.

Through this approach, institutionalization can occur regardless of whether the founding entrepreneur or owner stays or leaves. Sometimes an entrepreneur takes on a new role, such as a chief technology officer, if a new management team comes on board. Sometimes the founding lifestyle enterprise owner sells to an experienced operator who can adapt a fledgling enterprise into one with traction. In such cases, the founder may become an employee of the new owner.

Entrepreneurs and owners must be willing to surround themselves with others that collectively have the enterpriship (entrepreneurship, leadership, and management) competencies to institutionalize products and/or services, and consequently the enterprise itself, by leveraging people, process, and product and/or service capabilities.

Achieving product and enterprise institutionalization is an enterpriship competency.

PLAYING TO WIN - STRATEGY TO BUILD COMPETITIVE, COLLABORATIVE, AND COOPERATIVE ADVANTAGE

Strategy is about winning in the marketplace by acquiring market share to deliver value, and by improving performance over time. Strategy is the implementation of both plans and policies, and is deployed and executed through programs, projects, and perpetual processes. The concept of strategy originated with governments out of political need, and was executed as war. In business, strategy is about winning constituency relationships, especially those of customers.

Strategy is the beneficial positioning and posturing of an enterprise in an industry and related marketplaces so as to deliver value over time. The direction towards broad or narrow markets, with either differentiated or utility products and/or services and lines, is a function of position. Being a leader, close follower, laggard, or niche player, as either a scale provider or boutique, is a function of posture. Posturing based upon growth requires an effective approach to mergers, acquisitions, and divestitures. Strategy can be either offensive or defensive in various markets.

Strategy is a set of actions derived from both plans and policies to gain advantage including:

- Aspirational - loyal relationships between employee, customer, supplier, and investor constituencies because stated and enacted values are consistent

- Competitive - the position and posture that offers consistencies better value than competitors

- Collaborative - relationships between suppliers, or customers, or peers as a partnership with a common mission, and operating dependently for mutual value

- Cooperative - relationships between suppliers, or customers, or peers as an association with a similar mission, but operating independently for mutual value

Winning customer relationships is essential; building effective relationships with all constituencies is necessary for delivering value.

Strategy formulation should begin early and continue throughout the life of an enterprise - as vision becomes reality, there is more experience to draw upon. However, building sustainable advantage means being able to enact change, either by causing or responding to it, on an ongoing basis.

The components of strategy include:

Enterprise:

- Aspiration - vision and guiding principles, mission, vision, value proposition

- Industry position and posture - sector; segments: single product line, diversified, or conglomerate; scale provider or boutique

Competitive position and posture:

- Markets: high barriers to entry - either broad or narrow

- Products and/or services: either differentiated by distinctive functions and features commanding a premium price, or utilities at discount

- Infrastructure: hard to replicate - tight fit between people, processes, and products and/or services; discount pricing requires effective and efficient production cost and operating expense management

Performance improvement:

- Repositioning in markets

- Restructuring administrative and operational activities

- Reengineering processes

Constituency-based objectives, goals, and strategic initiatives:

- Employees
- Customers
- Suppliers
- Investors
- Regulators
- Competitors

Functional:

- Enterprise
- Legal
- Finance
- Human Resources
- Information Technology
- Research and Development (program management and engineering: market, product, infrastructure)
- Operations (procurement, manufacturing or equivalent, distribution)
- Business Development (marketing, sales, service)

Governance:

- Legal vehicles
- Organizational structure (functions and business units)
- Standard of ethics
- Sustainability - environmental, economic, and social

Key performance indicators:

- Financial: revenue, costs and expenses, profits, cash flows, financial capital, operating capital, investment capital, and returns based upon rates, quantities of input, volumes of output, and gains
- Non-financial: market share and penetration, product and/or service usage, satisfaction, quality, time-to-market, cycle time, productivity, asset capacity and utilization

Strategic plans are supported by tactical, operational, and financial plans, and processes for enhancement and maintenance.

Strategy formulation is an enterpriship (entrepreneurship, leadership, and managerial) competency.

THE DUPLICABLE PRINCIPLE - EARNING VALUE THROUGH GROWTH RELIABLY

Every successful enterprise wants and needs to further its vision and to expand profitably in order to build sustainable advantage. To facilitate sustainability, processes must be integrated from their components in a form that is duplicable. Once integrated, the enterprise can further penetrate existing markets, or expand into new markets reliably to earn value through growth.

The value of an enterprise increases when it can build a network of successful duplicable activities. This approach has been used by enterprises such as HSBC, McDonald's, Royal Dutch Shell, Starbucks, and Walmart to expand in both domestic and foreign markets as either corporate or franchise systems, or both.

The technique requires building a standardized business system from duplicable processes, functions, facilities and equipment with proven products and/or services in one market, that offer potential in others. The technique is applied most often by operators of bank branches, chain department stores, drug stores, fast-food restaurants, gas stations, and supermarkets. However, it is equally applicable to internal administrative departments and operational plants and warehouses.

The ingredients consist of a set of measurable, predictable, repeatable, and trainable processes that can be integrated together and with related functions, facilities, and equipment to form the business system itself. Standardized products and/or services are delivered through this highly routinized system as a bundle.

A vision may be realized with a single successful location; an aspiration may be realized through a global network of locations.

The system may start from a successful lifestyle business enterprise at a single location, which with some fine tuning, can be duplicated as an upwardly mobile enterprise in both local and foreign markets. Or it may start from an intentional strategy to build a network, with a proof of concept in the first market to determine what works, and what doesn't. Either way, once the recipe for success is fine tuned, the system can duplicated as a corporate network, or offered as a package to franchisees.

It is essential to include only those components that deliver value effectively, efficiently, and economically, and shut out anything that adds unnecessary cost. A distinguishing factor of franchise systems from "mom and pop" enterprises, is that whereas the cost of entry in a franchise system is usually higher, the system has a higher chance of success and earning value.

The duplicable principle is also used by network marketing systems, which first offer products and/or services to customers, and then show them how to duplicate the process by offering the system to others. These systems are often based on the notion of switching products and/services to save money, and then showing others how to do the same thing to earn money.

The duplicable principle enabled Walmart to grow from a single location in Rogers, Arkansas to the world's largest enterprise in terms of revenue in less than fifty years. It enabled McDonald's to become a global restauranteur, and HSBC to become the world's local bank. It enabled Colonel Sanders (Kentucky Fried Chicken) to have one of the most recognizable faces in the world.

The principle enables an enterprise to penetrate existing markets with confidence, and to enter new markets with anticipation and deliberation, although some local adjustments may be necessary in foreign markets.

For example, McDonald's offers vegetarian burgers in India in accordance with local dietary customs.

The principle also enables customers to recognize and patronize their favorite establishments when traveling away from home. Hotel systems, such as Hilton and Holiday Inn, and car rental systems, such as Avis and Hertz, were built on the duplicable principle because they were recognizable in foreign markets, and perceived as safe and reliable by their domestic customers.

The principle also enables both employees and suppliers to know what to expect in terms of materials, supplies, and service standards.

Deploying the duplicable principle is an enterpriship (entrepreneurship, leadership, and management) competency that earns value through growth with reliability.

UTILIZING CAPITAL EFFECTIVELY - THE FOUNDATION FOR BUILDING SUSTAINABLE ADVANTAGE

Enterprises are built on a foundation of natural, human, intellectual, and financial capital, which must be managed effectively and efficiently. Understanding the costs, risks, and returns associated with each form is essential to building sustainable advantage.

In economic theory, land, labor, and capital resources are the three factors of production and distribution of goods and services. In free markets, production and distribution activities are intended for profit, and the prices that determine gross revenue are set by supply and demand. Net income results from operating profit (revenue less cost and expenses), dividends, net interest, gains on sales of capital assets, and other miscellaneous items. Net interest income comprises interest revenue less interest expense. Net income creates wealth, which is a source of future capital, and so the cycle repeats.

Land is a collective term for natural capital. Labor is a collective term for human capital and the intellectual capital it uses. Labor includes entrepreneurs, executives, managers, and associates (supervisors and staff). Intellectual capital includes but is not limited to those methods that are learned as competencies (knowledge and skills). Capital, or more specifically financial capital, means wealth in the form of money or monetary equivalents used in the production and distribution of goods and services, and is intended to generate income.

Entrepreneurs can be considered to be a distinct factor of production and distribution separate from the other three; economies would not exist with them. However, management competencies are required to organize production and distribution activities to generate income.

Utilization is about practical use of assets - capital has a cost, and therefore must be used effectively and efficiently. It is important to understand the costs, risks, and returns associated with the use of each type of capital resource.

Sustainability is about being able to provide for current generations without damaging the ability of future generations to provide for themselves. Sustainable means being able to continue over time, either by developing, enhancing, or maintaining the current state, or by changing it. Advantage means favorable, superior, and beneficial.

Natural:

Natural capital represents anything related to the environment that is used by the enterprise, and is the initial source of all raw materials, including air, soil, and water. Sustainability is especially important with respect to the use of natural capital. Misuse of natural capital damages the environment.

Historically, natural capital has been available at lower cost than its real value because sustainability has been ignored. In the future, natural capital is likely to cost more to cover both the remedial efforts to repair the environment, and the preservation efforts going forward. The risk of investment is misuse, which be lowered by avoiding the use of contaminants and pollutants, and by encouraging energy conservation and recycling programs. Opportunities should be pursued to use alternative fuels and other materials that do not impact the environment negatively.

"Green" profit improvement programs are initiatives that can be put in place to find alternative resources and processes that are environmentally friendly, and to find offsets to any increased costs that may be incurred. The economics related to the use of natural capital can change dramatically if sustainability is pursued with vigor. A paradigm shift is occurring towards the ecological economy.

The return on investment in natural capital results in higher quality resources such as pollution-free air, purified water, and contaminant-free soil. Such resources have significant benefits over the long-term, especially for quality of products and/or services, and for health.

Human:

Human capital, otherwise referred to as "human resources," represents those characteristics of individuals that enable them to be economically productive for both themselves and the enterprise. Human resources comprise both employees and independent contractors. The characteristics of human resources include confidence, competencies, experience, and commitment.

An enterprise is dependent on its human resources for results - process and product/service capabilities are a function of people capabilities. Therefore, it is important that human resources are developed to their full potential.

Ongoing education and on-the-job training programs to develop knowledge and skills are essential to keeping individuals economically productive as conditions change. Hence, education and training programs should be considered to be an investment, not an expense, when relevant. Well educated and trained employees must follow responsible leadership that motivates them to be productive and efficient. The value of well educated, trained, productive, and efficient human resources appreciates over time. However, to use human resources the most effectively, it is important for management to obtain feedback from its people, especially those on the front line.

The risks of investment in human resources include individuals that are unwilling or unable to reach their full potential, or leave. The result is wasted education and training efforts. The return on investment results from the enterprise becoming more effective and efficient. An enterprise can also contribute educated, trained, productive, and efficient human resources into the local community for the social good.

Intellectual:

Intellectual capital represents knowledge that gives an advantage, and hence must be protected. The more proprietary the knowledge is, the more the advantage that can be gained because competitors cannot use it without a licensing agreement. Intellectual capital is derived from people (human capital), and is manifested in processes and functions, and in products and/or services.

Intellectual capital defines the enterprise and product and/or service brands, builds a competitive barrier, provides a defense against other holders of intellectual property, and increases revenue generation and financing opportunities. More specifically, it consists of data, formulae, licenses, recipes, service marks, software, trade dress, trademarks, trade names, trade secrets, and written materials.

Intellectual property can be protected through copyrights, patents, and registrations of service marks, trademarks, and trade names. Patents are public information.

Almost every enterprise has some form of intellectual capital ranging from the "secret sauce" in the recipes of menu items at lifestyle restaurants to the code in Microsoft Windows. The Coca-Cola Company has a secret recipe for the ingredients of the world famous beverage, and non-generic products of pharmaceutical enterprises are covered by patents.

The risks of investment in intellectual capital include its failure to perform as specified, which could cause product liability claims, or its inability to generate income at all. The returns on investment include profits from competitive advantage not otherwise available, and revenue from licensing opportunities offered to third-parties.

Financial:

Financial capital represents money and monetary equivalents, and consists of equity (ownership) and debt (long-term loans in various forms) invested in the enterprise as operating and investment capital. Equity comprises capital stock, current period income, other comprehensive income, and retained earnings less treasury stock. Operating capital is used to finance activities in the current cycle, and investment capital is used to finance capital assets, such as facilities and equipment, and positions in other enterprises. Operating capital can also be sourced from advances, borrowings, credit extensions, and short-term loans that are not considered part of the capitalization of the enterprise.

The risks of investment in financial capital include losses from revenues not covering costs and expenses, and depreciation because fair or market value is lower than cost. The returns on investment include profits from revenue in excess of costs and expenses, gains from appreciation because fair or market value is greater than cost, and from dividends and net interest income.

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In a knowledge-based economy, the value of intellectual capital and the human capital that uses it is increasing. "Tribal knowledge" represents know-how within the enterprise that is essential to delivering products and/or services, and must be captured in practices such as policies, processes, and procedures. Using business intelligence as information for competitive advantage can be a differentiator in the marketplace.

However, the greatest opportunities may be in the delivery of knowledge-based products and/or services that result from digital construction and manufacturing processes. Innovation, infrastructure, and information are three factors of production in a knowledge-based economy. Knowledge is only of value if it is put into practice.

Utilizing capital effectively is an enterpriship (entrepreneurship, leadership, and managerial) competency.

THE BASIC LANGUAGE OF VALUE

The word "value" means something of worth or usefulness. Language has evolved around this word over time within the disciplines of entrepreneurship, leadership, and management that is valuable to know.

The basic language of value comprises the concepts of net worth and exchange.

Book value of assets, liabilities, and an enterprise

The value at which assets and liabilities are carried on a statement of financial position of an enterprise.

A statement of financial position shows the value of assets (resources for opportunities) and liabilities (obligations) at a point in time. The difference between the value of total assets and total liabilities is the owners' equity in "for profit" businesses, partners' capital in partnerships, and net assets in "not-for-profit" associations, or government entities. Equity is also referred to as net worth.

Net asset value is also the difference between the value of total assets and total liabilities less an adjustment in some cases for certain intangible assets that do not provide for economic opportunities in the future.

The basis for the valuation of assets and liabilities is determined by purpose according to financial, managerial, and regulatory accounting policies and principles. "Generally Accepted Accounting Principles" are promulgated by bodies designated by the American Institute of Certified Public Accountants.

For assets, valuation is based upon fair value when it is necessary to mark-to-market, or historical cost less depreciation, amortization, depletion, or impairment. For almost all liabilities, valuation is based upon fair value.

In theory, the book value of an enterprise represents what the shareholder investors collectively would receive in the event of a liquidation (less the costs to liquidate). However, the market value of the assets and liabilities may differ significantly from book value at liquidation.

Fair value of an asset or liability

The value at which an asset or a liability could be bought or sold in an arm's length transaction in competitive markets based upon prices without concessions, financing, or incentives, when both the buyer and the seller are informed and are acting for their own best interests without the influence of third-parties; or an estimate when no established market exists.

Fair value is also referred to as exit value.

Item

An asset or a liability, or a product and/or service.

Market price

The price at which an item is offered in a marketplace for transactions.

Market value

The price at which an item would trade in an auction environment.

Capitalization

The book value of the equity of an enterprise plus the fair value of its long-term debt.

Market capitalization

For a publicly traded enterprise, the market price per share of stock multiplied by the number of shares outstanding, including restricted stock, but not treasury stock. It is a measure of the market's perception of the value of an enterprise. Market capitalization fluctuates as market prices of shares change.

For private enterprises, the valuation has to be appraised because there is no public market for its equity, although there may be investors willing to buy part or all of the outstanding shares.

Equity value

The market capitalization of the enterprise adjusted for the dilution effects of warrants, options, and convertible securities (including bonds and preferred stock) less the conversion costs.

Enterprise value

The equity value of the enterprise plus the fair value of its long-term debt plus minority interests in affiliates less minority interests of affiliates and cash and cash equivalents.

Residual value

The value remaining in an item after use as characterized by the salvage or trade-in price.

Exchange

The process of offering an item and receiving another of the same or similar value.

Price

The exchange value offered by the seller for an item or earned based upon an accepted bid.

Cost

The exchange value bid by the buyer for an item or incurred when accepted - the value that must be given up to acquire an item.

Expense

That portion of cost that expires in an accounting period.

Direct cost

A cost that is traceable to an item.

Quality

The perceived value of an item by a prospect or customer at premium or discount from market price or market value. Perceived value is based upon a value proposition, augmented by abundance, convenience, scarcity, risk, and minimal defects.

Value proposition

A statement of benefits and differentiating features for the enterprise and its products and/or services.

Economic value

The difference between the exchange value and the cost of the value exchanged.

Earned value

In project or production work, the budgeted cost of work performed at standard or actual rates, or the actual cost of work performed if budgets are not used. The cost of work performed comprises fully loaded direct labor cost burdened with attributable project or production overhead.

Added value

The difference between the exchange value earned for an item and the actual cost of the work performed and the direct materials and supplies. Added value is analogous to gross profit.

Value added - technical

The cost of the effort applied to transform materials and supplies into a item of greater value, as measured by earned value.

Value added - economic

The additional value of a commodity over the cost at each stage of production.

Value added - perceptual

The value of an item as perceived by a prospect or customer above a baseline for a commodity.

Total value added

The earned value of an item plus the added value. The exchange value earned for an item equals the total value added plus the cost of direct materials and supplies when the actual cost of work performed equals the budgeted cost. If the actual cost of work performed is more than budgeted, then either both the added value and total value added are reduced, or the exchange value earned must increase by the variance to accommodate the loss in value caused by the overrun.

Value chain

The value added activities that earn value and add value to materials and supplies. The activities produce a component of a product, or a finished product and deliver it to a customer. The value chain is defined by a process/function model. The model represents the plan, whereas the chain represents reality.

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Understanding the basic language of value is an enterpriship (entrepreneurship, leadership, and management) competency.

UNDERSTANDING FINANCIAL, MANAGERIAL, AND REGULATORY ACCOUNTING AND REPORTING CONCEPTS

Every enterprise has to file regulatory reports with both Federal and state agencies. Managerial reports are necessary for internal control and decision making, and financial reports are necessary for investors and creditors such as financial institutions. Financial, managerial, and regulatory reports should be reconciled to ensure that the differences between information reported externally and internally, and vice versa, are fully understood.

The reporting burden on enterprises and their associated business and legal entities is significant.

An enterprise consists of one or more business entities for which management has to keep accounts and report financial condition and performance to regulators such as the Internal Revenue Service (IRS) and the equivalent state revenue agencies. Those enterprises that have employees must report payroll information to the IRS, the Social Security Administration, and state revenue and unemployment agencies. Those enterprises that sell securities must report financial condition and performance to the Securities and Exchange Commission (SEC). Reports may also have to be filed with the United States Immigration and Citizenship Services, the United States Department of Labor, the United States Bureau of Customs and Border Protection, and various other Federal and state agencies. Counties and municipalities may require reports too. Those enterprises doing business outside the United States may have to file reports to foreign governments. Taxes, duties, and fees are paid either with the report filings, or separately, depending on regulatory requirements. If paid separately, the payments have to be reconciled to the report filings. Legal entities may have to report financial condition and performance to regulators such as state corporation agencies.

Management must measure both financial and non-financial performance within and across the various entities that make up an enterprise on whatever schedule is necessary to conduct business. The reports that are prepared for internal use should be available on a "need to know" basis. Indicators for financial performance measurement include revenues, costs and expenses, profits, cash flows, and returns on investment. Financial measurements are based upon rates, quantities of input, volumes of output, and aging. Financial performance must be evaluated in terms of non-financial measures, such as market share and penetration, product usage, employee and customer satisfaction, quality, time-to-market, cycle time, and asset utilization. As information systems become more real-time oriented, some reports may be available on demand.

Management must also report financial condition and performance to external investors and certain creditors such as financial institutions, and to the SEC and other regulators when applicable, that are in conformity with Generally Accepted Accounting Principles (GAAP). These reports are prepared according to standards for which the financial condition and performance of the enterprise can be measured against others on a consistent basis. These reports include financial statements of cash flow, income, and condition (balance sheet). The accompanying notes are an integral part of the financial statements, and contain items such as commitments and contingencies that may have a significant impact on the future financial condition of the enterprise. Management must be cautious about the use of non-GAAP measures in external financial statements. However, there may be rare circumstances where it is necessary to depart from GAAP if a material misstatement would otherwise occur. In such cases, the causes and effects must be disclosed. Estimates and judgments must be used on a consistent basis.

In the United States, GAAP is influenced by the SEC, the Government Accounting Standards Board, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. Other countries have their own equivalent of GAAP. The International Accounting Standards Board develops international financial reporting standards.

In the ideal world, financial, managerial, and regulatory reports would be prepared from a set of accounts in a single database. In reality, this may not be practical because of limitations in accounting processes and systems. However, whenever reports are prepared, regardless of source, they must be reconcilable, and the differences must be understood.

Whatever the reporting needs of management, attention must be paid internally to what is being reported externally, because if the information is necessary for external parties, it must be relevant internally. Management should also be aware of internal financial information that is non-GAAP based from differing treatment of period and product expenses.

Severe penalties can result from erroneous information reported externally, especially to regulators, investors, and financial institutions.

Financial Accounting and Reporting Concepts:

- Business entity assumption - the entity for which accounts are kept and reports are prepared
- Going concern assumption - the entity will operate indefinitely
- Monetary unit principle - accounting and reporting is in a stable currency, unadjusted for inflation
- Periodicity principle - reports are prepared in consistent time periods
- Revenue recognition principle - accrual basis (revenue is recognized when realizable and earned) or cost basis (revenue is recognized when cash is collected)
- Cost principle - acquisition cost is recognized except for certain assets and and almost all liabilities that are recognized at fair value
- Matching principle - expenses (expired costs) incurred to generate revenue must be matched with earned revenue in the same period - until revenue is earned, expenses incurred to generate revenue are capitalized as product costs (fully absorbed or inventoriable)
- Conservatism principle - when alternatives are available, methods are based on recording the higher expense or lower revenue, or the lower asset or higher liability
- Consistency principle - same principles and methods are used from period to period
- Disclosure principle - relevant information must be reported in financial statements and notes
- Materiality principle - significance of items must be considered when reported
- Objectivity principle - financial statements are prepared from reliable and traceable sources

Managerial Accounting and Reporting Concepts:

- Plans and budgets
- Sales funnel for submitted, presented, and closed proposals (booking of unearned and earned revenue)
- Cost allocation and transfer pricing
- Standard costing
- Variable (direct) costing
- Marginal costing
- Activity-based costing
- Functional, process, product and/or service, and market costing
- Project costing
- Branch and departmental reporting
- Cost, profit, and responsibility center reporting

Regulatory Accounting and Reporting Concepts:

- Taxes (employment, excise, franchise, income, property, sales, use, and withholding)
- Customs duties
- Fees
- Licenses and permits
- Employment
- Environmental
- Insurance
- Real estate
- Securities
- Zoning

When reconciling regulatory reports to financial reports, attention must be paid to uniform capitalization rules (UNICAP) as adopted by the IRS, which differ from GAAP.

When reconciling managerial reports to financial reports, attention must be paid to differences in revenue and expenses by time period resulting from those non-GAAP managerial accounting techniques that do not employ the matching principle. Techniques such as variable (direct) costing and marginal costing do not because they expense fixed costs within periods instead of against products.

Understanding financial, managerial, and regulatory accounting and reporting is an enterpriship (entrepreneurship, leadership, and managerial) competency.

A SIMPLE TIME MANAGEMENT FRAMEWORK FOR CEOS - FOCUSED SELECTIVELY, ENGAGED EXHAUSTIVELY

Whether an entrepreneur, lifestyle business enterprise owner, or top executive, a Chief Executive Officer's (CEO's) time is always in demand, and limited by issues, events, and activities competing for attention. It is important for CEOs to be organized - ensuring that they are focused selectively on what's important, but engaged exhaustively across their span of control to ensure adequate coverage.

Chief Executive Officers (CEOs) have the ultimate responsibility for the governance of both the administrative and operational activities of an enterprise, reporting to a board of directors or members, who are ultimately accountable to the investors. A CEO must be able to prioritize issues, events, and activities; develop plans and policies; and measure performance, while ensuring that the key functions are adequately addressed over time.

Much of a CEO's time is spent communicating plans, policies, and performance to constituencies, while delegating deployment and execution to the rest of the management team. However, it is important for a CEO to be in touch, both across and within the enterprise.

Whereas the issues and spans of control facing entrepreneurs, lifestyle business enterprise owners, and top executives in larger enterprises may differ, the functional coverage is essentially the same. In larger enterprises, the responsibility for the operational functions is often delegated to a Chief Operating Officer (COO), who may be a CEO in training.

Engaging across functions is the most exhaustive method of ensuring adequate coverage.

Smaller enterprises are usually organized solely by function, at least initially. Medium to larger enterprises are often organized by units. Units include product line, business line, or strategic business, in demographic or geographic markets, subdivided in divisions, departments, plants and branches. The functions can be addressed across or within the organizational units, depending upon significance.

The key questions for selective and exhaustive time management are:

Which issues, events, and activities should be prioritized as high, medium, or low, and why?

Who needs attention now, and why?

How should plans and policies be deployed and executed?

Where should time be spent and when - daily, weekly, monthly, quarterly, annually?

Administratively:

- Enterprise - investor and public relations, government affairs, brand management, community relationships, real estate, philanthropy, ombudsman, internal audit

- Legal - regulatory protection and compliance, litigation

- Finance - borrowing, financing, investing, credit extension, insurance

- Human Resources - employment, compensation, training, development

- Information Technology - analytical and operational systems

Operationally:

- Research and Development - innovation, program and project management, engineering: markets, products, infrastructure

- Operations - procurement, manufacturing (or equivalent in non-manufacturing enterprises), distribution

- Business Development - marketing, sales, service

What should time be spent on and when (daily, weekly, monthly, quarterly, annually)?:

Planning and policy development:

- Enterprise - aspiration (values, mission, vision, value proposition), industry and market position and posture
- Competitive position and posture
- Performance improvement - repositioning, restructuring, reengineering
- Constituency (employees, customers, suppliers, investors, regulators, competitors): objectives, goals, targets, and strategic initiatives; collaborative and cooperative relationships
- Functional, operational, and financial

Capabilities (capacities and abilities) for deployment and execution:

- People - aptitude and proficiency
- Processes and functions - effectiveness and efficiency
- Products and/or services - benefits and features

Performance measurement - enterprise and constituencies (key indicators - rates, quantities, volumes, aging, ratios):

- Financial - revenue, costs and expenses, profits, cash flows, returns on investment
- Non-financial - market share and penetration, product usage, satisfaction, quality, time-to-market, cycle time, productivity, asset capacity and utilization, sustainability

How much time should be allocated to each function?

The answer depends upon the opportunities and threats that are critical to the enterprise at any point in time, and probability of return on investment, so selective focus is essential. But over time, all functions must be addressed so that coverage is exhaustive.

Time management is an enterprising (entrepreneurship, leadership, and management) competency.

NAVIGATING THE ENTERPRISE DEVELOPMENT LIFE CYCLE

The enterprise development life cycle represents the four stages of life span: emerging, growth, maturity, and declining. The life cycle applies to both upwardly mobile and lifestyle enterprises. It is harder to navigate an enterprise through the growth and maturity stages than it is to start one, and it is difficult to change a mature enterprise once it is established. It is also difficult to avoid the declining stage unless strong enterpriship (entrepreneurial, leadership, and management) competencies are in place.

Every enterprise migrates through up to four development stages: emerging, growth, maturity, and declining. The stages are broad with chasms in between, and the passage is not necessarily linear. The stages apply to both upwardly mobile and lifestyle enterprises. Most emerging enterprises start as small "de novo" ventures. However, some emerging enterprises are incubated by larger enterprises, and benefit from their resources and capabilities. By the maturity stage, some ventures will have grown into medium or large enterprises ranging from single entities with one product and/or service line, to diversified offerings, to conglomerates with multiple entities and business units in many different industries. Diversified enterprises leverage resources across lines and units, whereas conglomerates are profit intimate.

Definitions of small, medium, and large enterprises vary according to context, and are usually based upon the number of employees, size of revenue, or capitalization. Most enterprises fit the "small" definitions. Many small enterprises do not have employees because they are owner-operated sole proprietorships, partnerships, or limited liability companies. However, the officers of owner-operated corporations are employees if they are paid salaries. Hence enterprises are also classified as employer and nonemployer firms.

Enterprise failure rates are high - many migrate straight from either the emerging or growth stages to the declining with little to no opportunity for recovery. In tough economic times, even mature enterprises struggle, especially when paradigm shifts affect assumptions, concepts, practices, and values. Causes for failure include both lack of capital and enterpriship (entrepreneurial, leadership, and management) competencies. Focusing on short-term operations activities while ignoring long-term marketing initiatives is a common complaint.

Emerging:

An emerging enterprise needs an entrepreneurial mindset to transform innovation into value. The founding entrepreneurs or owners may be experiencing a major career change in order to establish the enterprise so as to realize an ambition to offer a product and/or service or own a business, or because they want to do something different in life.

The agenda of an emerging enterprise addresses causing change through new innovative products and/or services, or by developing new markets for either a new or existing value proposition. An emerging enterprise should seek to earn revenue as soon as opportunities allow.

Emerging enterprises earn little to no profit. Under generally accepted accounting principles, they are described as "development stage enterprises" - emphasizing planning and policy development and research and development activities, including raising capital. The organizational costs to establish the holding entity and to raise the initial capital are separate from the other start-up costs and expenses, and can be amortized over time.

Bureaucrats struggle in emerging enterprises because of the lack of structure. They are an ideal place for product developers.

Growth:

A growth enterprise has made the transition to devoting significant efforts to sales and production activities with results. A growth enterprise needs entrepreneurial, leadership, and managerial mindsets. It must maintain the entrepreneurial mindset of an emerging enterprise. It requires a leadership mindset to communicate the enterprise strategy - the aspiration and industry position and posture. It requires a managerial mindset to establish process and order, otherwise chaos will result. The aspirational statements include values, mission, vision, and value proposition. It must stress both mission and vision because it is important that all constituencies understand its purpose and direction.

The agenda of a growth enterprise must address seeking more revenue generating opportunities, and it will be under pressure to generate profit. It should address increasing share in growing markets with specific product and/or service lines, and also increasing the rate at which revenue is earned through multiple offerings. To do so requires building a relationship mindset - broadening existing customer activities with additional products and/or services, while deepening them through the increased use of current offerings.

A growth enterprise must emphasize the deployment and execution of competitive strategy for both markets and products and/or services. Markets can be broad or narrow. Products and/or services can compete on the basis of differentiated functions and features that command premium prices, or on utility at discount from market norms. Convenience and quality of product and/or service delivery can also be differentiators. However, a growth enterprise must strive to establish a mindset for reducing both production costs and operating expenses in its infrastructure.

It's hard to address market, product, and infrastructure development, enhancement, and maintenance at the same time. However, if an enterprise develops a culture for cost and expense containment early, it is more likely to become sustainable and be able to offer profitable products and/or services in attractive markets over the long haul.

A growth enterprise must also pay attention to obtaining feedback from the marketplace to adapt the capabilities of new products and/or services as customer wants and needs dictate. The adaption of new products and/or services includes tuning and standardizing capabilities from which enhancements may be made in the future. It must also pay attention to tuning and standardizing the capabilities of the people and processes that deliver the products and/or services.

Growth enterprises are ideal places for market developers.

Maturity:

A mature enterprise has reached the point where growth rates for revenue are slowing. This situation arises because it has saturated the share potential in traditional markets that are no longer growing, and rates for earning revenue through multiple offerings may be decreasing. Consequently, it has to develop new markets and new products and/or services, and change the mix of existing offerings to stimulate profit. Many mature enterprises have chosen to enter foreign markets in order to increase growth.

A mature enterprise can become quite complex even with a single product and/or service line, but more so with diversified offerings, or as a conglomerate. A diversified or conglomerate enterprise may have product lines, business lines, and business units all four stages of development, even though the enterprise itself is in the maturity stage. To be sustainable, it always needs lines and units in the emerging and growth stages. Therefore, a mature enterprise needs strong intrapreneurial, leadership, and managerial mindsets.

Diversified and conglomerate enterprises commonly acquire and divest product lines, business lines, and business units; strong enterpriship competencies are required to do so.

A mature enterprise must address both new business development and continuous improvement opportunities on an ongoing basis with an intrapreneurial mindset to take advantage of change, or otherwise risk entering the declining stage. However, mature enterprises are often difficult to change due to resistance from within.

A mature enterprise requires a leadership mindset to refine and communicate the enterprise strategy. A mature enterprise should stress vision over mission. Mission is usually well established in mature enterprises, and changes only if there is a dramatic shift in purpose or industry positioning and posture. However, vision changes over time as points of arrival are reached.

A mature enterprise requires a disciplined managerial mindset for performance improvement activities.

The agenda for the enterprise strategy should address opportunities to invest capital in product and/or service lines, business lines, or business units, to maintain status quo, to harvest by taking cash out when further investment is unwarranted, or to divest underperforming lines and units. This agenda is translated into the deployment and execution of competitive, constituency-based, and performance improvement strategies to enhance or maintain profits.

For lines and units in the emerging and growth stages, a mature enterprise should continue to emphasize planning and policy development and research and development activities. It needs an intrapreneurial mindset equivalent to the entrepreneurial in an emerging enterprise, but within the constraints of an established environment that may be unwilling to change.

For lines and units in the maturity and declining stages, a mature enterprise should emphasize profit through cost and expense reduction with a managerial mindset. It should emphasize repositioning in markets, restructuring product and/or service lines, business lines, and business units, and reengineering processes. Restructuring initiatives may reveal further opportunities to acquire or divest lines and units beyond those identified in the enterprise strategy.

Entrepreneurs struggle in mature enterprises unless they can focus on innovative activities. Mature enterprises are great places for organization builders.

Declining:

A declining enterprise may or may not be in a loss situation at any point in time, but may face one if remedial action is not taken.

The agenda for a declining enterprise is either survival or orderly exit through merger, acquisition, or wind-up.

A declining enterprise needs both leadership and managerial mindsets to diagnose its existing situation so as to determine if either the trend can be broken, or whether an exit is necessary in an orderly fashion. To break the trend, either a turnaround or workout strategy is necessary to restore the enterprise to at least the maturity stage. In some cases, it may be possible to migrate the enterprise to the growth stage, although this is very difficult to achieve in practice. However, with new management perspectives, fresh insight may reveal opportunities that were previously missed or ignored.

In a turnaround situation, a declining enterprise should emphasize initiatives to exit unattractive markets, to shed unprofitable products and/or services and non-income producing assets, and to improve the performance of existing activities. There may also be opportunities to offer new products and/or services in existing markets, and both existing and new products and/or services in new markets previously not explored. A turnaround may require a recapitalization, in which case the existing shareholder investors are diluted.

In a workout situation, a declining enterprise should attempt to renegotiate payment terms with creditors to buy time, either with or without a bankruptcy filing.

If either a turnaround or workout are not feasible, then an exit is necessary through a merger or acquisition, or a wind-up, with or without a bankruptcy filing depending on circumstances. Bankruptcy estates provide excellent opportunities for investors to buy assets.

The implementation of a wind-up is the ultimate harvest strategy - liquidating assets at the best price possible under the circumstances.

In a Chapter 11 reorganization filing under the United States Bankruptcy Code, a declining enterprise has protection from creditors, may have opportunities for debtor-in-possession financing that otherwise may not be available, and can continue operating. In a Chapter 7 liquidation filing under the Code, a declining enterprise ceases operating, and a trustee is appointed to sell the assets to pay the creditors.

The declining stage can be avoided. However, the managements of many enterprises are often in denial and bankruptcy may be hard to avoid. Preventive action includes emphasizing both competitive and performance improvement strategies in the growth and maturity stages. It also includes ensuring that there is an adequate feedback loop from performance measurement to planning and policy development activities to make adjustments in strategy.

In the event of a merger or acquisition of the entire enterprise, the preceding investors, management team, and holding entity may or may not be separated from the surviving activities depending upon whether the structure of the transaction is asset-based or equity-based.

Declining enterprises are best for the unemotional.

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All opportunities for the current investors to exit at any stage of development, either through merger or acquisition, should be examined carefully. An enterprise can always be started again in some form, even within the constraints of non-compete and non-disclosure agreements, but attractive offers to exit may not repeat, especially if the declining stage is imminent.

Navigating the enterprise development life cycle is an enterpriship competency.

MIGRATING THROUGH THE CHANGE RESPONSE CYCLE FROM COMFORT ZONE TO COMFORT ZONE

Understanding the change response cycle is important for both those initiating change and those affected by it. The cycle explains how individuals move from their current comfort zone to their new as they respond to and accept change. Individuals migrating through the cycle may display passive-aggressive behavior with obstructiveness, procrastination, and resentment, while openly supporting change initiatives. Leaders must ensure that communication channels are open and are bidirectional so as to provide support.

Both individuals and the managements of enterprises must understand how people cope with change. In business, the only constant is change, either by enacting or responding to it. Change affects all constituencies: employees, customers, suppliers, investors, regulators, and competitors.

The change response cycle explains how individuals behave through four phases: living in the comfort zone, resistance, anxiety, and acceptance; and how they migrate from their current comfort zone to their adapted.

Change offers opportunity for some individuals; it causes crisis for others.

Living in the current comfort zone:

The current comfort zone is where individuals are in their normal traditional state. The comfort zone defines their boundary for risk tolerance, especially when situations appear to be out of control. To be sustainable, enterprises and the individuals within them must stretch beyond their comfort zones because the only certainty is uncertainty.

In the comfort zone, an individual feels as if they are in control and have a certain degree of confidence. Their competence and commitment for tasks is apparently tolerated by their leader, regardless of whether their performance is satisfactory or unsatisfactory. A change in tolerance can place an individual outside of their comfort zone.

Resistance:

When change occurs, an individual responds with resistance because their comfort zone has been upset. They have a fear of the unknown, and a lack of understanding and trust because their current environment is being disrupted. They attempt to push back. The immediate response is immobilization - their performance is affected while they react emotionally. Denial then sets in while they challenge facts and information. They hope and assume that the change will occur elsewhere, and will not affect them.

Anger sets in when what appears inevitable can no longer be denied. Anger affects others in the environment. From anger comes frustration, which leads to inconsistent behavior. Whereas an individual may publicly support the change initiatives through both oral and written statements, they may actually try to interfere with them through blame, complaints, excuses, obstructiveness, procrastination, resentment, and sarcasm.

Anxiety:

Anxiety is a reaction to stress, and is a mood characterized by apprehension in recognition of the imminent change. Anxiety can affect both mental and physical conditions, especially the immune system. An anxious individual attempts to preserve elements of normality, but can also enter a state of depression. Depression is a reaction to the impact of change.

Anxiety and depression enable an individual to prepare for the consequences of change, both mentally and physically. Anxiety is the turning point from which an individual migrates from resistance to acceptance.

Acceptance:

Eventually an individual accepts the inevitable. Affected individuals always want to know what's in it for them - the benefits and the incentives. They develop an expectation for the future state and then require clarity as to what it means for them. Clarity can be achieved though visualization and information. If individuals can see the future state, they can clarify it in their own minds. If they have information, they can analyze the data, and determine the impact at their own pace. As they clarify the new state, they can test it as a basis for preparing for the transition. Preparing for the transition leads to acceptance, which is a time for renewal.

Living in the adapted comfort zone:

As a consequence of change, an individual adapts to their new comfort zone - the new normal state. They become familiar with their new environment, and can regain control. Relief of knowing their situation sets in, regardless of the consequences. It's up to the individual to build confidence, competence, and commitment to take advantage of the new opportunity or not as they see fit.

Management, and in particular the governance function, can ease migration through the change response cycle by clearly communicating the reasons, the potential outcomes, and the need for urgency when necessary. They should communicate regularly through many channels, encourage feedback, and ensure that access is not being blocked in either direction.

Communication should be encouraged in leader/follower relationships such that both parties talk and listen to each other. Leaders can provide support to followers to ease the transition as smoothly as possible by clarifying role, responsibility, and accountability in the new state.

Understanding the change response cycle is an enterpriship (entrepreneurship, leadership, and management) competency.

CRITERIA FOR SUSTAINABILITY
- ARE DECISIONS RESPONSIBLE - ENVIRONMENTALLY? ECONOMICALLY? SOCIALLY?

As the economy migrates from the industrial age to the information age, the value of knowledge becomes more significant. As more information becomes available about the impact of industrial activity on the ecosystem, it is important to acquire knowledge about sustainable development, and promote it responsibly. The sustainable enterprise has to make decisions that include environmental, economic, and social criteria for itself, its constituencies, and the community-at-large.

The sustainable enterprise gains a beneficial position over time either by enhancing or maintaining its current position, or by changing it. It must make decisions in the present that affect both the present and the future in such a way that future generations are not impacted negatively.
The sustainable enterprise employs three criteria in all decision making - are the mindset and intended actions responsible:

- Environmentally?
- Economically?
- Socially?

These three criteria should be embraced within values statements so as to set expectations for attitudes and behaviors within the enterprise, with its constituencies, and with the community-at-large.

Environmentally responsible...

Being environmentally responsible is a discipline that applies to people, and the characteristics of processes and products and/or services (including packaging materials) that they create. It means protecting the ecological biosphere by conserving natural resources, avoiding contaminants and pollutants, and protecting the air, sources of water, and soil, minerals and oils, and plants and animals. It also means being energy efficient and adopting recycling programs.

The benefits of being environmentally responsible include:

- Accident avoidance - less employee sick time and lower insurance costs
- Anti-pollution - less clean-up costs
- Conservation - less waste
- Employee welfare - reduced turnover and hiring costs
- Recycling - reduced disposal costs
- Safe products and/or services - less liability suits

Decisions should be made with environmental responsibility in mind for the enterprise, its constituencies, and the community-at-large.

Economically responsible...

Being economically responsible is a discipline for building the value of the enterprise while considering the needs of constituencies and the community-at-large. Enterprise value is the equity value plus the fair value of the long-term debt plus minority interests in affiliates less minority interests of affiliates and cash and cash equivalents.

Under the notion of stewardship - the responsibility for the performance of the enterprise and the delivery of value, being economically responsible means instilling a value management discipline. This discipline embraces shared values (common beliefs), a vision of what the community and the enterprise can become within its mission, and building value - worth and usefulness. If the value proposition is compelling, constituencies will follow because everybody likes to be associated with success.

The value management discipline includes having effective systems of control, and employing both financial and non-financial performance measures to monitor contributions to enterprise value. Financial measures include revenue, costs and expenses, profits, cash flows, and returns on investment. Non-financial measures include market share and penetration, product usage, satisfaction, quality, time-to-market, cycle time, productivity, asset capacity and utilization.

Measures for economic sustainability include:

- Asset life cycle renewal period - ability to replace capital assets according to a prudent retirement schedule
- Average collection period - effectiveness of converting receivables into cash
- Current ratio - ability to cover current obligations as they become due
- Debt service coverage - ability to cover debt obligations as they become due
- Efficiency - ability of operating revenue to cover costs and expenses
- Financial leverage - strength of the equity base and the dependency on debt
- Solvency - ability to cover all obligations as they become due

Economic considerations for constituencies include:

- Employees - fair compensation, career development opportunity, and a safe workplace in exchange for loyalty and productivity
- Customers - quality and value in exchange for loyalty and timely payments
- Suppliers - loyalty and timely payments in exchange for quality and value
- Investors - returns above the cost of capital in exchange for commitment
- Regulators - compliance in exchange for freedom to do business within laws and regulations, and a level playing field
- Competitors - challenges in exchange for fairness

Decisions should be made with economic responsibility in mind.

Socially responsible...

Being socially responsible is a discipline that applies to all individuals and enterprises with respect to the community-at-large and society. The minimum standards for social responsibility for enterprises are:

- Providing safe and environmentally friendly facilities and equipment, processes and functions, and products and/or services
- Not engaging in deceptive or fraudulent practices
- The requirements for being socially responsible include:
- Giving back to the local community
- Providing equal opportunity and embracing diversity
- Offering opportunities to the disabled and handicapped

Decisions should be made with social responsibility in mind.

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The sustainable enterprise builds aspirational, competitive, collaborative, and cooperative advantage in order enhance, and maintain its beneficial position.

Aspirational advantage consists of loyal relationships between employee, customer, supplier, and investor constituencies because stated values and enacted values are consistent. Competitive advantage results from the position and posture that offers consistencies better value than competitors. Collaborative advantage is obtained from relationships between suppliers, or customers, or peers as a partnership with a common mission, and operating dependently for mutual value. Cooperative advantage is obtained from relationships between suppliers, or customers, or peers as an association with a similar mission, but operating independently for mutual value.

Building collaborative and cooperative advantage strengthens relationships with constituencies in communities, and contributes to the development of economic clusters - a key to community sustainability.

Enacting change is routine for a sustainable enterprise to continue as an ongoing concern.

Making sustainable decisions is an enterpriship (entrepreneurship, leadership, and management) competency.

SYSTEMATIZING THE DEBT COLLECTION PROCESS

In tough economic times, it is reasonable to expect that those enterprises that extend credit to customers, whether individuals or other enterprises, may have a tough time collecting the money owed. Therefore, it is necessary to have a systematic debt collection process in place, for both good times and bad, that anticipates that some accounts will go past due, and is deliberate about collecting them when they do.

Extending credit is a standard practice in many industries. Although accepting credit and debit cards as means of payment for retail transactions is common, many enterprises extend credit in industries where trade debt is normal practice.

For example, manufacturers, distributors, and wholesalers extend credit that enables their customers time to generate cash flows from sales to pay for the products sold. Payment terms may vary from ten to thirty days, and discounts may be offered as an incentive for prompt payment. For example, "2% 10 net 30" means that a customer can take a two percent discount if they pay a supplier within ten days, or pay the entire amount in full within thirty days.

When sales slow down, working capital gets tied up in inventory, and the payables of customers start to age. Hence "net thirty" can become "net forty five" or more very quickly. Although suppliers may require personal guarantees from lifestyle business enterprise owners, enforcement can be tough.

Even those enterprises that accept credit and debt cards may have to extend credit from time to time, especially if they are providing emergency services. For example, dental practices and automotive repair shops are prone to extending credit to customers in dire situations even though they may accept cards. Such situations include toothaches, or broken down cars used for work. It is hard to refuse a customer who is in pain or is immobile, even if they cannot pay right away.

It is important for an enterprise to keep on top of its accounts receivable in both good times and in bad, and to use early problem prevention practices through a systematized approach to debt collection. The more debt ages, the harder it is to collect, especially if collection efforts are started late.

Handling past due accounts can be an emotional time for both creditors and debtors, and can get out of control. Therefore practices should be developed and enforced rationally to avoid embarrassments.

Characteristics of a debt collection system include:

- Knowing the law - in the United States, the Federal Fair Debt Collection Practices Act and the Fair Credit Reporting Act extend certain rights to consumers and requirements of third-party debt collectors and credit bureaus. Many states have similar laws and regulations. In house collection activities may be subject to such laws also.

- Ensuring that policies, processes, and performance reporting practices are in place for accounts receivable. These practices include ensuring that all customers have credit limits and understand exactly what credit terms are being extended to them; aging the receivables portfolio, and beginning collection efforts as soon as accounts become past due. It is important to know the ratios of amounts past due to total owed by period, and the historical delinquency rates, so that trends can be monitored, and corrective action taken quickly.

- Having an effective process in place for contacting customers promptly and frequently whose accounts are delinquent, and ensuring that it is enforced. Employees generally do not like to contact past due customers and ask for money, and therefore accounts may fall further past due. Hence, it is important to monitor the frequency and recency of contact and the results. Procrastination does not get debts paid.

- Using written communications with language that is compliant with laws. Letters may start out diplomatically and assume that the delinquency is an oversight. Subsequent letters may use stronger language that suggests that further action may be necessary. Letters must not contain threatening language, and must not say or imply anything that cannot or won't be done, such as the use of collection agencies or legal action.

- Knowing when to escalate - policies should state exactly when third-parties, such as attorneys and collection agencies are to be used, especially as their intervention can motivate debtors to pay. Such parties should be preselected, so that the turnover process is straight forward. The terms and conditions of using such parties should be clearly understood in advance, including costs, success rates, and impact on future customer relationships.

When the debt collection process is systematized, customer relationships can be managed and preserved because everything is conducted in accordance with policy.

Effective accounts receivable management is an enterpriship (entrepreneurship, leadership, and management) competency.

DATA ARTERIES - ENABLING BUSINESS STRATEGY THROUGH INFORMATION TECHNOLOGY

Information technology is essential for both the administrative and operational activities of every enterprise, especially for building links with constituencies. Because knowledge management and connectivity are essential to building competitive, collaborative, and cooperative advantage, every enterprise is heavily dependent upon data arteries - its information supply, value, and demand chains. Information technology strategy is an enabler of business strategy, and is delivered through programs and projects on a phased basis.

Regardless of size and industry, every enterprise is dependent upon information technology, and must have a strategy for how to employ it, especially as the internet becomes more pervasive. Information technology strategy is an enabler of business strategy. Not only must an enterprise manage relationships with its constituencies, but it must be able to connect with them electronically through data arteries - information supply, value, and demand chains. The information supply and demand chains are external; the information value chains are internal.

An information technology strategy is a special case functional strategy because every function in the enterprise requires electronic information delivery capabilities, and many require electronic process control also. In very large enterprises, strategy may be formulated at both the enterprise and organizational unit levels.

As websites such as Facebook, LinkedIn, MySpace, Plaxo, and Twitter become more pervasive in business, linkages between application systems and databases and social networking websites will be more important to enable constituencies to communicate both collaboratively and cooperatively. Just as email has become a primary method of communication between enterprises and their constituencies, so will social networking sites especially for advertising and ecommerce.

Business intelligence information can be used to identify opportunities for competitive advantage. However, information technology itself can be an enabler of competitive advantage, especially when there are opportunities to digitize products or deliver information products electronically. In such cases, business strategy is inseparable from information technology strategy.

Information technology comprises the analytical and operational application systems, databases, and technical infrastructure (hardware and networks) of an enterprise. Not all computer technologies are information based. Computer technology is used for process control applications in special purpose equipment. However, connectivity is essential as applications become more integrated. As digital construction and manufacturing practices develop through such technologies as computer-aided design/computer-aided manufacturing (CAD/CAM), the processes, the control of processes, and the products and/or services delivered by processes all rely upon information technology for connectivity.

For example, in the manufacturing industry, not only can design and manufacturing work be conducted through integrated CAD/CAM processes with electronic linkages to carriers, such as FedEx and UPS, but the entire project and process management activities can be monitored electronically from ideation to product delivery.

Through technologies such as electronic data interchange and electronic funds transfer, data and both digital and information products flow through information supply and demand chains in parallel to material supply and product and/or service demand chains. Within the enterprise, data flows through information value chains from supply chains and to demand chains.

Developing an information technology strategy document is essential for describing the requirements and for educating users because:

- The impact is enterprise or organizational unit wide and other elements of strategy cannot be implemented without it

- Administrative activities, such as legal, finance, and human resources, and operational activities, such as research and development, procurement, manufacturing or equivalent, distribution, marketing, sales, and service depend on information technology - analytical and operational systems support both administrative and operational functions

- The time frames, expenditures, risks, and magnitude of efforts are usually larger and more complicated than other initiatives and must be clearly understood; information technology projects have a tendency to go out of control and under deliver - therefore, contingency plans are always necessary

- The subject matter can be complicated if not well explained

Information technology strategy is usually packaged as a separate but related document to the strategic plan. It is deployed and executed through specific programs and projects that develop new or enhance or maintain existing application systems, databases, and technical infrastructure.

Large information technology development projects are usually cross-functional, and may be part of a broader initiative sponsored by multiple functions collectively. Broader initiatives that have information technology components include:

- Market research and development

- Product research and development

- Infrastructure research and development for processes and information delivery

For example - for the development of a:

- Digital manufacturing system integrating both research and development and sales and production activities (sponsors: Manufacturing and Sales functions - impact is on Research and Development, Procurement, Manufacturing, Distribution, Sales, and Service functions)

- Financial, managerial, and regulatory accounting and reporting system (sponsor: Finance function - impact is enterprise wide)

- Human resource management system (sponsor: Human Resources function - impact is enterprise wide)

- Sales tracking system (sponsor: Sales function - impact is on all salespeople enterprise wide)

Some projects can be solely for the Information Technology function, in which case it is a customer of itself.

Steering committees should be established for major programs and projects representing the various impacted functions in order to resolve cross-functional barriers. Major programs should come under the review of a planning and policy committee at the enterprise level.

Information technology strategy formulation is a project in its own right at the enterprise or organizational unit level. Very large projects are grouped as a program of inter-related components under a program manager. Projects can be stand alone also. A single project can deliver one or more application systems and related databases and technical infrastructure, or multiple projects may be required depending upon complexity.

For example, when launching a new product, it may be necessary to conduct marketing, product, and infrastructure development projects that include the delivery of new systems, and upgrades to existing systems. However, if an addition to the product line is launched at a later time, a new project or set of projects may be required to enhance or maintain the current systems, or even develop new ones.

The work breakdown structure for downstream development, enhancement, and maintenance projects decomposes into planning, analysis, design, construction, implementation, and performance measurement phases. The performance measurement phase can be conducted in parallel with the other phases, and each must end with a performance review. A feedback loop to future planning activities must be established so that lessons learned from the past can be reflected in future initiatives.

Meeting the cost and schedule requirements is always a major consideration. Hence, "meeting the date" is a frequent requirement for project success. However, after implementation, the scope of what was delivered and its quality is usually remembered more than when. In anticipation of the need to make changes after implementation, an adaption project may be necessary to tune, standardize, and integrate the deliverables.

The planning phase is conducted at the enterprise, organizational unit, or program levels for one or more projects depending upon size and complexity. However, each application system and related databases and technical infrastructure is delivered through a project with distinct analysis, design, construction, and implementation phases. Each phase always begins with a detailed planning activity to ensure that resources are allocated appropriately. The work breakdown structure does not preclude the use of iterative methodologies within each phase for rapid application development and prototyping. Development, enhancement, and maintenance of websites can be very rapid, and heavily interactive with user involvement, when the appropriate tools are used.

Key questions and deliverables by information technology strategy project and downstream phases include:

Strategy project (enterprise and organizational unit levels):

Key questions:

- How does information technology enable business strategy?
- What are the investment priorities?

Deliverables include:

- Information technology architecture (applications, data and databases, and technical infrastructure)
- High level project phasing and plans

Planning phase (enterprise, organizational unit, and program levels):

Key questions:

- What are the administrative functions' systems and information needs?
- What are the operational functions' systems and information needs?
- What are the priorities for the candidate analytical systems?
- What are the priorities for the candidate operational systems?

Deliverables include:

- Process models
- Function models
- Data models
- Information models
- Economic evaluation
- Scope of analysis projects and schedules

Analysis phase (project level):

Key questions:

- How do processes, functions, and systems fit together?
- How do systems processes and functions relate to enterprise processes and functions?
- How do systems processes and functions and enterprise processes and functions fit together?

Deliverables include:

- Functional requirements
- Economic evaluation
- Scope of design projects and schedules

Design phase (project level):

Key questions (by system):

- What are the system's functional requirements?
- What are the system's technical requirements?
- What is the total cost of ownership and benefits (tangible and intangible)?

Deliverables include (by system):

- Application system specifications
- Data and database specifications
- Technical infrastructure specifications
- Scope of construction project and schedule
- Total cost of ownership/benefit analysis

Construction phase (project level):

Key questions (by system):

- Is the system being constructed according to design?
- If not, what change orders are required, and why?

Deliverables include (by system):

- Tested application system and interfaces, databases, and technical infrastructure

- Trained users

Implementation phase (project level):

Key questions (by system):

- What are the costs and schedule relative to plan?
- What is the scope relative to plan?
- What is the quality relative to plan
- When will the benefits be realized relative to plan?
- What adjustments for tuning, standardization, and integration are required relative to plan?
- What are the current anticipated enhancement requests?
- What are the current anticipated maintenance requests?
- What are the lessons learned for the future?

Deliverables include (by system):

- Working application system and interfaces, databases, and technical infrastructure
- List of enhancement requests
- List of maintenance requests
- Performance measurement report

As enterprises become more dependent upon the internet for connectivity with constituencies, it is essential to develop, enhance, and maintain the information technology strategy on an ongoing basis. The strategy must emphasize connectivity through the data arteries as digital and information products become more pervasive.

Formulating information technology strategy is an enterpriship (entrepreneurship, leadership, and management) competency.

THE INDIVIDUAL OR THE ENTERPRISE - SEVEN KEY FACTORS FOR BUILDING RELATIONSHIPS

Enterprises are made up of the individual people who represent them, such as sales, service, and support personnel. Service-oriented enterprises are especially dependent up their employees to build relationships when there is no tangible product offering. It is important for salespeople to develop an ability to cause prospects to purchase products and/or services from them, and for service and support people to preserve the relationship. The relationship is almost always about the individual, regardless of the reputation of the enterprise.

Whereas some customers will purchase products and/or services from an enterprise regardless of specific sales, service, and support people, it is often the relationships between individuals that make the difference in perception of quality and comfort of doing business. Therefore, it is essential for all individuals that have contact with prospects and customers to be able to develop, enhance, and maintain business activity through strong relationships. After all, nothing happens until a sale is made, but delivering the product and/or service in a memorable quality manner is extremely important to enhancing and maintaining the relationship for future opportunities.

For anybody that has prospect or customer contact, regardless of whether in sales, service, or support, it is important to know the factors that help cement relationships between individuals. Seven factors for building relationships between individuals that are doing business with each other are to be:

- A listener and able to share common interests
- An expert and a problem solver - being able to engage others as necessary to achieve results
- Busy, sought after, and enjoying success
- Genuine and approachable
- Likable, humble, practical, and down-to-earth
- Professional in appearance and related behaviors
- Trustworthy and honest

Part of the success in building relationships is the ability of sales, service, and support personnel to be able to identify the personal styles of prospects and customers, and adapting theirs accordingly as they apply the seven factors.

Two easy ways to identify the personal styles of prospects and customers is by their appearance and the words they use:

- Challengers - tend to dress casually and use words that stress energy, excitement, competition, risk, impulsiveness, and immediacy

- Causals - tend to dress fashionably and use words that stress peace, harmony, family, friendship, causes, arts, and avoidance of conflict

- Stabilizers - tend to dress conservatively and use words that stress safety, security, rules, regulations, service, duty, order, and heritage

- Visionaries - tend to dress practically and use words that stress analysis, logic, competence, science, vision, and the future

Once the personal style has been identified, it is essential to use the appropriate language. For example, when selling a house to a:

- Challenger – the rooms are large enough for fun parties, the garden and pool are great for outdoor games and activities, but there are competing offers so it's important to move right now

- Causal – the rooms are large enough for gatherings with family and friends, the walls are large enough to hang lots of pictures, the views are enjoyable from the windows, the pets have a large garden to play in, and there have been no problems with the developer

- Stabilizer – the house is well-built by a reputable developer in an established neighborhood, with a reliable alarm system, and has withstood the test of time

- Visionary – the house is in a neighborhood that will develop in the future, has a spare room for computers and other equipment, and is made from materials that meet or exceed all professional and regulatory standards

To turn prospects into new customers, and enhance and maintain the relationships with existing customers through additional products and/or services, it is essential to apply the seven factors with the posture and language that fits their personal styles.

BUILDING STRONG RELATIONSHIPS - FOUR STAGES OF DEVELOPMENT, FOUR PHASES OF CONNECTION

Business is about generating economic events that result in financial transactions. However, other than for occasional incidental events, a relationship must exist between an enterprise and its customers for financial transactions to occur because there are always competitors. Relationships are based upon the effectiveness of specific individuals within enterprises, whether in management, on the front line, or in between. Relationships are built on the expectation that stated and enacted values, and offered and perceived value will be the same.

To build a relationship, first it is necessary to give in order to receive so as to build trust and credibility, and to demonstrate what can be expected on an ongoing basis. Enterprises offer promotions as incentives to encourage prospects to try out products and/or services on a trial basis before making a full commitment as customers.

To form a relationship, a customer has to become a new user of a product and/or service, or has to switch from another supplier. The new supplier has to be persuasive. Decisions to adopt a new supplier are often made on emotion, and then justified rationally. The new supplier may only receive part of the new customer's business at first, and has to earn the rest over time. It is not uncommon for customers to do business with several suppliers to stimulate competition, especially on price, but also as a hedge if quality degrades, or if outages occur.

Relationships between parties migrate through up to four stages of development:

- Emerging - getting know each other with a few test transactions (both financial and non-financial)
- Growth - increases in size and/or volume of transactions
- Maturity - steady state: stable size and/or volume of transactions
- Declining - decreases in size and/or volume of transactions

Non-financial transactions include updating account information, and determining service delivery options. However, they can also be related to non-economic events such as invitations to parties, receptions, and seminars, and referrals.

The migration path is not linear. Due to changing circumstances or lack of commitment, some emerging and growth relationships do not reach their full potential, whereas some mature and declining relationships migrate back to the growth stage again. It can take time to build a relationship, but it may be damaged beyond repair in an instant if credibility is lost.

The strength of a relationship is based upon the degree to which the parties wish to connect with each other, and applies to both financial and non-financial transactions. The strength of the relationship migrates through four phases of connection, primarily during the emerging stage of development:

- Formation - getting to know each other
- Divergence - differing opinions, disagreement, and doubt
- Convergence - reconcilement, acceptance, and agreement
- Association - performing collaboratively or cooperatively

However the relationship can migrate to back to the divergence phase at any time.

Parties can be:

- External suppliers and customers
- Individuals within the enterprise with an internal supplier and customer relationship
- In some other relationship where they have to work together, either external or internal to the enterprise

If either of the parties or both are enterprises, the connection is always between individuals. Two individuals within the same enterprise can connect differently. Differentiators include willingness to help, or going beyond the call of duty.

Relationships between non-competitors are either collaborative or cooperative. In both cases, there is a common purpose or value. In collaborative relationships, the parties are dependent upon each other; in cooperative relationships, the parties are independent.

Team members should have collaborative relationships because they are dependent upon each other. Organizational units within enterprises should have collaborative relationships because the individuals within them should be working towards a common purpose - the mission and vision. However, in highly political environments where stated and enacted values differ, relationships tend to be competitive as individuals fight for position and status.

A general contractor/subcontractor relationship is collaborative because both parties have a common purpose - project completion on budget and schedule. The relationship between a retail enterprise and its customers is cooperative. The retailer wants or needs to sell products and/or services and the customer wants or needs to purchase them. Hence, there is a common purpose. However, unless any other form of relationship exists, the retailer and the customer are independent.

In financial transactions, a supplier offers a product and/or service that a customer wants or needs with a certain level of expectation. A financial transaction is an offer of an item in exchange for cash or credit (or barter). The price is the exchange value offered by the seller; quality is the value perceived by the customer. When offered and perceived value equal approximately, the relationship is likely to be sustainable over time. When perceived value is higher than offered, the customer has an advantage, but the relationship may not be sustainable over time because value is being given away. When perceived value is lower than offered, the supplier has a price advantage. However, unless the supplier can further differentiate, the customer may believe that they are being taken advantage of. The customer may be able to get better quality or lower price elsewhere, and thus the relationship may not be sustainable.

Relationships often exist within certain tolerance levels for quality and price, and service levels can be differentiators. In general, lifestyle enterprises differentiate on the basis of service because owners are willing to make the extra effort to exceed customer expectations personally with no additional labor cost.

Customers will often test suppliers with "teaser" transactions before a major financial outlay occurs, and before a supplier is recommended to others. However, "word of mouth" referral is the best way to start a relationship.

Building relationships is an enterpriship (entrepreneurship, leadership, and management) competency.

APPOINTED AND EMERGENT LEADERS
- COMPETENCE, COMMITMENT, AND RESPECT

Leaders are either appointed or emerge. An appointed leader can be selected by an individual in a higher position of authority in an enterprise, or by team members. Appointed leaders assume the role because someone wants them to. An emergent leader steps up to the role because either the appointed leader is underperforming or there is no leader at all. The emergent leader maybe just the person that the team and the enterprise needs to get the required results.

An enterprise comprises one or more organizational units composed of groups and teams. A group is a "loosely-coupled" set of individual contributors formed around common work, primarily by function. A team is a "tightly-coupled" set of individuals working together, either voluntarily or involuntarily, and sharing mutual accountability. Ideally, the entire enterprise is a team, lead by the chief executive, and consisting of sub-teams both within and across functions.

An appointed leader is an individual assigned by a higher authority to an organizational unit, usually in a managerial capacity, or to a team. A leader can also be appointed by the team itself, either from within or recruited from the outside. As a manager, they may be given an official title, but in reality they have to earn the "leader" title by transforming a group into a team, or by enhancing an existing one. A team that becomes demotivated degrades to a group and can become dysfunctional.

An appointed leader will be respected, but not necessary liked, if they have the competence and commitment for the role, and if they treat others fairly consistent the values and guiding principles of the enterprise. In fact, if the leader is respected, the team will compensate for gaps in their competence by sharing accountability mutually to get things done.

Appointed leaders are common in institutional enterprises that are highly structured. Appointments should be made based upon competence and commitment, and potential for the future growth of the appointee, the enterprise, and its constituencies. However, appointments may be made on the basis of political intentions by those with vested interests regarding authority and power. As such, the appointee may "win" but the enterprise and its constituencies may lose.

An emergent leader develops organically from within a group or team, either because the group is not a team, or because the appointed leader is not performing. Emergent leaders evolve because of need; they have a "can do" mindset but are not individual contributors. They can establish an environment for motivating others to build accountability mutually. Emergent team leaders can evolve anywhere in the enterprise where there is a need.

Independent contributors are those who have strong functional knowledge and technical skills but lack the skills required to attract followers. Independent contributors are highly valuable if they can generate ideas that others can transform into value. If an individual contributor does not have competence and commitment and cannot adapt to participate as a team player, then their opportunities for advancement beyond menial tasks are limited.

Emergent leaders are common in entrepreneurial enterprises where roles, responsibilities, and activities are often vague and unstructured. They take solutions, not problems, to the entrepreneur or management that have "buy in" from others. They may become appointed leaders or they may never be formally recognized at all. However, it is usually widely understood within the enterprise as to who got the job done, sometimes in spite of others. Emergent leaders are well respected.

Those in a higher authority should pay attention as to how managers are performing as leaders, and to those who are the real leaders. Candidates for executive positions must be able to attract followers and build teams, or else the enterprise and its organizational units may degrade should they be appointed. An executive's strength is dependent upon enterpriship competencies, not necessarily just subject area domain expertise.

Enterpriship comprises entrepreneurship, leadership, and management competencies.

PRINCIPLES OF SELF MANAGEMENT - STRENGTHENING ANTICIPATION, DELIBERATION, AND STRESS TOLERANCE

Entrepreneurs and leaders must first motivate themselves if they are to establish an environment that motivates others. However, being motivated also means applying the discipline of self management to strengthen personal, professional, and enterpriship (entrepreneurship, leadership, and management) competencies. As such, entrepreneurs and leaders become role models.

Self management is an underlying discipline that applies the techniques of the managerial role (planning, organizing, executing, measuring, evaluating, and adjusting) to personal activities. Hence, the personal competencies of anticipation, deliberation, and stress tolerance improve. As a consequence, an individual's ability to perform personal, professional and enterpriship (entrepreneurship, leadership, and management) activities strengthens. Thus, an individual becomes a role model for an effective and efficient work style to others.

The scope of the self management discipline includes prioritization, time management, space management, resource management, follow-through, and stress management. It also means living by a set of personal values and guiding principles.

Prioritization:

Prioritization is about managing activities based upon value. The simplest method is to apply the Pareto principle (eighty percent of benefit comes from twenty percent of the effort). However, the principle should be applied twice so as to address the top four percent of the activities first that account for approximately 64 percent of the benefit.

The method is applied by creating a list of activities and then assigning priorities as A, B, and C items - A having the highest priority, B having medium priority, and C having the lowest priority based upon contribution to value. The A items should account for no more than twenty percent of the entire list, and the C items should account for no less than ten. The principle should then be applied again to the A items as AA, AB, and AC. The AA items account for about four percent of the entire list.

The list should be visible, reviewed, and updated on a regular basis. Attention must be given to resolving AA items, and the eliminating of as many C items as possible.

New items will be added to the list from time to time, and the list should be recreated from scratch as necessary. Old C items usually drop off in this process.

Time management:

Time management is an extension of the prioritization technique, but relates to the scheduling of activities. Time frames can differ depending upon the types of activities and value, and can range from minutes to years. Time management begins with how an individual lays out their own schedule, and how they interact with others.

The key is to determine the time frame for each activity, and layout schedules in blocks of time with slots. The activities should be listed and prioritized, and then assigned to the slots. Schedule contingency should be allowed for by assigning up to 85 percent of the available slots. That way, if there are overruns, or if unanticipated events occur, there is some room within the schedule to accommodate extra activities. Priorities should be reviewed regularly.

An individual should be careful about communicating with others with a different time perception. For example, strategic planners think long-term, but production staff tend to think short-term. An information technology strategy may take five years to implement, but the response times of resulting systems may be have to occur within seconds, or fractions of seconds for process control systems.

Space management:

Space management is about arranging physical layouts ranging from desktops to entire communities. It begins with how an individual lays out their own workspace, and how they interact with others. Space management is based upon communications needs and workflows between related parties.

The further parties are located from each other, the less they are motivated to communicate, especially if they are on different time zones. Crises are the exception, and actually force parties to communicate. Effective globalization requires establishing strong communications capabilities between the various parties around the world.

In urban areas, it is usually necessary to densely pack people, equipment, and inventory into small facilities. Some individuals are bothered by the close proximity of people and objects around them, and the potential for background noise, whereas others are not. Music can be used to reduce distractions from background noise, and create ambiance.

An individual should be careful about communicating with others with a different space perception. For example, strategic planners think globally, but others may think locally. An electronic product design may require large drawings that represent components that are fractions of millimeters apart.

The Chinese practice of feng shui is becoming more popular in the West. Definitions vary, but in general the practice relates to organizing environments and the objects within them, such as facilities and equipment, to promote balance, happiness, harmony, health, and prosperity.

Resource management:

Resource management is about consuming materials, supplies, and services effectively and efficiently. It begins with how an individual consumes resources, and how they influence others to do so.

Resource management is about setting budgets for resource consumption, and then monitoring the earned value - the budgeted cost of the resource consumed to date. Negative variances result from an insufficient budget or waste; positive variances result from an overly generous budget or conservation.

If time is the resource, then waste results from inefficiency, and conservation results from efficiency. Both productivity and efficiency determine if results are delivered ahead or behind schedule. Productivity is the rate at which units are produced within a time period; efficiency is the ratio of the work performed to the effort applied, and is the difference between the budgeted cost of work performed and the actual cost.

Parkinson's law states that work expands to absorb the available time.

Follow-through:

Follow-through is about carrying an activity through to its natural completion. It is easier to start an activity than it is to complete it successfully. Natural completion includes determining the consequence of an event or activity once it has occurred by getting feedback on results. It includes both quantitative and qualitative information.

How an individual asks for feedback on their own performance determines what they expect from others. Follow-through starts with an individual assessing their own performance, and then asking for feedback from others. Perceptions regarding an individual's own performance will differ from that of others. Ultimately, it's the feedback from others that matters.

Follow-through is achieved by asking questions of constituencies, either directly or indirectly through surveys, in addition to whatever quantitative data is available about actual behavior.

Follow-through is also essential to prospecting activities. If effort is expended to identifying those people with whom to build relationships, then it is essential to follow-through to find what mutual opportunities and benefits actually exist. Follow-through is extremely important when proposals are issued. If a salesperson doesn't follow-through on a proposal, can a prospective client or customer expect them to follow-through on the account itself? Prospective clients and customers are notorious for not following-through to deliver results to unsuccessful bidders. Therefore, bidders should always follow-through to find out status, criteria, and reasons for both acceptance and rejection, so that they can improve in the future.

Stress management:

Stress is human body's response to demands made on it. It is the response to pressures from responsibility, to both real and imaginary threats from people, and to fear of potential negative events and activities. Stress arises when an individual moves beyond their comfort zone - their boundary for risk tolerance, especially when situations appear out of control.

Positive stress has a facilitating effect on activity; negative stress has a debilitating effect. Negative stress must be overcome otherwise illnesses can develop. Individuals who are self-motivated challenge the debilitating effects of stress by moving to action.

Stress reduction techniques include:

- Exercising and relaxing
- Eating a balanced diet
- Getting a good night's sleep
- Avoiding alcohol and drugs
- Involving a support system, such as family or teammates

By applying the techniques of planning, organizing, executing, measuring, evaluating, and adjusting, an individual translates mindset into action and becomes self-motivated.

Personal values and guiding principles:

Personal values and guiding principles form a system of beliefs that set expectations for individual behavior and decision making that can be applied to personal, professional, and enterpriship activities.

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An individual's attention self management is a determinant of their suitability for advancement. If an individual can't manage their own affairs well, then how can they be expected to manage someone else's?

Entrepreneurs, lifestyle enterprise owners, executives, and managers must balance both long-term and short-term mindset with action to ensure that important items get done on a timely basis, without losing focus on the future.

Self management is an enterpriship (entrepreneurship, leadership, and management) competency.

TWO LEVELS OF LEADERSHIP - "BIG PICTURE" AND "TASK"

Leaders set direction that others follow at two levels: "big picture" - the macro level, and "task" - the micro level. At the macro level, they enact transformational change in either the external or internal environment of the enterprise, or both. At the micro level, they build relationships with followers for accomplishing specific tasks. Through both roles, the potential exists for new leaders to emerge.

The leadership role is performed at two related levels: macro and micro. The macro role can influence many individuals and is about what the enterprise can become. The leader starts with a vision of the future environment in which the enterprise will operate, or how it will be internally - the "big picture." The micro role is more directive and supportive, and is about accomplishing tasks through followers within the context of the big picture. The micro role is relationship-based. Whether at the macro or micro level, it is important that leaders convey clear statements of direction so that followers know what to expect and what is expected.

Macro leadership:

The macro leadership level is transformational - influencing results from followers, as either individuals or in teams, by changing their aspirations, wants and needs, objectives and goals. It affirms shared values, mission, vision, and learning.

Visions have external and internal components. The external component is what a community (local-to-global) can become as a consequence of the enterprise's activities, and the products and/or services that it offers. The internal component describes what the enterprise itself can become to its employee, customer, supplier, and investor constituencies. "Being the best place to work," "being the easiest company to do business with," and "excellence through common purpose" are representative internal visions.

If transformational leaders are successful, then the change is noticeable to constituents-at-large. Transformational change should be significant, if not dramatic, as the enterprise positions itself within communities and builds relationships with constituencies. However, it is not just the environment that changes. Both the leader and the followers change in themselves as a consequence of the transformational experience. Once the objectives and goals are achieved, followers are better equipped to enact change in the future. The leader can move on to new opportunities, delegating the leadership role to a follower going forward, and enabling others to assume equivalent roles elsewhere.

The macro leadership role is strategic in nature because it affects the position and posture of the enterprise as a whole, and influences groups of its constituents. However, the leader must perform in the micro leadership role also, even as a leader of leaders, because transformational change can only be achieved through task accomplishment.

Micro leadership:

The micro leadership level is transactional: an event or situation that involves a leader and a follower. The leader builds a relationship with the follower to accomplish specific tasks. The follower can be a member of a team or an individual contributor.

Transactional leaders are either power-centric or empowering. Power-centric leaders use a command and control oriented approach, where results are delivered to order with rewards, or else punishments are inflicted. Although this approach may accomplish objectives and goals, it does not develop new leaders effectively. "Micro managers" tend to over control, resist delegating, and are critical of mistakes made by others.

By contrast, empowering leaders develop successors through a process of migrating from a directive to a supportive style based upon the commitment and competencies of followers, and their confidence.

The relationship starts in a similar fashion to a power-centric approach, whereby the leader is directive. In this capacity, the leader is command and control oriented, setting objectives and goals, and delivering instructions as to how the task should be performed.

Although they may be committed, the follower may have doubts about their competencies, which can affect their confidence. If their doubts continue, their commitment may be impacted negatively. It is the responsibility of the leader to access the commitment, competencies, and consequently the confidence of the follower, and adjust the relationship accordingly. If the follower is less competent or confident, then the leader remains directive; if the follower is more competent and confident, the leader becomes supportive. As such, the follower gains more control of the relationship. As the follower learns from their experiences, their competencies grow, and hence their confidence grows, and thus their commitment is restored positively.

Eventually the follower gains sufficient experience to where the responsibility is fully delegated with confidence from the leader. Thus, the follower sets their objectives and goals, and is accountable to the leader for their performance.

If the follower loses commitment because they do not have the aptitude, then they may be better off pursuing opportunities elsewhere.

Micro leadership is tactical in nature because it addresses the behavior of a follower and their tasks. However, as the follower develops experience, they are equipped to assume more responsibility.

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An enterprise cannot grow and continue to move forward unless it develops future leaders.

Macro and micro leadership are enterprishiop (entrepreneurship, leadership, and management) competencies.

THE CASE FOR TEAMWORK
- TOGETHER EVERYONE ACHIEVES MORE

Every enterprise comprises individuals who are assigned to one or more groups. A group becomes a team when the individuals within it share common purpose. Whereas a group comprises independent contributors, a team comprises interdependent contributors. Results can emerge from teams that are broader and deeper than those from the individual members to the benefit of the enterprise and its constituencies.

When organizational units form within an enterprise, the individuals within them become members of one or more groups. Groups form around common work, further organized by shifts and geographical proximity. Common work is determined primarily by function, such as finance, information technology, operations, marketing, and sales.

Groups are loosely coupled because they are heavily dependent upon individual contribution. The work is defined by job descriptions (either oral or written) that list the tasks that must be performed. Each member may perform the same tasks, or a subset of all of the tasks that collectively produce the output from the group. Each member is accountable to a supervisor for their work, who is in turn accountable for the work of the entire group to a higher authority. It is the responsibility of the supervisor to ensure that the work accomplished by each member, and the group as a whole, meets quality, efficiency, and productivity standards. Camaraderie within and between groups results primarily from personal relationships among the members.

Groups tend to behave in "silos" when there is no motivation for them to work together. Silos are so named because they have distinct vertical structures that stand alone from others. Silos operate to the agendas of the supervisors, which may not necessarily be aligned with those of the enterprise. Communications may be fragmented both within and between silos.

Teams are tightly coupled, which means that the members work together coherently. Whereas the roles and responsibilities of the members may differ, teamwork requires mutual accountability. The members recognize that to get work accomplished successfully, they benefit from the synergistic effects of sharing and building on knowledge, skills, and experience. As a team, the members collectively achieve results that would not be possible individually within budget and schedule constraints.

If management acts as a team, then they will foster an environment for teamwork both within and between organizational units. When management is not behaving as a team, silos are more likely to emerge.

Teams are formed by a higher authority to manage projects and perpetual processes, to create ideas, and to solve problems. However, teams may emerge based upon need despite the behavior of management. This is because individuals believe in responsibility and accountability to enterprise, its constituencies, and themselves. Teams can be either permanent or temporary, formal or informal, broad or narrow, and within one function or cross-functional. An individual can be a member of one or more teams.

Members must share the values, mission, and vision for the enterprise within which they establish the values, mission, vision, objectives, and goals for the team itself in an environment of shared learning. If an individual member does not share the team's purpose, they cannot be committed to its success, and will ultimately either drop out or be pushed out.

Teamwork offers potential for broader and deeper ideas and solutions than those of individual contributors because of the opportunity to leverage diverse backgrounds. The greater the diversity of the team, the greater the breadth and depth of results. Weaknesses in the knowledge, skills, and experience in one member may be offset by those of others. The tighter the fit between the team members collectively and constituent beneficiaries, the more valuable the results are likely to be.

It is important for a team to have a set of guiding principles from which all points of view can be heard and discussed. Without such principles, there is a danger that the majority of team may miss a minority point of view that represents "out-of-the-box" thinking or experience that makes a difference. If the minority point of view is accepted after debate, it can be developed by the interdependent members collectively into something greater that meets or exceeds the wants, needs and expectations of the constituents.

It is the higher order effects of teamwork, through leverage and debate, that create synergistic solutions beyond the reach of the individual members. As a consequence, the team members benefit by learning from each other as opposed to purely from their supervisors alone. Hence, the enterprise and its constituencies benefit collectively and individually - together everyone achieves more.

Teamwork is an enterprising (entrepreneurship, leadership, and management) competency.

STRIVING FOR EXCELLENCE THROUGH HIGH PERFORMANCE TEAMS

The sustainable enterprise strives to achieve performance excellence by doing the right things, and by doing them well. By delegating responsibility for managing projects and perpetual processes, creating ideas, and problem solving to high performance teams, management can focus on overall planning and policy development and performance measurement activities. As such, management can address doing the right things, and high performance teams can address doing them well by making decisions close to the front line. By establishing a feedback loop, high performance teams can contribute to the future direction of the enterprise. Together the enterprise achieves more.

Teams are formed or emerge to address specific issues by leveraging the differing competencies and experience of their members for a common purpose. Teams are either formed by a higher authority or emerge based upon need.

The basic ingredients for teamwork include:

- Establishing shared values, vision, mission, objectives, and goals consistent with enterprise values, mission, and vision
- Operating according to a set of guiding principles
- Providing an opportunity for shared learning
- Encouraging "out of the box" thinking
- Being mutually accountable

Teams migrate through four phases of connection:

- Formation - determining the purpose and rules
- Divergence - defending current positions based upon differing backgrounds
- Convergence - accepting differing points of view
- Association - committing jointly to the purpose, rules, and results

A "leader-managed" team serves under an appointed leader who establishes the objectives and goals. An empowering leader enables the team to become self-managed, and potentially self-directed over time.

Self-managed teams work together based upon direction from the leader-manager or another higher authority. Cross-functional teams operate across organizational units (functions and business units). Although it is hard to achieve in practice, in theory the entire enterprise is a cross-functional team.

Self-directed teams are self-managed and establish their own direction almost exclusively. Team leaders may emerge from both self-managed and self-directed teams.

Self-directed teams are formed in two ways - either because they were commissioned by a higher authority, or because of a breakdown in leadership causing a void. When commissioned, responsibility has been delegated by a higher authority because the team members have commitment, competence, and momentum, and have earned the opportunity to be empowered. However, with empowerment comes accountability to the higher authority and the enterprise.

Higher authorities act as servant leaders to self-directed teams by collaborating with them. As servant leaders, they ensure that the team is equipped to get tasks completed by having the necessary resources to operate, but not standing in their way. Servant leader collaboration does not preclude the existence of a leader within the team itself. Servant leadership is an aspect of stewardship because all participants share the values and vision of the enterprise.

High performance teams are both cross-functional and self-directed, and are focused on the improvement of people, process, and product and/or service capabilities. Higher order synergistic effects will kick-in when representatives from the legal, finance, human resources, information technology, research and development, operations, and business development functions are brought together for a common purpose.

For example, involving service personnel in design and manufacturing processes can impact how best to maintain and repair products. Involving salespeople in design processes ensures that customers' wants and needs are considered when enhancing existing or developing new products. Involving legal and human resources personnel in manufacturing processes ensures compliance with labor laws and regulations.

Operating within the context of existing plans, policies, and performance measures, high performance teams take the pressure off of management to find methods for doing things well, and provide a feedback loop to future plans. High performance teams innovate, solve problems, and execute operational processes with high standards for effectiveness of the results, and for the team itself.

Areas of focus of high performance teams include:

- Reducing time-to-market
- Reducing cycle time
- Increasing productivity and efficiency
- Reducing production costs and operating expenses including selling, research and development, and administrative

The standards for behavior include the basic ingredients for teamwork and:

- Following rigorous problem solving approaches that include: understanding the situation, what complicates it, framing the problem statement, pursuing alternative solutions based upon anticipated and probable outcomes, and making recommendations based upon commitment, ease of deployment, effectiveness of execution, and achievement of performance excellence

- Encouraging lively debate that includes the views of both internal and external constituents, encourages varying opinions and points of view, respects diversity, and avoids criticism and personal attacks

- Addressing strengths, weakness, opportunities and threats, especially to pursue under exploited opportunity, to reduce overengineered solutions, and to leverage core competencies

- Making fact-based decisions, but not necessary inferred from facts if experience and judgment suggest otherwise

- Exceeding expectations

By enabling high performance teams to work close to the front line, management can focus on the overall direction of the enterprise. Morale improves because decisions are made by those who are directly involved.

Establishing high performance teams is an enterpriship (entrepreneurship, leadership, and management) competency.

SELF MOTIVATION - LEADERS CAN'T LEAD WITHOUT IT

Unless forced, an individual can only motivate themselves to do something well. Self motivation is about developing enthusiasm for an idea, ideal, or task, and then moving to action. Self-starters are inspired by their own passion. Leaders motivate themselves first, and then create aspirational and inspirational messages that influence others to motivate themselves to follow.

Entrepreneurs and emergent leaders develop passions for ideas, ideals, or tasks that give them the enthusiasm to "go for it" even when others criticize, object, resist, or ignore an opportunity or threat. A self-starter takes the initiative and the risk to transform their ideas or ideals into results that benefit others. All leaders have to rely upon their own instincts and establish an environment that motivates others; sometimes in lonely and uncertain conditions. They must influence others to motivate themselves who, in turn may become leaders in their own right.

Self motivation has five ingredients: positive attitude, ambition, confidence, commitment, and self assessment

Positive attitude:

Attitude reflects an individual's positive or negative state of mind towards an event, activity, condition, item or another individual. Attitude affects actions; it is easy to be negative and think of barriers, obstacles, and failure. Whereas contingency plans should always be considered to prevent or recover from negative outcomes, it is better to think of what is possible than what isn't. Attitude can be changed through persuasion; favorable results and success stem from positives attitudes. Hence, it is important to examine the benefits of the situation or proposition, and think in terms of how the best results can be achieved effectively and efficiently.

Ambition:

Ambition is the basis of motivation for achieving status, power, and results. Ambition requires an aspiration (ideal or dream) - a mission and a vision, and self-esteem - the belief in oneself to achieve a positive result.

Confidence:

Confidence is the level of certainty that a hypothesis regarding an intended action or outcome is correct. With respect to accomplishing the intended outcome, confidence is the level of certainty that the related people, processes, and products and/or services are capable. Self-confidence is belief in one's own capabilities. Confidence is the basis for motivation for action.

Commitment:

Commitment is the pledge to an aspiration and creates the obligation to engage and remain in activities that realize it.

Self assessment:

Self assessment is the willingness to understand one's own strengths and weaknesses so as to undertake a specific role and associated responsibility. The consequence is taking advantage of strengths, improving weaknesses, or compensating for them by engaging others.

The criteria for self assessment include: aptitude, qualifications, ability, proficiency, and experience:

- Aptitude - suitability for a role
- Qualifications - standard conditions or requirements to perform the role and accept the responsibility
- Ability - expected quality of performance
- Proficiency - level of competencies (knowledge and skills)
- Experience - application of competencies (or lack thereof) to actual situations, with the related learning

Competence includes:

- Personal - intra (self) and inter (relationships with others) - oral and written communications, and appearance

- Professional and technical

- Enterpriship - entrepreneurship, leadership, and management

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Leaders cannot attract followers unless they are self-motivated; they can manage but they cannot lead.

The ability to self-motivate is an enterpriship competency.

BUILDING AND MAINTAINING TEAM MOTIVATION AND MOMENTUM

Leaders communicate aspirational and inspirational messages that influence others to motivate themselves. However, to get things done through others, leaders must also build and maintain momentum over time.

Leaders first motivate themselves, and then establish an environment that enables others to motivate themselves too. Leaders can be self-starters, appointed, or emergent.

The members of a self-managed team work together to achieve a mission and vision based upon direction from a higher authority. The team establishes its mission, vision, objectives, and goals as a sub-set of those of the enterprise. There may be little to no room for negotiation on what the overall goals are, but only the terms by which they are achieved. However, without the ability to shape mission, vision, objectives, and interim goals, the self-managed team can resort to becoming a group of individual contributors. A self-directed team is both self-managed and establishes its own direction almost exclusively. Leaders may emerge from both self-managed and self-directed teams.

It is essential that teams operate within the context of the values, mission, and values of the enterprise, otherwise organizational silos can result.

A "leader-managed" team serves under an appointed leader who can be either power-centric or empowering. In either case, the relationship between the leader and team members is initially directive. The leader establishes the objectives and goals for the team. However an empowering leader has the intention of delegating to a self-managed, and subsequently a self-directed team over time, whereas a power-centric leader does not.

Both power-centric and empowering leaders should welcome team members, assess their readiness for tasks in terms of commitment and competence, assign tasks by balancing the competencies between individuals, and provide the necessary resources. Training programs may be required to prepare team members for tasks and advancement.

Power-centric leaders use rewards and punishments, and may micro manage. Micro managers may take credit for themselves, and prevent others from advancing. Empowering leaders build and maintain both motivation and momentum to gain results, from which others can advance over time.

Momentum is built by maintaining the ingredients for self motivation - positive attitude, ambition, confidence, commitment, and self assessment. Self assessment involves determining the aptitude, qualifications, ability, proficiency, and experience for tasks and future opportunities.

Momentum is maintained by identifying positive role models that team members can aspire to; overcoming obstacles, resolving conflict, giving feedback on a timely basis; and recognizing and rewarding accomplishments. Leaders cannot expect team members to duplicate success without reward and recognition. However, once momentum is built, it is easier to migrate from one task to the next.

Giving feedback is accomplished through guidance from mentoring and coaching. Mentoring addresses the personal and professional competencies of each team member - intra (self) and inter-personal skills, and functional knowledge and technical skills. Coaching addresses the enterpriship competencies that enable team members to assume entrepreneurial, leadership, and managerial roles with increased levels of responsibility in the future as they become empowered. In effect mentoring is about understanding what the rules are and why, and coaching is about how the rules are applied.

Whereas empowering leaders initially assess the readiness of team members for tasks, momentum is achieved by enabling team members to assess themselves, and make adjustments from mentoring and coaching accordingly. As such, the relationship becomes supportive as the leader delegates to the team members, first as self-managed, and then later as self-directed. Empowered team members are also able to assume leadership roles elsewhere in the enterprise as they advance.

Empowerment is an enterpriship (entrepreneurship, leadership, and management) competency.

ASSOCIATION, OPPORTUNITY, INCENTIVES, AND FEAR - HOW LEADERSHIP AND SALES DISCIPLINES ARE RELATED

Both the leadership and sales disciplines are about persuading people through influence. Leaders establish direction for others to follow; salespeople persuade prospects to buy. Leaders promote their aspirations to followers; salespeople set directions for prospects to follow. Leaders and salespeople use both imagery and language that convey association, opportunity, incentives, and fear to drive momentum and urgency.

Unless forced, a person will only do something well if they are self-motivated; the word "motivation" means "motion for action." The word "emotion" is derived from Latin roots meaning "to move." People are "self-motivated" when they find a reason to do something - the decision is often made emotionally, and then justified rationally.

Leaders have to motivate themselves first, relying on their own instincts, sometimes in uncertain conditions, whereas followers have leaders to inspire them. Using their best influence, leaders establish an environment that enables followers to motivate themselves. However, followers can be leaders too if they can inspire others to achieve results.

When tasks are assigned, leaders have to assess both the competencies and commitment of followers, and qualify them accordingly. If a follower is competent, but not committed, the quality of their work may be substandard. So a leader has to influence the follower to commit to the task so as to achieve quality results.

For all the effort that enterprises expend in research and development, operations, and business development, the costs and expenses are only recovered and profits earned if salespeople close sales to move products and/or services to customers.

Salespeople have to motivate themselves first in order to create an environment that influences others to buy. It can be an uncomfortable feeling to make a cold call, or to promote a new product for which there is no track record. However, salespeople have to meet new prospects and promote new products and/or services on an ongoing basis to keep their pipelines flowing.

Salespeople have to qualify their prospects in terms of authority, desire, and resources to buy - if a prospect is not qualified, the only answer is "no."

An individual is "casually motivated" when they act regardless of the efforts of others.

To establish an environment that motivates others towards the desired result, leaders and salespeople have to understand the difference between what people need and what they want.

Whereas the needs of individuals tend to be rational, the wants tend to be emotional. For example, a person may need food, but wants a banquet; may need shelter, but wants a mansion; and may need a job, but wants to be boss.

When needs and wants don't align, influencing people to act through their emotions helps as savvy advertisers know. Using images and words to raise the emotions of followers and prospects can turn a boring task or product into something exciting and compelling. Even the packaging of everyday products can create an emotional spark through the use of images and words that create momentum and urgency.

However, if a person isn't in the mood or is in a state of denial, then they may not want to act, even though they need to.

A mood is less intense than an emotional state, and is less likely to be influenced by an event or situation.

Denial means that an individual believes a certain condition to be true or false when facts and other information suggest otherwise. Believing that there is a market for their products and/or services, entrepreneurs, executives, and lifestyle business enterprise owners can be in a state of denial when the behavior of prospects suggests otherwise - it's a function of how long they can withstand the pain. However leading salespeople make markets for products and/or services even when they are playing against the odds. If a person is really self-motivated to make a difference, they will keep trying, even in the face of failure.

Leaders and salespeople use four drivers based upon wants to influence others to achieve results or buy: association, opportunity to gain, incentive, and fear of loss.

Association:

Followers or prospects want to associate with a respected or well sought team or buyer group because they share the same values, attitudes, behaviors, and beliefs:

- Becoming a member of a highly visible team, appointed by top management, and consisting of the perceived "up-and-comers" of the enterprise
- Becoming a member of an elite country club or similar group
- Acquiring products and/or services used by celebrities, such as cars, clothes, electronic gadgets, and gourmet food and beverages
- Acquiring "designer label" products and/or services because they are perceived as stylish and in-vogue

Opportunity to gain:

Followers or prospects want to take advantage of an opportunity for either tangible or intangible benefits:

- Obtaining a job position through which higher compensation can be earned
- Obtaining a job position through which new knowledge, skills, and experiences can be gained
- Acquiring a product and/or service through which new knowledge and skills can be learned
- Acquiring real estate in a neighborhood where property values are appreciating quickly

Incentives:

Followers or prospects want to receive rewards and recognition:

- Receiving additional compensation such as higher salary, bonuses, and commissions
- Receiving awards and citations at "town hall" meetings or in the media
- Receiving discounts or bonus points, such as frequent flyer miles
- Receiving invitations to special events not open to all employees or the general public

Fear of loss:

Followers or prospects fear losing their "want" - the ability to associate, take advantage of an opportunity, or receive an incentive:

- Perceiving that time, space, or inventory are running out, such as for events, trips or products and/or services
- Perceiving that someone less qualified will get the offer or incentive
- Knowing that they are not qualified for the offer, but the leader or salesperson is ignoring that fact, enabling them to have something that they otherwise would not be entitled to
- Knowing that they are not qualified for the "advertised" offer, but the leader or salesperson is offering something which is more achievable or affordable, such as a less demanding position or a less sophisticated product and/or service, without creating an embarrassing situation

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Successful leaders and salespeople know how to use imagery and language to influence others through momentum and urgency; the alternative is force.

Using the four drivers of influence to lead and sell are enterpriship (entrepreneurship, leadership, and management) competencies.

THE ENTERPRISE ON STAGE
- PERFORMING IN THE SERVICE THEATER

Enterprises that offer service-oriented products, such as in the financial services, hospitality, and transportation industries, are very dependent upon their service cultures to shape their identities to gain competitive advantage. However, the quality of service delivery is a factor also for product-oriented enterprises, including restaurants and retailers. Both product-oriented and service-oriented enterprises owe much of their reputation to the manner in which the employees on the front line present themselves in person and on the phone. Behaviors such as acknowledging customers by name, smiles, and expressions of gratitude can make a difference.

Some service enterprises are intentionally designed with a cultural theme in mind, such as ethnic bars, cafes, and restaurants. If so, they had better stick with it, otherwise customers will feel out of place. However, all enterprises that deliver service-oriented products, and those where quality of service delivery is a differentiator for products, develop a service culture over time that impacts their reputation.

A place of business is a service theater - the enterprise is on stage and in the public view at all times such that the:

- Stage is the customer service area
- Employees are the actors
- Customers are the audience
- Suppliers provide the costumes and props
- Press and social networking websites provide the reviews
- Management is both producer and director

Management must establish service quality standards and enforce them through the use of mystery shoppers and surveys. Customer confidence, trust, and loyalty increase when employees are perceived as:

- Caring
- Clean and well-groomed
- Competent
- Courteous
- Helpful
- Polite
- Reliable
- Responsive
- Welcoming

The concept a service theater does not just apply to physical locations - call centers are service theaters too. How service representatives behave on the phone affects the customers' perception of the enterprise. Customers can hear smiles, and will be attentive to "please" and "thank you" statements. When customer service centers are outsourced, service quality standards of the provider must be established in line with those of the enterprise, or better.

For all of the efforts to advertise and promote the enterprise and its products and/or services, the moments of truth are when the customer first:

- Meets the employee on the front line, either in person or on the phone, and service is delivered

- Uses the product and/or service

First impressions count.

Management must recognize that all employees must take breaks and relax from time-to-time. However, when traffic slows and it's time to lean, it's also time to clean. The most important indicator of service quality to customers is the condition of the bathrooms in the enterprise's facilities - their condition is a key indicator of the gap between stated and enacted values, and the resulting culture.

With the advent of "web 2.0" and the trend towards posting customer experiences on social networking and other websites, enterprises have to be more concerned about how they are perceived than just from reviews in the press. Word of mouth is the best form of marketing.

Performing in the service theater is an enterpriship (entrepreneurship, leadership, and management) competency.

HIRING EMPLOYEES FOR CAFES AND RESTAURANTS - THREE KEY QUESTIONS

Employers in cafes and restaurants have to address service, safety and security issues in an environment where there is high potential for theft. Therefore, it is important to ask situational based questions to prospective employees that will determine how they will perform in emergencies.

I owned a European-style gourmet cafe and catering business for many years, where service levels, and safety and security considerations were extremely important to me.

I had a steady stream of job applicants, some with prior experience, and some without. It was important to me to learn how candidates would perform in emergency situations, because I knew that everything else could be learned from routine procedures.

The interview began with me asking the candidate to give a one minute overview of themselves, so to become comfortable talking. Then the interview would really start. The candidates came prepared for questions about their prior jobs. They were somewhat surprised that I asked three questions about the future only, and not the past.

Question 1:

"The cafe is moderately busy on the inside and you are behind the cash register. All of a sudden, one of the customers collapses. What would you do?"

The essence of this question is to determine how the candidate would handle a medical emergency. I would expect them to:

- Examine the seriousness of the situation immediately, and call for medical assistance if in doubt
- Ask if there is a doctor on the premises or near by
- Ask the customer what help they need if they are conscious
- Provide bandages if the customer is wounded
- Avoid moving the customer if they are unconscious
- Ensure that others keep away from the scene so as to give the customer privacy
- Understand the dangers of giving unqualified first-aid

Question 2:

"The cafe is moderately busy on the inside and you are behind the cash register. All of a sudden, you detect smoke. What would you do?"

The essence of this question is to determine how the candidate would handle a potential crisis, and apply quick judgment. If there is only a small amount of smoke, then I would expect them to determine if they can put the fire out right away. If there is a large amount of smoke, then I would expect them to evacuate the cafe immediately, and call the fire service. I would expect them to address:

- The cause of the smoke, and the extent to which it is controllable or uncontrollable
- Under what circumstances should the cafe be evacuated or not
- When to call the fire service
- How to use the fire extinguisher
- How to take care of concerned customers

Question 3:

"The cafe is moderately busy on the inside and you are behind the cash register. All of a sudden, someone walks right up to you and asks for the money in the register. What would you do?"

If the candidate didn't answer with "give them the money," or something to that effect right away, then it didn't matter what their answers were to the first two questions. Also, it didn't matter how otherwise desirable they may be - they were not hired.

In some cases I was asked if the perpetrator had a gun or a knife, to which I told them that they wouldn't necessarily know. Asking that question automatically eliminated the candidate. I was concerned that in a live situation they would hesitate before acting, making the perpetrator nervous and unpredictable.

I passed on some otherwise good candidates who could not answer these questions to my satisfaction. However, when considering the liabilities of a restauranteur, safety and security are paramount - dead employees and customers are not good for business.

When hiring employees it is useful to understand their individual competencies and personal style characteristics, in addition to your own.

THREE SECRETS TO BECOMING A SUCCESSFUL ENTREPRENEUR

There are many secrets to becoming a successful entrepreneur. Three of the most significant are a demonstrated and infectious passion, a focused mission and vision, and relentless execution.

1. A demonstrated and infectious passion

If an entrepreneur does not demonstrate passion about their venture, it is unlikely that anybody else will. It is important that an entrepreneur demonstrates their passion in such a way that it rubs off on co-founders, employees, customers, suppliers, investors, and the community-at-large. In turn, these constituencies should become loyal to and promote the venture if the entrepreneur's passion really is infectious. A good test of an entrepreneur's passion is when competitors start to emerge. Where feasible, the entrepreneur must be using the product and/or service for their own purpose, and must never be seen with a competitor's, except to demonstrate superiority of their own.

2. A focused mission and vision

It is important that an entrepreneur focus on well articulated mission and vision statements for their enterprise, and communicate them clearly. A mission is both an aspirational and an inspirational statement of purpose, supported by a set of high-level objectives, that address core competencies. A vision is an inspirational statement of a future state (reasonably achievable) within the context of a longer-term aspiration (dream). Vision statements may have two components: external and internal. An external vision is a statement of what a community (local-to-global) can become as a consequence of the enterprise's activities, and the products and/or services that it offers. An internal vision is a statement of what the enterprise itself can become to its constituencies.

3. *Relentless execution*

Entrepreneurship is about causing change – causing customers to switch products and/or services, or use something that they have never used before. Causing change requires the art of persuasion, and the ability to relentless deliver quality products and/services (almost) flawlessly.

However, before new products and/or services can be delivered, an infrastructure has to be in place to produce and deliver them, which may require considerable financial and human capital to develop, enhance, and maintain.

Building infrastructure requires both project management and team building disciplines, as does the development of customer products and/or services. Thus, the entrepreneur is faced with building an enterprise that has both project-oriented and and process-oriented disciplines for ongoing product and/or service delivery. Building the enterprise requires being able to identify the appropriate talent for various tasks, and building a team because *together everyone achieves more*.

THE HI-SPOT REVIEW FOR QUICK SITUATION ASSESSMENTS AND DIRECTION SETTING

A Hi-Spot review is a "mini strategic planning" project, initiated on an unplanned basis, to determine a response to unanticipated events, ideas, or activities that impact strategy. The name means "high-level and focused" - derived from the phase "high level strategic plan for opportunities and threats." The review is intended to be both diagnostic and prescriptive. The review consists of a quick situation assessment and a project definition that sets direction. The result determines the solution to a specific opportunity or threat that can be enacted immediately through one or more implementation projects.

An enterprise can initiate a Hi-Spot review project in response to events, ideas, and activities when immediate action is necessary. A Hi-Spot review is a mini strategic plan for opportunities and threats, and may result in new initiatives or enhancements and modifications to existing plans. It is conducted within the context of a current strategic plan. Hence, assumptions for values, guiding principles, mission, vision, and other strategic statements are upheld, unless there is a good reason for change.

Events, ideas, and activities...

In the ideal world, there would be ample time to develop well crafted strategic plans that address both long-term aspirations and short-term vision offensively. In the real world, pressures from unanticipated events and changes in competitive, economic, environmental, political, regulatory, social, and technological trends can have an adverse impact on strategy. As a consequence, prompt defensive repositioning, restructuring, or reengineering activities may be necessary to respond to current threats, and to enable future offensive opportunities. Workouts, turnarounds, and profit improvement programs may be necessary to provide more general longer-term solutions.

Breakthrough ideas can arise at any time from an entrepreneur who starts an enterprise, or from any individual within, whether an executive, an intrapreneur, or an employee-at-large. A breakthrough idea overcomes an obstacle and allows for more progress in a specialty area. A breakthrough idea provides a new source of opportunity or response to a threat. Ideas can arise in any activity including planning and policy setting in the board room, research and development in the laboratory, sales in the field, production in the plant, and performance measurement in an executive's office. Ideas can also arise from constituencies including employees through suggestion programs, and customers, suppliers, investors, regulators, competitors, and the community-at-large through listening posts. Ideas from constituencies have merit because they provide feedback to the management of the enterprise.

A review can be initiated at any time on an ad-hoc basis to determine the scope and impact of events and new ideas on research, development, sales, and production activities. In this context, the term "ad hoc" means that the review is focused on solving a specific problem. However, sometimes the term connotes an improvised solution without proper planning, which can often lead to more problems over time. Whereas a Hi-Spot review may address the consequences of improvisation, it should avoid creating such problems in the future.

Examples of activities that benefit from a Hi-Spot review include:

- Responding to new entrants in existing markets

- Responding to unexpected decreases in revenue or increases in costs and expenses

- Beginning a new business relationship, such as a merger or acquisition with a peer or competitor, or a venture with customer or supplier

- Implementing total quality management initiatives

- Implementing organizational design initiatives

- Outsourcing processes and functions

- Determining "mid-course corrections" to existing projects

These activities can lead to repositioning, restructuring, reengineering, workout, turnaround, and profit improvement programs as defined by a Hi-Spot review.

External events and breakthrough ideas can be quite disruptive to plans and programs that are already in place. However, plans are living documents. Ideas that merit further analysis can be examined in research and development activities, and implemented in sales and production. However, it may not be prudent to ignore the impact of ideas on strategy until the next planning cycle, especially if market share or profits are at risk.

Phasing...

Hi-Spot reviews are conducted in two phases - quick situation assessment and project definition. A project definition follows a quick situation assessment, but can be initiated in its own right for breakthrough ideas.

A quick situation assessment is often necessary because the enterprise has delayed taking remedial action and has reached a "pain point" that requires an immediate prescription. The delay can be as a consequence of fear to act or hope that conditions will improve. In addition to a follow on from a quick situation assessment, a project definition is necessary for breakthrough ideas that offer a sustainable advantage for which an immediate benefit can be realized. If responses to these ideas are not being addressed elsewhere in current plans and programs, then a project definition should be initiated.

The output from a Hi-Spot review is one or more well defined implementation projects. The rigor of the project management discipline should assure that results are realized during implementation, are focused, and are not improvised. Activities that are initiated in the implementation projects may be integrated with others in research, development, sales, and production over time.

Quick situation assessment...

The purpose of the quick situation assessment is determine a recommended solution and action plan to an immediate problem. It is best to employ a self-directed cross-functional team with a facilitator. The facilitator suggests problem solving approaches; however, the team finalizes them based upon their background and experience. The facilitator provides mentoring and coaching throughout the review.

Elements of a 10 step group problem solving approach include:

1. Summarizing the current situation and determining what complicates it

2. Framing the problem with facts and supporting evidence, and investigating the causes and effects

3. Developing alternative solution hypotheses - testable statements with predictions, projections, and forecasts

4. Developing the approach to the situation and gap analysis

5. Gathering the data

6. Structuring the results

7. Proving or disproving the solution hypotheses

8. Formulating the best solution based upon findings and conclusions

9. Developing alternative courses of action to implement the best solution

10. Presenting the best recommended solution and action plan

In performing the situation and gap analysis, topics to address include:

- External - competitive, economic, environmental, political, regulatory, social, and technological trends

- Internal - strengths, weaknesses, opportunities, and threats

- Gaps - where the enterprise is and where it needs to be with respect to its constituencies: employees, customers, suppliers, investors, regulators, competitors, and the community-at-large

Since the situation and gap analysis is performed within the context of the existing strategic plan, other elements of strategy formulation are not addressed unless there is a good reason to do so.

A funnel approach should be used to drill down from the general landscape to specific issues and to prioritize them accordingly. The funnel approach starts with first asking open-ended questions to principals and constituencies, and then as the problem is identified, using specific questions to narrow the scope of the analysis. The approach includes employing the nominal group problem solving technique, triaging the problem and solutions, and applying the Pareto principle to prioritize ideas, issues, options, and recommendations.

The nominal group technique is a method of building consensus in face-to-face meetings with each member participating equally as follows:

- Allowing participants the opportunity to write their ideas on paper
- Allowing each participant to read their ideas to the team, which are then recorded on charts
- Enabling the leader to discuss each idea when all have been recorded, and to clarify open points
- Enabling the participants to vote for three to five ideas that have been recorded on the charts
- Prioritizing the list of ideas according to the votes
- Reviewing and summarizing the priorities collectively by the team

Triage is a technique used by healthcare service providers to prioritize procedures on patients based upon severity of condition. The technique can be applied by enterprises for problems and solutions associated with processes, functions, products and/or services, markets, and constituencies, and involves assigning three levels of priority:

- Highest priority - most critical or highest probability of return
- Medium priority - next most critical or medium probability of return
- Low priority - least critical or lowest probability of return

The percentage weightings may vary according to circumstances, but a common starting point is "20-70-10" from highest to lowest.

The Pareto Principle is also known as the "80/20" rule - 80 percent of the effects come from 20 percent of the causes. It provides a useful mindset for making tough decisions and setting priorities.

The drill down can be conducted within the context of the framework for building sustainable advantage. The framework for building sustainable advantage is a fundamental tool for establishing the mindset and actions required to transform vision into value on an ongoing basis within an environment of change - either by causing it or responding to it.

Building sustainable advantage requires:

- Establishing the governance disciplines of stewardship, strategy, and structure required to form a vision based upon innovative ideas, to enact change, and to deliver value through...

- ...the capabilities of people, processes and functions, and products and/or services to take advantage of opportunities in the marketplace...

- ...and the effective utilization of natural, human, intellectual, and financial capital resources to provide a strong foundation for all activities

If necessary, further due diligence may be necessary that examines the current position and relationships of the enterprise before the recommended solution can be enacted. If detailed implementation plans are required, the action plan can be expanded in a project definition.

The key success factor in a quick situation assessment is to establish a facilitated process that encourages involvement, but is not bureaucratic.

Project definition...

The purpose of a project definition is to set direction for implementation in terms of scope, objectives, deliverables, resources, and schedule with both short and long-term components as necessary. Some short-term activities may be expendable in the long-term, but are required in order to realize benefits quickly.

A project definition is a follow-on to a quick situation assessment to develop detailed implementation plans. It can also be initiated in its own right for a breakthrough idea. A project manager is either appointed or emerges, and is supported by a cross-functional team. Some team members assigned to the quick situation assessment may continue through the project definition, and others with implementation experience may be added.

The project definition develops plans in sufficient detail so that downstream research and development activities, including analysis, design, construction, implementation, enhancement, and maintenance can be conducted. These activities may have to be prioritized against existing ones. If necessary, the scope, objectives, deliverables, resources, and schedule of existing projects may have to be adjusted. However, caution is warranted to ensure that the latest project does not get the highest priority unnecessarily at the expense of other projects.

The output of a project definition, which embellishes the output from a quick situation assessment if there was one, includes:

- Understanding the problem (situation, complication, problem statement, solution description)

- Scope and objectives

- Approach

- Deliverables including a plan for the next phase of work

- Work plan (work breakdown structure, resource requirements, schedule)

- Governance (project manager, steering committee, standards for performance and measurement)

- Next steps

Once the decision has been made to go ahead, one or more implementation projects are executed with an emphasis on getting results quickly.

Key success factor...

It is important that the follow-on activities from the project definition be monitored with milestones and progress reporting. It is easy to lose control of such activities if they are not properly monitored, especially if new opportunities and threats subsequently arise.

Therefore, enterprishing (entrepreneurship, leadership, management) competencies are necessary to assure success.

INGREDIENTS FOR AN EFFECTIVE PROJECT PROPOSAL

Successful consultants, executives, and salespeople know the essential ingredients for a project proposal that gets results. They include the ability to articulate a clear understanding of the problem, including needs and requirements, a solution that with features and benefits, and a persuasive approach with a call to action.

The contents of an effective project proposal that gets results include:

Understanding of the problem:

- Situation - this is the "status"

- What complicates the situation in terms of strengths, weaknesses, opportunities, and threats - this is a further elaboration of the "status"

- Clear statement of the problem including needs and requirements - this is the "what"

- Solution hypothesis - "going in" position including potential features and benefits - this is the "why" - with an explanation as to the advantages over other alternatives

Scope, objectives, and goals:

The scope of the project is a general statement to address the problem and the solution hypothesis. The scope statement establishes boundaries - what the solution hypothesis is and what it is not. The project may be subdivided into phases, such as planning, analysis, design, construction, implementation, enhancements, and maintenance. Hence the scope may define the entire project and/or a phase within it.

The objectives are general statements of direction and the goals are specific results to be achieved by the project. In general, there should be no less than three and no more than seven objectives.

Approach:

The approach is a written narrative supported by a work plan that explains how the objectives and goals are to be accomplished.

The work plan consists of a breakdown of activities into phases, segments, and tasks, with supporting work day, schedule, and resource estimates. The resource estimates include human, materials and supplies, facilities, and equipment. The work plan is supported by assumptions for availability of resources, quality assurance reviews, and sign offs. Activities can be loaded, schedules can be laid-out over time in milestones, and the critical path can be determined from the work plan.

The approach should be supported by facts, statistics, and metrics.

Deliverables and expected results:

The end-deliverable and results at intermediate milestones should be defined with clear statements of features, benefits, and standards for quality.

If the project is a phase of a larger program, one deliverable should be the plan for the next phase of work.

Expected results other than the deliverables should also be defined. Examples include the learning and experience gained by the project team, and the goodwill to the enterprise as a whole.

Governance:

The structure of the project, and the roles and responsibilities should be defined including the sponsors, the beneficiaries, the advocates, the project manager, the steering committee, and the organization of the team.

The approach to progress reporting, quality assurance reviews, audits, approvals, and sign offs should be defined.

Costs:

Based upon the approach, deliverables, and governance, the project costs should be presented, ideally with an allowance for contingency for unplanned activities and performance variances. Costs should be presented as estimates based upon the assumptions stated in the approach.

If costs are presented for downstream phases of work, they should be described as approximations subject to refinement based upon future work.

Call for action:

A description of next steps, schedule, and responsibilities in the context of the "status", the "what," and the "why." The benefits of the solution and the approach should be clearly explained, and why they address the strengths, weaknesses, opportunities, and threats identified in the problem statement. The proposal should end with a memorable statement about the benefits of the proposed solution and approach, and what the audience should do next. It is important to stress that time is of the essence to achieve the benefits.

Notes:

- If the audience is "bottom-line" oriented, recommendations should be presented first based upon conclusions based upon facts; if the audience is "analytically" oriented, findings should be presented first that lead to conclusions and recommendations.

- On large projects, it may be necessary to perform a certain amount of analysis and design work before a detailed cost/benefit analysis can be performed. Prior to the cost/benefit analysis, costs are approximated, and then estimated thereafter. The cost/benefit analysis is the basis of a "go/no go" decision for further work because implementation costs are usually a multiple of those for planning, analysis, and design.

- Once the proposal has been approved, the work breakdown structure should be decomposed into a work program (in days or hours) and budget (in monetary terms) that shows each activity loaded with the appropriate resources based upon skill levels over time.

- Intermediate deliverables should be produced on a regular basis to maintain project momentum and to ensure that the work is on track.

Effective proposal development is an enterprship (entrepreneurship, leadership, and management) competency.

A QUICK OVERVIEW OF PROJECT MANAGEMENT

This article provides an overview of the project management discipline and is accompanied by three other articles that provide more detailed information about the mechanics:

- Project accounting
- Earned value
- Ingredients for an effective project proposal

What is project management?

Project management is the application of competencies (knowledge, skills, and enabling technologies, including models, methodologies, tools, and techniques) to the development of new or enhanced products and/or services, processes, or systems.

Line management is the application of competencies to sales and production activities that generate revenue for an enterprise.

Staff management is the application of competencies to activities that support the line, such as legal, finance, human resources, information technology, and research and development.

Project management activities are embraced within line functions in such industries as construction, consulting, and custom design manufacturing, where each deliverable has unique characteristics; otherwise they are embraced either in administrative or operational staff functions.

Whereas line management activities are perpetual (indefinite for the life of the enterprise or product and/or service line), projects (should) have definite start and end dates (which are usually subject to change). However, a project manager can occupy a position that is in itself indefinite, but be responsible for a portfolio of components of finite duration.

Features of a project include:

- Characteristics:
    - Formed to develop, enhance, or maintain specific end deliverables, which can consist of multiple components
    - Produces intermediate and final deliverables
    - Constrained by limited resources
    - Existence is temporary (although maintenance activities can continue for extended periods of time in sub-projects aimed at making specific changes)
    - Can be a component of a larger program

- Components:
    - Proposal (definition and scoping document)
    - Lifecycle methodology – work decomposed into phases, segments, and tasks (work breakdown structure) for longer duration, and/or conducted using incremental and iterative techniques of shorter duration:
        - ♦ Planning and policy development
        - ♦ Scoping (for "ad-hoc" projects outside of a formal plan defined by a "Hi-Spot Review")
        - ♦ Development:
            - ➢ Analysis (business activities)
            - ➢ Design (functions and features and cost/benefit analyses)
            - ➢ Construction (building a prototype or end product)
            - ➢ Implementation (changing the environment)
        - ♦ Adaption – appendix to development activities based upon feedback from the marketplace (external and internal) after implementation, and includes fine tuning, standardizing, and integrating with other deliverables from the project and elsewhere
        - ♦ Enhancement (new features and functions) (uses same activities as development)
        - ♦ Maintenance (error correction and improvement)
        - ♦ Performance measurement – actual versus planned in terms of scope, budget, schedule, and quality
    - Management processes, models, tools, and standards

- Stakeholders – those impacted by a project during its life, or as a consequence of its deliverables:
  - Characteristics:
    - Are they a required resource or a decision maker?
    - Are they directly affected by the project?
    - Are they indirectly affected by the project?
    - Are they unaffected, but possess the power to affect the project should they choose to do so?
  - Representative groups:
    - Project manager – overall responsibility
    - Project team members – the individuals that get the work done
    - Beneficiaries – the parties (targets) that will either use the deliverables, once completed, or benefit from their existence
    - Performing organizational unit – the organizational unit whose members have the primary responsibility for managing the project and producing the deliverables
    - Sponsors:
      - Initiating – the individual (or group) who has the power to legitimize the deliverables for all affected targets – initiating sponsors do not usually have to ask permission to proceed
      - Sustaining – the individual (or group) who has direct influence with the targets, based upon economic, logistical, and political proximity
      - Financial – the provider of financial resources to enact change

- Parties:

  ♦ Decision maker – affects scoping, funding, staffing, and approval of deliverables

  ♦ Influencer – can influence the decision maker and may have to give consent to the project

  ♦ Players – direct or indirect related parties, either performing activities or providing resources

Project management techniques were developed initially in the construction and custom manufacturing industries that where efforts may require extensive resources over long periods of time. However, progress could often be measured by observation against plans and specifications because the deliverables are tangible.

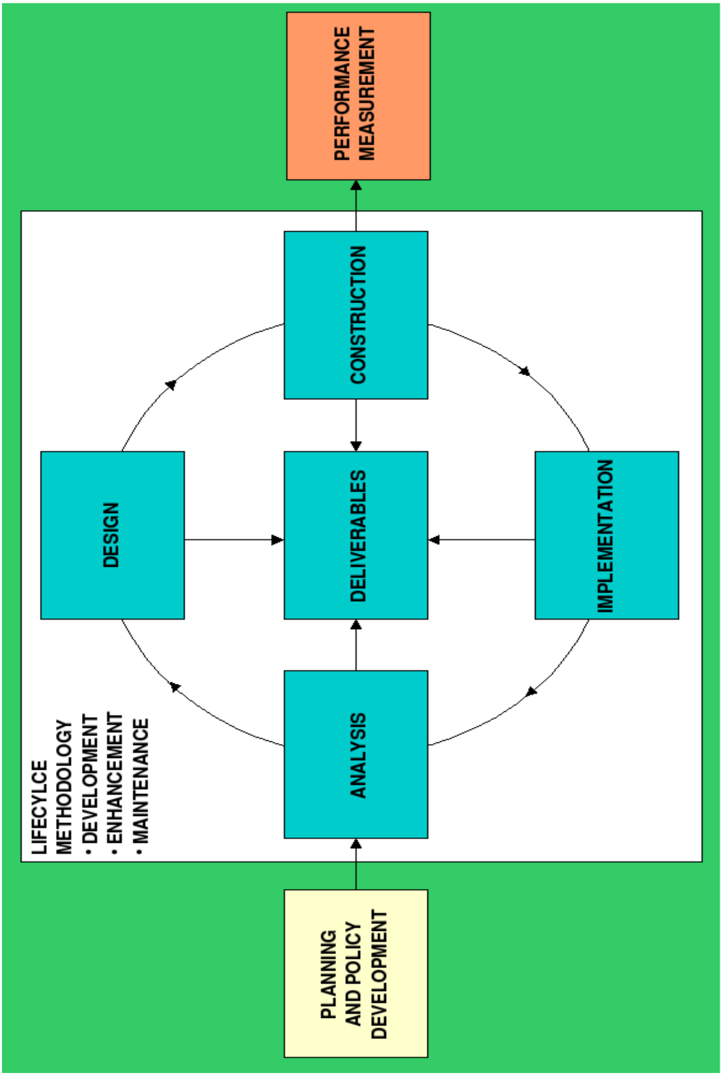
Project management techniques have been applied to information systems projects with mixed success because deliverables may be less defined and intangible, and outcomes difficult to predict because of inexperienced personnel, immature technologies, or a general lack of discipline. In fact, many information systems projects are conducted without any proper management processes whatsoever. As a consequence the failure and cancelation rates are high.

Debates continue regarding the use of formal methodologies that decompose projects into phases (the *waterfall* approach) versus incremental and iterative techniques that stress producing something of value quickly. In many cases, a blended approach is best.

However, when developing information systems for new applications and/or using new technologies, it is highly likely that a "rethink" of the deliverables and the approach to creating them may be necessary as experience is gained, and thus should be anticipated. It is also to be expected that whatever is finally delivered may require some fine tuning, standardizing, and integration based upon feedback from the field.

The use of collaborative methods to deliver real time solutions on an incremental and iterative basis should reduce the risk of failure. However, on long projects it is always necessary to have frequent presentations of features, benefits, progress, and interim deliverables in order to maintain the interest and commitment of the related parties.

Lifecycle methodology



A lifecycle methodology provides a consistent standardized approach to producing deliverables, and communicating with sponsors, beneficiaries, and team members.

In the context of planning and policy development and performance measurement, the generic phases of a lifecycle methodology (often referred to as a *waterfall* but often performed iteratively) are:

- Analysis
- Design
- Construction
- Implementation and adaption
- Enhancement
- Maintenance

with further planning activities at the end of each phase

Each phase begins with a detailed planning activity and ends with the measurement of performance, and a plan for the next phase. The implementation phase ends with a plan for a potential enhancement project, if approved. Each phase consists of the segments, tasks and the detailed steps for completion of deliverables. The deliverables range from memorandums to end products, such as facilities, equipment, and systems.

Lifecycle methodologies are an outgrowth from the construction and custom design manufacturing industries, and have been used extensively in information systems development activities. However, in construction and custom design manufacturing, the deliverables usually clearly defined.

Information systems development activities are often fraught with problems due to vague requirements, lack of collaboration between departments and functions, intangible deliverables developed over long periods of time, and changing environments.

Note: it is essential to avoid confusion between a project and the product (such as a system) that the project delivers (the deliverable.)

...Incremental and iterative approaches

Whereas the analysis, design, construction, implementation, enhancement, and maintenance activities will always be present, projects are more likely to result in quality deliverables if incremental and iterative approaches are used for information systems development.

Under such approaches, projects are decomposed components from which sets of deliverables can be developed incrementally. Hence, the lifecycle iterates for each set. However, by using prototyping approaches, there may be further iteration of the analysis, design, and construction micro activities.

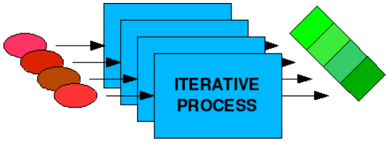
Whereas thirty years ago, it took months if not years to put information systems into production, it is now possible to do the same in days, weeks and months using computer-aided software development techniques to deliver real-time solutions.

Collaborative iterative approaches allow developers and users to participate jointly and share multiple points of view leading to more robust solutions delivered in stages. The quicker deliverables can add value to a business, the more effective the overall results of a project will be.

“Rapid application development” approaches favor less planning and more prototyping, and are the basis for many web-based collaborative information systems development approaches.

...Difference between iterative and recurring processes

Iterative processes are linear. They deliver a *specific* discrete output from a discrete input. Iterative processes repeat when new discrete outputs are required from discrete inputs. A process is iterative when it repeats for different inputs and outputs.



Recurring processes repeat the same activities over and over again. They are recurring because the occurrence of their use repeats for the same instances of inputs and outputs.

Each time the process is performed, an instance of the same input is processed to deliver an instance of same output. An instance is a unit of output with identical characteristics to any other within tolerance levels.

...Examples of project management systems and information systems development methodologies

- Agile – an iterative and incremental approach to software development through collaboration between self-directed cross-functional teams – methods include "Feature Driven Development" and "Scrum"

- Basecamp – web-based online collaborative project management tool developed by 37 Signals

- Information Engineering – a software engineering approach to developing systems based upon either business process or data analysis developed by James Martin and Clive Finkelstein

- Method/1 – a classical full project management and systems development lifecycle methodology developed by Andersen Consulting (now Accenture)

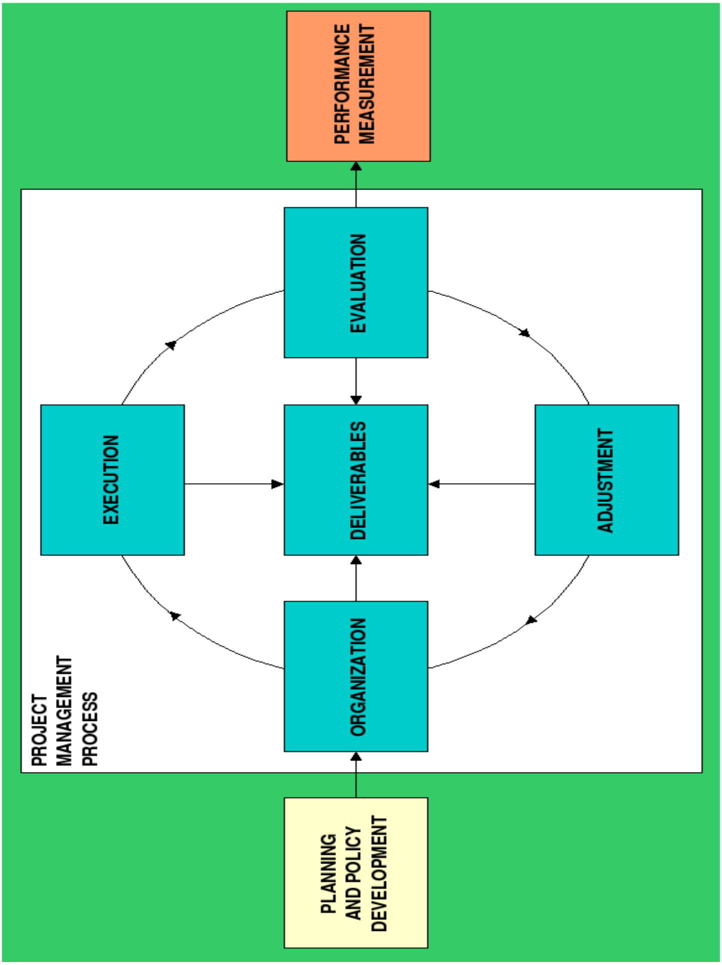
- Microsoft Project – tool for developing project plans and budgets, assigning resources to tasks, and tracking progress

- Oracle Primavera – scheduling tool for the Critical Path Method

- Teambox – a web-based project management tool that empowers workplace communications

  Note: some methodologies are aimed purely at application software development; however, software is component of a system that includes business policies and processes, hardware, systems software, networking and telecommunications, and user procedures.

Project Management Process



Project management activities are performed within the context planning and policy development and performance measurement:

- Planning and policy development:

  Larger and longer projects should be performed on a phased basis according to a project proposal - plans are decomposed into more detail by phase until the final deliverables are completed, or the project has been canceled. Smaller and shorter projects can be performed using incremental and iterative techniques when excessive planning may add little to no value because requirements and their implications will not be fully understood until some analysis, design, and prototyping work has been performed.

  Approximated projections are translated into estimated projections at the beginning of each phase. At the beginning of each phase, the plan is translated into a budget, and at the end of the phase, a plan is prepared for the next.

  On larger, longer, and complex projects, it is necessary to do a certain amount of analysis and design work so that a thorough economic evaluation and cost/benefit analysis can be performed, from which a "go/no-go" decision can be made to construct and implement. Construction and implementation costs are usually a multiple of analysis and design costs.

  The project proposal for the first phase may be created in a related activity, such as a strategic plan or hi-spot review – downstream project proposals are created at the end of each prior phase of work.

The contents of a project proposal include:

- Understanding of the problem:
    - ♦ Situation
    - ♦ Complication
    - ♦ Problem statements
    - ♦ Solution hypothesis
- Scope, objectives, and goals
- Approach
- Deliverables including plan for next phase
- Work plan:
    - ♦ Work breakdown structure
    - ♦ Resource requirements
    - ♦ Schedule
- Governance (project manager, steering committee, frequency of progress reporting)
- Next steps

Once a project has been approved, a detailed work program should be prepared that decomposes the work breakdown structure according to the lifecycle methodology into a schedule and detailed resource allocations and time estimates.

The final deliverables may require many components that are produced over time. The project proposal should contain descriptions of the functions and features of the final deliverables and their components as is known at the time of writing.

- Performance measurement:

    - Progress reporting to steering committee (prepared weekly, monthly, and /or quarterly as required):

        - ♦ Overall status – variances against:

            - ➢ Scope
            - ➢ Budget
            - ➢ Schedule
            - ➢ Quality

        - ♦ Forecast:

            - ➢ Use of contingency
            - ➢ Budget forecast
            - ➢ Schedule forecast

        - ♦ Resolution of major issues

        - ♦ Issues for consideration

    - Wrap-up – upon completion of each project phase:

        - ♦ Estimating guidelines should be reviewed and adjusted based upon actual performance

        - ♦ Preparing a report that summarized actual versus planned performance with recommendations for future projects

The deployment activities include: organization, execution, evaluation, and adjustment:

- Organization:

  Scope, objectives, and goals are confirmed in a project charter based upon the availability of actual resources, including:

  - People
  - Facilities
  - Equipment
  - Materials and supplies

  Detailed estimates are developed by adjusting the approximations by standard estimating guidelines and inflators or deflators according to the functional knowledge and skill levels of the human resources, and other environmental factors.

  Long projects should be planned on the basis of no more than 50 weeks per year (2,000 hours), and no more than 48 weeks per person per year (1,920 hours) allowing for vacations, holidays, and sick days.

  When there are high demands upon project personnel to perform other duties, they should be scheduled on the basis of no more than 4 days per week (1,536 hours per year.)

  The end result is a detailed work program that provides the scope (features), budget (resources), schedule (time), and quality standards.

  The relationship between resources, schedule, and scope (features)/quality standards define constraints:

  - Resource loaded work breakdown structure with:

    - ♦ Start dates and end dates
    - ♦ Work time estimates
    - ♦ Budget and schedule contingency
    - ♦ Responsibility matrix showing who is responsible for preparing,reviewing, auditing, and approving each deliverable

- Schedules:

  - ♦ Milestones and target dates:

    - ➢ Gantt Chart – project schedule
    - ➢ PERT Chart – events, interdependencies and critical path using the Program Evaluation and Review Technique

  - ♦ Events and deliverables:

    - ➢ Reviews and sign-offs
    - ➢ Quality assurance
    - ➢ Steering committee meetings

  - ♦ Risk assessment and contingency plans:

    - ➢ Risk:

      - √ Project management risk
      - √ Deliverable risk

    - ➢ Contingency:

      - √ Plans in the event of the proposed solution:

        - ⇒ Being infeasible or not working as planning
        - ⇒ Being delivered late

      - √ For budget variances:

        - ⇒ Budget adjustments due to unforeseen tasks
        - ⇒ Performance variances again budget

- Scope (features)/quality standards:
    - ♦ Processes for handling:
        - ➢ Issues to be resolved:
            - √ Design decisions
            - √ Trade-offs:
                - ⇒ Scope
                - ⇒ Budget/resources
                - ⇒ Schedule
                - ⇒ Quality
            - √ Change orders to previously approved deliverables

After the project plans have been approved, and the project team has been assembled, training should be performed in:

- Project proposal – understanding the scope, objectives, and approach

- Lifecycle methodology

- Team building

- Execution:
  - Communicating with sponsors and beneficiaries
  - Communicating with and delegating to the project team
  - Assigning and accomplishing activities - work is organized in terms of:
    - ♦ What is to be accomplished and why (scope, objectives and goals)?
    - ♦ How it is to be accomplished (resources and work units)?
    - ♦ When it is to be accomplished (schedule)?
  - Solving problems
  - Handling exceptions
- Evaluation:
  - Ongoing monitoring and assessing the earned value based upon scope, budget, schedule, and quality
  - Assessing the resources (people, materials, supplies, facilities, and equipment)

- Adjustment (scope, budget, schedule, quality, resources) in conjunction with steering committee review):
    - Tuning – adjustments to the current assumptions
    - Rescoping – changing the assumptions due to variances that chronically affect the ability to deliver results as planned – may result in:
        - ♦ Reduced scope
        - ♦ Additional budget
        - ♦ Extended schedule
        - ♦ Changes in resource assignments
        - ♦ Reduced quality standards
    - Cancelation

Approximations versus estimations

It requires work to accurately estimate work. Therefore, the approach of approximations and estimations should be taken to developing budgets for phased projects.

The initial budget for all phases of a project is an approximation and an estimation for the first phase. The approximation of the second phase is adjusted to an estimation at the end of the first phase based upon actual experience. The process is repeated for the remaining phases of work.

With respect to the costs and benefits associated with the deliverables produced by the project, these should be refined based upon work performed as more detail becomes available. In planning and analysis phases, economic evaluations will be approximations.

However, the economic evaluation from design activities should be based upon detailed estimates.

Use of contingency for budget variances

Total budgets should always include contingency for budget adjustments and performance variances.

As a guideline, the total budget should be at least 115% of standard budget, unless project risk factors suggest otherwise.

In effect, the project is estimated using standard estimated guidelines as adjusted for inflators and deflators. The standard budget given to the project team.

The contingency is then added to create the total budget to which project management is held accountable.

Standard budget is given to the project team on a net basis without contingency; however the project is managed on a gross basis with contingency.

During the course of a large project, scope changes are likely to occur, increasing the original budget to the revised budget by an allowance for the scope changes.

As the project proceeds, performance will be based upon the effectiveness of the budget and the productivity/efficiency of the project team.

Whereas project team members may be aware of the contingency, they are buffered nevertheless.

Contingency is allocated by the project manager; however allocations may require approval from the steering committee or the financial sponsor.

Special considerations

Project management activities can be more difficult than others due to:

- Uncertain results – whereas lifecycle methodologies employ duplicatable, measurable, predictable, repeatable, and trainable, and processes, uncertainty arises from:

    - Development of deliverables that are technologically complex or involve the use of complex technologies to development

    - Team members who are unfamiliar with each other, project-oriented work, the target environment, and the nature of the deliverables

- Highly matrixed organization – the team mix will change as the project progresses, and will have representatives from different organizational units with different cultures.

    As a consequence, there will be multiple reporting lines:

    - To the organizational unit of domicile (which may include a matrix in itself)

    - To the project manager

    - To the sponsors

    - To the beneficiaries

- Iterative versus recurring processes – team members who have been assigned to a project from business development and operations functions where processes are recurring may require adjustment to the iterative processes of projects, especially if the cycles are long.

- All or nothing – unlike sales and production processes that deliver results on a regular recurring basis, the end deliverable from a project, such as new product, new process infrastructure, or new system may take a long time to develop:

    - If the project is canceled prematurely because of a change in strategy, lack of funding, or technological infeasibility, the result can be very frustrating to the project team members.

    - The earned value will be zero, unless deliverables can be salvaged for future use. The experience gained will be immeasurable.

Program Office

Program management is a function that coordinates the project management activities for many inter-related projects, especially for schedule interdependencies and integration of deliverables.

Very large projects can be grouped as a program under a single manager of inter-related component projects, with a manager responsible for each.

The function consists of a program office that supplies the project management models, methodologies, and tools to the program/project managers in compliance with standards.

The program office provides the vehicle for progress accounting and reporting across all projects.

The program office prepares reports that summarize performance data, and ensures that all planned checkpoints occur such as:

- Steering committee meetings
- Reviews and approvals
- Quality assurance reviews

The Program Office will review the prioritization of projects against the strategic plan and will make adjustments working with the Enterprise function. Scarce resources are allocated according to priority.

The role of Information Technology function

The Information Technology function plays a special role because almost every project in an enterprise has an information technology component, and some will be primarily information technology related.

The Information Technology function provides models, methodologies, and tools to the program office, and supplies human resources including project managers, business system analysts, application and data designers, database administrators and programmers. The other functions provide business analysts.

The Information Technology function head (or delegate) is a member of the steering committee for every program and major project.

A project manager from the Information Technology function must always be involved, and in charge at least the information technology components of the program/project.

All new development projects and enhancement and maintenance project above a threshold criterion are considered research and development to ensure that they receive focus.

Ongoing maintenance rests within the functions. Hence, most maintenance is performed within the Information Technology function.

Laws of project management

Murphy's Laws:

- Anything that can go wrong, will go wrong
- Things will go wrong in any situation if given a chance
- If there is more than one way of doing a job, and one of those ways will result in disaster, then the job will be done that way

Finagle's corollary to Murphy's Law:

- Anything that can go wrong, will – at the worst possible moment

Parkinson's Law – work expands so as to fill the available time for its completion. The law is based upon two factors:

- An official wants to multiply subordinates, not rivals
- Officials make work for each other

Source: C. Northcote Parkinson – Parkinson's Law: The Pursuit of Economic Progress

Brooks' Law: adding work power to a late systems project makes it later.

Source: Fred Brooks – The Mythical Man-Month

Brian Tracy – quote: “Expenses rise to meet income.”

A QUICK OVERVIEW OF PROJECT ACCOUNTING

This article emphasizes the concept of project accounting in the construction industry. However, the concept applies in many other disciplines, such as job or project-based manufacturing, and systems development activities.

Financial, managerial, and regulatory accounting processes for projects...

There are three types of accounting processes – financial, managerial, and regulatory. Financial accounting processes are conducted according to generally accepted accounting principles, with reporting primarily for lenders and investors. Managerial accounting processes are used for internal control and decision making purposes. Regulatory accounting processes are required by certain Federal and State agencies.

The level of detail in the chart of accounts is a contributor to the effectiveness of the information delivered by the accounting processes. However, the greater the level of detail, the higher the cost to maintain the underlying data, systems, and processes.

For small closely held enterprises, the primary accounting method used is "on an income tax basis" because regulatory reporting requirements are the major consideration.

It is essential for every contractor to have an effective accounting process to track revenues and expenses by project. This process is for internal use in contrast to a project-wide system for all contractors to use. It is subsidiary to the accounting process that tracks income (revenues and capital gains) and expenses by period at the enterprise level in the general ledger. It is also linked to the receivables, inventory, and payables subsidiary processes for effective cash management. Furthermore, it is important to have effective payroll and related processes in place that track the data required by Federal and state laws and regulations, especially for "certified payrolls" on public works projects.

Historically, only larger contractors could gain access to automated accounting systems that report financial, managerial, and regulatory information. They often use in-house systems, either custom-built or package-based solutions. For smaller contractors, a spreadsheet may be sufficient for calculating costs on a project by project basis.

Outsourced accounting options are available through professional service firms and other service providers for contractors in all trades and of all sizes. Because there is an increasing trend towards web-based service providers that host applications on the internet, now even the smallest enterprises can take advantage of automated solutions.

Regardless of system used, even if it is paper and pencil, it is important to understand the concepts, and to know the early warning indicators of problems.

Because construction activities are subject to change, there may be many jobs associated with one project. The original bid is the first, but as scope changes occur, multiple jobs within the same project may evolve. It is important that change orders be properly estimated and accounted for. Over time, the hierarchy of jobs within projects for development, enhancements, and maintenance can become extremely complex.

It is important that revenues and expenses be tracked by each job within the project so that profits (and losses) can be understood, and controls can be exercised when exceptions arise. Therefore, the general and project accounting processes collectively should produce the normal cash flow, income, and balance sheet statements, and progress reports for each job within a project, and across all. An additional feature of the accounting processes is to be able to track all the projects for a given owner, so that total performance is understood by job within project for each owner, and across all.

In accordance with generally accepted accounting principles, the accrual-based accounting method requires that product costs are capitalized as inventory in the period when purchased, and expensed in the period when revenue is recognized. From an accounting perspective, expenses such as insurance, labor, operating supplies, rent, utilities, depreciation, and amortization are expired period costs.

Generally accepted accounting principles and the Internal Revenue Service permit two methods of job cost accounting for construction projects: *percentage of completion* and *completed contract*. The method used depends upon the length of the project, the risks, and the payment options.

In the percentage of completion method, revenues are recognized and costs expensed on a period by period basis. In the completed contract method, costs are capitalized until the project is substantially complete and revenue is recognized.

Further information may obtained from Internal Revenue Service publication 3780, which also includes discussions of accounting methods and the allocation of indirect costs:

www.irs.gov/pub/irs-pdf/p3780.pdf

Project-wide management systems...

Owners, construction managers, and prime contractors may require all participants to use a centralized project-wide management system regardless of whatever each uses internally for their own purposes.

This system acts as a centralized repository for all contractors on a specific project, and tracks key documents such scope and objectives, contact information, organization charts, contracts, issue resolutions, work orders, change orders, daily records, inspector reports, incident reports, meeting agendas and minutes, key decisions, payment requests, progress reports, project schedules, schedule of values, work breakdown structures, critical path analyses, workers compensation claims, site photographs, and miscellaneous submittals.

Both estimated and actual time and cost data may be fed from each contractor's internal processes into the project-wide management system as necessary to track the work breakdown structure for budget analysis, and the critical path for schedule analysis for the entire project.

Owners, construction managers, and prime contractors have preferences for project management software that can include mainframe, client/server, or web-based solutions.

The effectiveness of these systems is determined by how well they enable collaboration between participants to reflect reality. Because the evidence of progress in construction work is tangible, it is easier to visually compare actual progress on site to that reflected in project management systems than in other endeavors, such as developing software. However, “estimates to complete” may be just guesses if not properly investigated.

The estimate to complete is an essential factor in a project management system because everything else depends on it, right from the start to the end. Because it is human nature to cover up errors and mistakes, there is a risk that the estimate to complete may be far from reality, leading the to the "95 per cent complete for 95 percent of the project" syndrome.

Whereas project management systems that embrace work breakdown structures and critical path analysis techniques using hierarchies and networks are commonplace on complex construction projects, there is a new breed of web-based collaborative tools emerging. Such tools have "social networking" characteristics. The use of these tools in project management may help break down communication barriers between project participants. Thus problems may be identified and resolved earlier than otherwise would be the case, or even prevented, and it may be harder to disguise errors and mistakes.

Collaborative systems bring a "real-time" effect to project management, and enable participants in many places to communicate seamlessly. If project team members are communicating regularly, errors and mistakes can be minimized, and thus estimates to complete should become more reliable.

Understanding labor, materials and supplies, and project overhead costs...

Understanding labor, materials and supplies, and project overhead costs is a consequence of using managerial accounting processes for internal control and decision making purposes. Managerial accounting processes should be reconcilable to financial and regulatory accounting processes, otherwise erroneous results will emerge. However, policies may differ in the treatment of items between the three processes, such as production costs, fixed costs, and operating expenses.

Understanding such financial, managerial, and regulatory accounting processes is a complex subject. However, it is important that construction enterprise owners and managers have a basic understanding of cost drivers in order to make a profit.

Construction contractors must understand costing techniques as used by manufacturers for situations where components of subassemblies and finished products are manufactured in their workshops in continuous processes. However, in construction, continuous processes are not as common as in manufacturing unless a high volume of items is being produced for many small projects, very large ones, or both. Product costs are determined on the basis of the cost of production per period for the number of items produced.

Project accounting techniques used in construction have similar characteristics to job cost accounting as used by manufacturers for batched orders because there is a definite schedule of work to complete within a certain period of time. Using project accounting techniques, final deliverable costs include those of the individual components and the assembly work. Using job cost accounting techniques, product costs are determined by the volume of items in the batch. In both project and job costing, allowance must be made for set-up, doing the work, and cleaning up. The higher the quality of the set-up work, the lower the likelihood of rework.

...Costing methods...

Under generally accepted accounting principles, strict rules apply regarding how period, production process, product, and project costs are treated.

Generally accepted accounting principles take a narrower position on what can be classified as a production process or project cost than regulatory accounting requirements. For managerial accounting, it is a matter of policy.

Strict rules are necessary because financial statements prepared according to generally accepted accounting principles are used for external comparisons of enterprises in the same industry by lenders, investors, regulators, and industry analysts.

Managerial reports are for internal use only, and should never be presented to external parties without a disclaimer with respect to compliance or not with generally accepted accounting principles.

To add complexity to accounting processes, income tax returns must be prepared on a tax basis that requires the use of "uniform capitalization" (UNICAP) rules. These rules are set by the Internal Revenue Service and differ from generally accepted accounting principles.

In the construction industry, cost accounting techniques examine project deliverable costs within and between periods. In the manufacturing industry, these techniques examine job, production process, and product-related costs within and between periods. There are differing opinions about the effectiveness of such accounting techniques, such as cost allocation on a full absorption basis, variable direct costing, activity-based costing, and lean costing. The material contained herein gives a basic conceptual overview.

It is important to understand the concepts of price, cost, and profit, and how actual values may differ from estimates due to fluctuations in rates or units of quantity and volume.

Price is the exchange value that a customer (buyer) is willing to pay for purchasing an item and that a supplier (seller) is willing to receive for selling it. A cost is the exchange value bid or price paid by a buyer – the value that must be given up in order to acquire the item.

Sales revenue is the sum of the price multiplied by the volume for each type of item sold in a period. The difference between sales revenue and the cost of the labor, materials and supplies, production (manufacturing plant) or project overhead that make up the cost of products sold or the project deliverable is the gross profit. Under generally accepted accounting principles, operating expenses for selling, administrative, and general items are deducted from gross profit to derive pre-tax net.

Because of pressure on prices and sales revenues, it is essential that both manufacturers and contractors search for ways to reduce costs to maintain profits. Revenues always seem to decrease and costs increase over time, unless remedial action is taken.

Operating expenses represent the enterprise overhead. Managerial accounting policies and methods for allocating operating expenses may differ from those allowed under financial and regulatory accounting principles, especially for variable expenses – hence the need to reconcile them.

Many manufacturers base their gross profit targets on a ratio between gross profit and sales revenue known as the gross margin. A 50 percent gross margin (or higher) is a desired target for many manufactured products at launch. Sales revenue may be gross or net after discounts, returns, and allowances, depending on policy.

Note: by way of background, merchandisers that serve the construction industry calculate gross profit as the difference between sales revenue and cost of sales. Cost of sales includes cost of products sold and merchandising-related costs such as transportation, handling, and occupancy.

Gross margin drops over time due to competitive pressure. If operating expenses were, for example, 40 percent of sales revenue, then the net pre-tax profit margin would be 10 percent on a 50 percent gross. A 10 percent pre-tax net profit margin is optimistic for many enterprises.

In the construction industry, the deliverable from the job or project *is* the final finished product – an infrastructure item, which itself comprises many finished product components, either premanufactured or custom made for the project. The difference between the price and cost of the labor, materials and supplies, and the project overhead that make up the deliverable is the gross profit, which is usually estimated as a markup.

In the manufacturing industry, the more product items that are sold in an accounting period, the more gross profit to cover the operating expenses. In the construction industry, the accounting method used (percentage of completion or completed contract) impacts period profit.

In the construction industry, the more projects that realize profit in a period, the bigger the base for covering the enterprise overhead. Knowing the method (percentage of completion or completed contract) is essential to understanding profit. Losses should always be recognized when identified. Regardless of when profit is realized, cash needs must always be anticipated because of timing differences between when invoices are submitted and paid.

The markup for profit has to cover the enterprise overhead before a net profit can be realized. A "15 percent" markup is commonly quoted for net profit and overhead. However, it is important that gross and net profit margins be understood for each situation as opposed to applying an "across the board" rule of thumb, especially if the markup has to cover both project and enterprise overhead.

In smaller construction enterprises, there is essentially no difference between project and enterprise overhead because of limited resources; in larger ones, the enterprise overhead can be significant.

Note: some owners will specify the maximum markup for profit that a contractor can use on change orders to prevent the recovery of sunk costs incurred prior to the current need being identified.

...Standard and actual costing...

It is useful to employ *standard* managerial accounting methods for labor, materials and supplies, and overhead rates and costs to better understand behavior. Standard rates and costs are used for budgeting; actual costs and rates are for performance measurement.

Rate and unit of quantity and volume variances between budget and actual values should be analyzed and explained on a regular basis, and then corrective action should be taken accordingly.

Rates are based upon anticipated prices per unit, which may be fixed or fluctuate based upon supply and demand. Time and quantities are measures of inputs (materials and supplies), and volumes are measures of outputs (products and deliverables) on a per unit basis. Results for these measures vary according to productivity, efficiency, and effectiveness.

Standards are developed from historical trends and future projections, and are useful in environments where costs vary over time due to changes in market conditions, productivity, and efficiency.

Standard costs are either estimated or based on predetermined values. They are expressed as a rate per unit of labor time or quantity of materials and supplies, and the corresponding costs. Standard cost is the rate multiplied by the number of units of time or quantity.

However, before standards can be properly set, it is important to understand how actual costs are incurred.

Budgets are built from line items within cost classifications. For example, the cost for each trade or craft is a line item within the labor classification. The cost for each type is a line item within the materials and supplies classification.

Variances due to exception conditions, such as rate fluctuations, unusual work performance, or materials and supplies usage should be tracked and investigated.

Standard cost values should be reviewed against actual and reset as necessary to make budget estimates more realistic unless remedial action can be taken. Standards can also be set for operating expenses such as administrative activities.

When budgeting, costs are computed from rates and units to determine line item level amounts within labor, materials and supplies, and production or project overhead classifications. Average rates for classifications are derived by dividing the total costs by the total units. Actual rates are derived in the same manner for both line item and classification costs.

Costs are calculated from rates multiplied by standard or actual hours in a period when the rates are known (and are reliable), or rates are calculated by dividing standard or actual costs by the hours in a period when not known or deemed unreliable.

...Direct and indirect, fixed and variable, and controllable and uncontrollable costs...

Cost drivers are direct or indirect, fixed or variable, and controllable or uncontrollable. Anything that is not directly traceable to a product or a project deliverable is indirect overhead, either at the product, project, or enterprise level.

Indirect costs include materials and supplies, and other employment-related, asset-related, and service-related items. These costs are charged to the product or the project deliverable based upon allocation formulas or transfer prices/charges[†].

† Price to the sender/charge to the receiver

A worked example is used throughout this material to explain the concepts in detail using carpenter and painter trades. The example is based upon full absorption-based costing. However, certain managerial accounting policies are employed such that some operating expenses being charged to the project.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours Or Units	Actual Cost	% of Total	Variance Actual Less Budget	% Actual of Budget
Direct fully loaded labor	*$66.69*	1,760.00	$117,372.80	57.28%	*$67.73*	1,775.00	$120,215.48	57.77%	($2,842.68)	102.42%
Direct material and supplies			$31,400.00	15.32%			$31,623.37	15.20%	($223.37)	100.71%
Project overhead	*$318.89*	176.00	$56,124.00	27.39%	*$319.61*	176.00	$56,251.50	27.03%	($127.50)	100.23%
Total project			$204,896.80	100.00%			$208,090.35	100.00%	($3,193.55)	101.56%
Total direct fully burdened labor	*$98.58*	1,760.00	$173,496.80	84.68%	*$99.42*	1,775.00	$176,466.98	84.80%	($2,970.18)	101.71%

Note: in the example, rates in italics are derived, and negative variances (shown in parentheses) are unfavorable.

In the example, a contractor budgets a project cost at $204,896.80 using standard rates, hours, and units as estimating guidelines. The budgeted total direct fully loaded labor cost is $117,372.80 for 1,760 hours of work. The budgeted total direct materials and supplies costs are $31,400.00. The budgeted total project overhead is $56,124.00. There are 176 elapsed hours in the project (total of 22 days duration multiplied by 8 hours per day).

The actual project cost is $208,090.35. The actual total direct fully loaded labor cost is $120,215.48 for 1,775 hours of work. The actual total direct materials and supplies costs are $31,623.37. The actual total project overhead is $56,251.50. The project has a total overrun of 1.56% of actual to budgeted cost.

...Direct and indirect costs...

Direct costs are traceable to specific activities, and therefore controllable by whomever has responsibility for them. Indirect costs are incurred across a group of activities, and are not under the control of any specific individual responsible for them *within* the group. They represent overhead at a given level of activity. Production, project, and enterprise managers control overhead at their respective levels.

...Fixed and variable costs...

Fixed costs remain constant regardless of activity. Variable costs fluctuate in accordance with the resources used by activities. Variable costs increase or decrease in accordance with activity levels.

In slack periods, fixed costs can become a significant burden on overall project costs because they are always present. They can quickly consume budget if remedial action is not taken.

Fixed costs can be significant in the manufacturing industry because of the overhead associated with facilities such as plants and warehouses.

In the construction industry, ongoing fixed costs should be lower as a percentage of revenue than in the manufacturing because most work is performed at the job site – hence, most contractors don't need large workshop or warehouse facilities.

Variable costs are controlled by process or project managers. Fixed costs can be controlled by product or project managers if they are able to negotiate the price. Otherwise they are uncontrollable, either because the price is set by a higher level of management and charged to the project, or because the price was negotiated by a predecessor and is still applicable for contractual reasons.

However, proactive managers always look for opportunities to renegotiate undesirable prices.

Under full absorption-based costing, all production and project fixed costs are charged to products and project deliverables; under variable direct costing, only the variable costs are charged – fixed costs are treated as period expenses.

Absorption-based costing is also known as the full costing method and can be used in both financial and managerial accounting processes under generally accepted accounting principles. The method relies upon assumptions for cost allocation and transfer pricing/charging. Variable direct costing separates certain controllable costs from fixed costs that are present regardless of activity.

Under absorption-based costing, operating expenses are not included in product or project deliverable costs – production and project costs are limited to specific plant and site-related items that do not include selling, administrative, or general. From a managerial perspective, it is useful to know the impact of certain operating expenses, such as the cost of the procurement function on both production and project costs.

Under variable direct costing, variable operating expenses are included with variable production (manufacturing plant) or project in the analysis of product and project deliverable costs. As a consequence, the method cannot be used in the preparation of financial statements according to generally accepted accounting principles.

Under variable direct costing, profit is characterized by manufacturing and contribution margins. The manufacturing margin is the difference between sales revenue and variable manufacturing costs. The contribution margin is the difference between the manufacturing margin and variable operating expenses – the marginal profit per unit sale. Contribution margin in used in cost-volume-profit analyses to determine operating leverage – how growth in sales translates into growth in profits.

The variable cost method is essential to understanding how costs are incurred because it reports them on the basis of activity. It isolates fixed costs, which are useful to understand in their own right because they can be a heavy burden on an enterprise. Fixed costs exist whether there is production or project activity or not.

Under generally accepted accounting principles, procurement costs, i.e., the cost of purchasing materials and supplies, are charged as operating expenses, but under UNICAP they must be capitalized as product costs.

Under generally accepted accounting principles, only production costs are capitalized, and preproduction, presale, and sales costs are expensed.

Under UNICAP, all such costs are capitalized except sales.

These rules do not apply to smaller enterprises with gross receipts of $10 million or less in the three prior tax years, and property produced under long-term contracts.

In managerial accounting processes, certain operating expenses can be charged to products or project deliverables according to policy, but must be reconcilable to both financial and regulatory accounting processes.

Hence, those charges that are initially recorded as operating expenses can be charged to product or project deliverable costs using an allocation or transfer pricing/costing method.

Some costs are semi-variable, having both fixed and variable components. For example, a piece of equipment may be leased for the entire job at a fixed cost per month, but variable hourly use charges may apply also. Utilities charges have a fixed component for service delivery, and a variable component for usage.

One criticism of production and project cost accounting methods is that when overhead costs are allocated based upon formulas, managers may not have much, if any discretion as to the rules. Another criticism is that it is hard to isolate specific component costs within the allocation.

If allocated costs are a high percentage of total cost, then the project manager has little control. However, for most projects in the construction industry, variable direct labor cost is a major component, accounting for typically 35 to 70 percent of total project cost [†].

...Direct labor, direct materials and supplies, and overhead...

Construction project costs can be categorized as:

- Direct labor (controllable by project managers)

- Direct materials and supplies (controllable by project managers)

- Overhead – project costs for items not included in the deliverable – indirect materials and supplies, and other employment-related, asset-related, and service-related (partially controllable by project managers)

...Direct labor costs...

In the construction industry, direct labor costs are usually variable and are associated with those workers who are responsible for performing the trades and crafts involved on the project. These costs are incurred on the job site or in a workshop at the contractor's facility.

Labor costs vary according to productivity and efficiency. To minimize carrying costs, it is best that materials and supplies arrive on a “just-in-time” basis.

In contrast, labor costs in the manufacturing industry have become less variable in recent times because the increasing use of technology reduces the labor component of overall product cost.

† BLD experience

When permanent full-time workers are employed, labor costs are in effect fixed to the enterprise, and may vary only according to the production or project processes. Hence in the construction industry, variable costs are achieved by hiring workers for specific activities within projects, and then releasing them upon completion.

...Loaded labor costs and rates...

Partially loaded labor costs and rates are burdened by other components in addition to a basic hourly wage. These include direct cost items such as fringe benefits, employment and unemployment taxes (including training), and workers compensation insurance. Workers compensation insurance is expressed as a rate per hundred dollars of compensation, and therefore has to be converted to an hourly rate for labor cost calculations.

Fully loaded labor costs and rates are burdened by all known labor-related components. These include specific occupancy and equipment items used by workers such as desk space and tools, for which hourly rates have been derived. Small tools are expensed when purchased; heavy tools are capitalized and expensed according to depreciation schedules.

Partially or fully loaded labor costs and rates provide more accuracy in assessing performance than basic hourly wages.

Standard direct labor rates should be based upon estimated loaded labor rates where possible.

The granularity of labor costs and rates is a function of the detail maintained by the managerial accounting processes. Whereas basic wage and fringe benefit costs and rates are available by trade and craft, it may be more difficult to calculate other cost components to the same level of detail. Hence, labor costs and rates at the trade and craft levels may be skewed by allocations of total labor costs. Nevertheless, it is useful to know standard and actual labor costs and rates by trade and craft, and in aggregate for a project wherever possible.

Fringe benefit rates are added to basic wage rates per hour to form the straight hourly rate – straight time excludes overtime. Certain fringe benefits categories are often required under union agreements and on public works projects. However, employers may choose to add their own.

Fringe benefits are employment benefits given over and above the basic rate of pay, and may be paid into funds or in cash depending upon the labor agreement. Fringe benefits include, but are not limited to health and welfare, pensions, annuities, vacations and holidays. Some employers also include sick time.

Fringe benefits may or may not be taxable – the Internal Revenue Service publishes a guide on the appropriate tax treatment (publication 15b):

www.irs.gov/pub/irs-pdf/p15b.pdf

When overtime is incurred, a premium must be added for the cost of increased rates – either time-and-a-half, or double. The "overtime premium" is the cost of the overtime hours above the basic rate of pay. Workers compensation insurance is not paid on the overtime premium, but employment and unemployment taxes are paid up to the ceilings established by regulation. Overtime will skew actual costs relative to budget if it was not anticipated.

Construction enterprise owners and managers are often surprised at the magnitude of a fully loaded labor rate relative to the basic, especially when the overtime premium is included. Fully loaded rates can easily be double the basic rate – and even more if overtime is incurred.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours Or Units	Actual Cost	% of Total	Variance Actual Less Budget	% Actual of Budget
Direct labor:										
Carpenter:										
Partially loaded straight time	$64.24									
Other charged items	$3.00									
Fully loaded rate	$67.24	1,440.00	*$96,825.60*	47.64%	*$68.20*	1,457.00	$99,367.40	48.14%	($2,541.80)	102.63%
Painter:										
Partially loaded straight time	$61.71									
Other charged items	$2.50									
Fully loaded rate	$64.21	320.00	*$20,547.20*	10.11%	*$65.56*	318.00	$20,848.08	10.10%	($300.88)	101.46%
Total direct labor	*$66.69*	1,760.00	$117,372.80	57.75%	*$67.73*	1,775.00	$120,215.48	58.24%	($2,842.68)	102.42%

In the example, the contractor budgets 1,440 hours of carpenter time and 320 hours of painter time.

The partially loaded straight time labor rate is $64.24 for carpenters and $61.71 for painters. This rate includes the basic hourly rate, plus fringe benefits, plus the employer share of employment and unemployment taxes, and workers compensation.

The other charged item rates are for occupancy and equipment used directly by workers – $3.00 per hour for carpenters and $2.50 for painters.

The standard fully loaded straight time labor rate is $67.24 for carpenters and $64.21 for painters.

The work will be performed over a 176 elapsed hour period. The budgeted labor cost is $96,825.60 for carpenters, and $20,547.20 for painters. The total budgeted labor cost is $117,372.80.

The average standard fully loaded labor rate for the project is $66.69 over 1,760 hours.

The actual labor cost is $99,367.40 for carpenters for 1,457 hours of work, and $20,848.08 for painters for 318 hours. The actual labor rates are $68.20, and $65.56 respectively. The actual total labor cost is $120,215.48 at an average rate of $67.73.

...Direct materials and supplies costs and rates...

Direct materials and supplies costs are those included in the finished project deliverable. They include raw materials such as cement, sub-assemblies such as frames without glass or sheetrock, and finished products in their own right such as millwork and appliances. Millwork includes cabinets, counters, and shelves.

Direct materials and supplies costs can be either fixed or variable. Costs of predetermined units, such as frames, doors, and windows are fixed when exact quantities are known. Costs of other raw materials and supplies are variable because of rework potential and waste minimization techniques. Materials and supplies costs include hauling or shipping, and taxes.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours	Actual Cost	% of Total	Variance Actual Less Budget	% Actual Budget
Direct material and supplies:										
Material A	$15.00	900.00	*$13,500.00*	6.64%	$14.97	899.00	*$13,458.03*	6.52%	$41.97	99.69%
Material B	$17.45	1,000.00	*$17,450.00*	8.59%	$17.65	1,004.00	*$17,720.60*	8.58%	($270.60)	101.55%
Supplies C	$5.00	25.00	*$125.00*	0.06%	$5.00	24.00	*$120.00*	0.06%	$5.00	96.00%
Supplies D	$25.00	13.00	*$325.00*	0.16%	$24.98	13.00	*$324.74*	0.16%	$0.26	99.92%
Total direct materials and supplies			$31,400.00	15.45%			$31,623.37	15.32%	($223.37)	100.71%

In the example, the contractor budgets $31,400.00 for materials and supplies costs at standard rates and units. The actual costs are $31,623.37.

...Overhead...

By definition, indirect costs are overhead at a given level. In the construction industry, indirect costs represent overhead incurred at the project level. In the manufacturing industry, indirect costs represent overhead incurred at the production (manufacturing plant) level. Overhead incurred at the enterprise level (operating expenses) is subtracted from gross profit to determine net.

...Overhead – indirect materials and supplies...

Indirect materials and supplies costs are those not associated with the project deliverable, but are essential to the project, such as cleaning and soldering supplies, fuel, and lubricants.

...Overhead – employment-related, asset-related, service-related...

Employment-related costs include indirect hourly labor and salaried personnel such as certain foreman, superintendents, inspectors, and project managers.

Indirect labor costs comprise personnel including facilities and equipment maintenance workers such as janitors, security guards, and engineers, and hourly wage foremen, and superintendents. These costs are variable.

Note: if foremen and superintendents actually perform work on the project deliverable, their costs are direct. On public works projects, such workers must then be paid prevailing wages.

Occupancy costs are either asset-related or service-related depending upon whether the facilities are owned or leased.

Asset-related items include manufacturing plant and project-related facilities and equipment that are owned by the enterprise. These costs include deprecation of acquisition costs and amortization of tenant improvements. Production and project facility and equipment insurance and property taxes should also be included.

Facilities and equipment items, such as trailers, leased office suites and furniture, and on-site equipment, may be dedicated or shared. Shared facilities and equipment may be used on other projects, or be part of the enterprise's permanent infrastructure.

When facilities and equipment are not shared, their costs are charged to the project if they are used solely for that purpose. If they are part the enterprise's permanent infrastructure, they are treated as operating overhead. When facilities are shared, such as a common workshop, their costs are charged on a use basis. Facilities costs are usually fixed based upon square feet allocated or leased. Equipment costs are fixed or variable depending upon use – costs of equipment delivered to the job site for the project duration are fixed, but those for use on an hourly basis are variable.

Service-related costs include production and project-related bonding and insurance, leased facilities and equipment rents, utilities, and taxes other than those for employment-related and property.

According to managerial accounting policy, operating expenses for enterprise resources used for production or projects are charged as either employment or service-related costs based upon the appropriate allocation formula or transfer price/charge.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours Or Units	Actual Cost	% of Total	Variance Actual Less Budget	% Actual of Budget
Project overhead:										
Indirect labor:										
Maintenance:										
Partially loaded straight time	$45.00									
Other charged items	$1.50									
Fully loaded rate	$46.50	176.00	$8,184.00	3.99%	$46.25	175.00	$8,093.75	3.89%	$90.25	98.90%
Clerical:										
Transfer charge	$45.00	88.00	$3,960.00	1.93%	$46.00	89.00	$4,094.00	1.97%	($134.00)	103.38%
Total indirect labor	$46.00	264.00	$12,144.00	5.93%	$46.17	264.00	$12,187.75	5.86%	($43.75)	100.36%
Indirect materials and supplies:										
Material E	$43.00	40.00	$1,720.00	0.84%	$43.21	41.00	$1,771.61	0.85%	($51.61)	103.00%
Supplies F	$52.00	5.00	$260.00	0.13%	$51.85	4.67	$242.14	0.12%	$17.86	93.13%
Total indirect materials and supplies			$1,980.00	0.97%			$2,013.75	0.97%	($33.75)	101.70%
Superintendent:										
Partially loaded salary			$10,000.00				$10,000.00		$0.00	100.00%
Other charged items			$3,500.00				$3,250.00		$250.00	92.86%
Total superintendent	$76.70	176.00	$13,500.00	6.59%	$75.28	176.00	$13,250.00	6.37%	$250.00	98.15%
Project manager:										
Partially loaded salary			$12,500.00				$12,400.00	5.96%	$100.00	99.20%
Other charged items			$4,000.00				$4,100.00	1.97%	($100.00)	102.50%
Total project manager	$93.75	176.00	$16,500.00	8.05%	$93.75	176.00	$16,500.00	7.93%	$0.00	100.00%
Allocations and transfer charges:										
Facilities	$28.41	176.00	$5,000.00	2.44%		176.00	$5,000.00	2.40%	$0.00	100.00%
Equipment	$14.20	176.00	$2,500.00	1.22%		176.00	$2,600.00	1.25%	($100.00)	104.00%
Utilities	$14.20	176.00	$2,500.00	1.22%		176.00	$2,450.00	1.18%	$50.00	98.00%
Administrative support	$5.68	176.00	$1,000.00	0.49%		176.00	$1,000.00	0.48%	$0.00	100.00%
Miscellaneous	$5.68	176.00	$1,000.00	0.49%		176.00	$1,250.00	0.60%	($250.00)	125.00%
Total allocations and transfer charges	$68.18	176.00	$12,000.00	5.86%		176.00	$12,300.00	5.91%	($300.00)	102.50%
Total project overhead	$318.89	176.00	$56,124.00	27.39%	$319.61	176.00	$56,251.50	27.03%	($127.50)	100.23%

In the example, the budgeted project overhead cost is $56,124.00 for 176 standard elapsed hours in the period. The standard overhead rate on an elapsed time basis is $318.89. Certain managerial accounting policies are applied to project overhead for such items as clerical and administrative support resulting in allocations and transfer charges.

The budgeted indirect materials and supplies cost is $1,980.00.

The employment-related costs include hourly paid maintenance workers, a managerial accounting charge for clerical assistance, and a salaried superintendent and project manager.

The superintendent and project manager are dedicated to the project. Other charged items include occupancy and equipment used directly by the superintendent and project manager.

The standard fully loaded monthly cost is $13,500 for the superintendent and $16,500 for the project manager.

The asset-related costs include equipment, budgeted at $2,500 per month. The service-related costs include facilities (all of which, such as trailers, are rented), utilities (based upon an allocation of general expenses), administrative support (based upon a managerial accounting charge for administrative expenses), and miscellaneous (based upon an allocation of other general expenses).

The actual project overhead cost is $56,251.50 for 176 actual elapsed hours. The actual project overhead rate is $319.61 per *elapsed* hour in the period.

...Overhead rate...

An hourly standard or actual overhead rate for a period can be established by dividing the project overhead costs in the period by the total standard or actual elapsed hours. This rate may vary from period to period because it is made up of both fixed and variable components. It should be recalculated periodically to ensure that costs are not being under or over recovered by the project.

Note: unless there is a high cost variance in the overhead caused by operating longer than the budgeted elapsed hours, the standard and actual elapsed hours should be the same. Elapsed hours increase when there is “off hours” work that consumes overhead.

As contractors build experience with projects, certain “rules of thumb” may become apparent for ratios of direct labor, direct materials and supplies, and project overhead costs. For example, some contractors experience “one-third, one-third, one-third.” Others may experience a higher ratio for labor relative to materials and supplies and overhead costs.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours Or Units	Actual Cost	% of Total	Variance Actual Less Budget	% Actual Budget
Total project			$204,896.80	100.00%			$208,090.35	100.00%	($3,193.55)	101.56%
Total project less direct materials and supplies	*$985.78*	176.00	$173,496.80	84.68%	*$1,002.65*	176.00	$176,466.98	84.80%	($2,970.18)	101.71%

In the example, the budgeted total project cost is $204,896.80. With direct materials and supplies excluded, the cost is $173,496.80. The standard rate per elapsed hour is $985.78 across *all* direct workers. The actual total project cost is $208,090.35. With actual direct materials and supplies excluded, the cost is $176,466.98. The actual rate per elapsed hour is $1,002.65 across *all* direct workers.

...Burdened labor costs and rates...

A project burdened labor cost is the loaded labor cost to which (indirect) project overhead has been added. A fully burdened labor cost represents all known costs except direct materials and supplies.

The fully burdened standard or actual labor rate is the fully burdened labor cost divided by the number of standard or actual hours in a period. It is a single rate for estimating budgeted performance or analyzing actual. This rate represents the cost of construction per hour. It is a major key indicator of construction performance.

Burdened labor costs are semi-variable because they are usually comprise both fixed and variable indirect costs. They should be recalculated periodically to ensure that costs are not being under or over recovered by the project.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours Or Units	Actual Cost	% of Total	Variance Actual Less Budget	% Actual of Budget
Direct fully loaded labor:										
Carpenter	$67.24	1,440.00	*$96,825.60*	47.26%	$68.20	1,457.00	*$99,367.40*	47.75%	($2,541.80)	102.63%
Painter	$64.21	320.00	*$20,547.20*	10.03%	$65.56	318.00	*$20,848.08*	10.02%	($300.88)	101.46%
Total direct fully loaded labor	*$66.69*	1,760.00	$117,372.80	57.28%	*$67.73*	1,775.00	$120,215.48	57.77%	($2,842.68)	102.42%
Overhead per elapsed hour	*$318.89*	176.00	$56,124.00	27.39%	*$319.61*	176.00	$56,251.50	27.03%	($127.50)	100.23%
Overhead per labor hour	*$31.89*	1,760.00	$56,124.00	27.39%	*$31.69*	1,775.00	$56,251.50	27.03%	($127.50)	100.23%
Overhead per carpenter hour	*$31.89*	1,440.00	$45,919.64	22.41%	*$31.69*	1,457.00	$46,173.77	22.19%	($254.13)	100.55%
Overhead per painter hour	*$31.89*	320.00	$10,204.36	4.98%	*$31.69*	318.00	$10,077.73	4.84%	$126.63	98.76%
Direct fully burdened labor:										
Carpenter	$99.13	1,440.00	*$142,745.24*	69.67%	$99.89	1,457.00	*$145,541.17*	69.94%	($2,795.93)	101.96%
Painter	$96.10	320.00	*$30,751.56*	15.01%	$97.25	318.00	*$30,925.81*	14.86%	($174.25)	100.57%
Total direct fully burdened labor	*$98.58*	1,760.00	$173,496.80	84.68%	*$99.42*	1,775.00	$176,466.98	84.80%	($2,970.18)	101.71%

In the example, the budgeted project overhead cost is $56,124.00 for 1,760 estimated hours, and $31.89 per estimated work hour (for both carpenters and painters). The standard fully burdened labor rate is $99.13 ($67.24 plus $31.89) per hour for carpenters and $96.10 ($64.21 plus $31.89) for painters. The standard fully burdened labor rate for the project is $98.58 per work hour.

The actual overhead cost is $56,251.50 for 1,775 hours, and $31.69 per actual work hour (for both carpenters and painters). The actual fully burdened labor rate for the project is $99.42 per work hour.

...Standard versus actual...

Once actual cost behavior for a construction enterprise is understood by owners and managers, it is possible to develop reasonable standards for budget estimates. Project budgets are prepared from standard rates multiplied by estimated hours derived from standard guidelines. Standard average fully burdened labor rates provide a quick method for estimating. However, standard burdened labor rates by trade and craft should be used when more accuracy is required, assuming that there is a reasonable basis for allocating overhead between them.

The highest precision in estimating is achieved by developing a project budget for every line item over all projected time periods, from which the standard costs and average rates can be derived. When time does not permit, predetermined standards provide a certain level of accuracy. However, for large and high risk projects, standards should be developed de novo accordingly.

Standard estimating guidelines may be modified by inflators or deflators depending upon specific project conditions and circumstances. Inflators are used when complexity is considered to be greater than standard; deflators are used when complexity is considered to be less. Based upon actual project performance, standard estimating guidelines must be updated over time. Once established, variances between budgeted and actual costs and rates can be calculated to determine if performance is better or worse than plan, or whether the estimates are inaccurate, or both.

It is always important to establish a feedback loop at the end of a project or major milestone, so that estimates can be reviewed and refined for the future.

	Standard Rate	Standard Hours Or Units	Budgeted Cost At Standard	% of Total	Actual Rate	Actual Hours Or Units	Actual Cost	% of Total	Variance Actual Less Budget	% Actual of Budget
Direct fully loaded labor	*$66.69*	1,760.00	$117,372.80	57.28%	*$67.73*	1,775.00	$120,215.48	57.77%	($2,842.68)	102.42%
Direct material and supplies			$31,400.00	15.32%			$31,623.37	15.20%	($223.37)	100.71%
Project overhead	*$318.89*	176.00	$56,124.00	27.39%	*$319.61*	176.00	$56,251.50	27.03%	($127.50)	100.23%
Total project			$204,896.80	100.00%			$208,090.35	100.00%	($3,193.55)	101.56%
Total direct fully burdened labor	*$98.58*	1,760.00	$173,496.80	84.68%	*$99.42*	1,775.00	$176,466.98	84.80%	($2,970.18)	101.71%

In the example, the budgeted total project cost is $204,896.80; with budgeted direct materials and supplies excluded, the budgeted cost is $173,496.80. The standard total fully burdened labor rate for the project is $98.58. This is the standard rate *per* direct worker hour.

The actual total project cost is $208,090.35; with actual direct materials and supplies excluded, the actual cost is $176,466.98. The actual total fully burdened labor rate for the project is $99.42. This is the actual rate *per* direct worker hour.

Note that fully burdened rates are almost 1.5 times the fully loaded.

...Firm and enterprise costs and rates...

The firm labor cost is the fully burdened labor cost further burdened by all operating expenses in a period for an enterprise in a *specific* market. The enterprise labor cost is the average firm labor cost across *all* markets. The period firm or enterprise labor rate is the firm or enterprise labor cost divided by the standard or actual hours in the period. This rate indicates the cost of the construction enterprise per hour, either in a specific market or in its entirety, excluding the direct materials and supplies.

Firm labor rates are useful to know when an enterprise operates in different markets with disparate labor costs (or other items). For example, for a specific trade or craft, there may be a major difference between the Northern California and Southern California markets, or even between Los Angeles and San Diego.

Firm and enterprise labor costs and rates are useful key indicators for managing profits, especially when labor costs are a high percentage of total, as is usually the case in the construction industry.

Project profit is a function of the ability of foreman, superintendents, and management to control costs at their level of responsibility.

In cases where wage rates are fixed, such as under union agreements or on pubic works projects, managing productivity, efficiency, and overhead costs are essential to profitability.

However, the use of project contingency is also essential, because according to Parkinson's Law, work expands according to the time available for its completion. Due to the uncertainty of construction, some work may by unexpected and not provided for in original budgets. Project contingency is a budget reserve for unplanned events or performance.

The firm rate is an indicator of performance including net profit in a specific market. The firm rate is the fully burdened labor cost to which net profit has been added in a market divided by the total actual or standard hours worked in the period. The enterprise rate is an indicator of performance for the entire enterprise, and is average firm rate across all markets.

The firm and enterprise rates represent amounts that are or must be recovered per hour to cover all non direct materials and supplies costs and earn a profit. They provide a basis for comparison between enterprises.

Firm and enterprise rates are used widely in other industries, such as in professional services as fees for architects, accountants, attorneys, consultants, and engineers.

Burdened rates, before or after enterprise overhead and profit markup, are a factor in determining the schedule of values as required by owners in most construction contracts.

A QUICK OVERVIEW OF THE EARNED VALUE CONCEPT

What is earned value?...

Earned value in project work is the budgeted cost of work performed at standard or actual rates if budgets are not used. Determining earned value is a managerial accounting technique. Measuring earned value as work progresses is an essential project management technique.

This article emphasizes the earned value concept in the construction industry. However, the concept applies in many other disciplines, such as job or project-based manufacturing and systems development activities.

The budgeted cost of work performed should be based upon standard labor rates for all trades and crafts in a project, and standard estimating guidelines for time as modified by inflators or deflators for specific situations.

The labor rate used depends upon need – options include the straight time, partially loaded, fully loaded, or fully burdened rate. The choice depends upon the effort to calculate, whether a project-wide management system is being used, and if so, what the associated policy is for labor costing.

Partially loaded rates that include straight time, employment and unemployment taxes, and workers compensation, provide useful labor cost information. These rates are not subject to fluctuations in amounts charged for occupancy and equipment over time. However, employment and unemployment taxes are subject to caps when certain levels are reached.

Fully burdened labor rates provide a more accurate picture of costs when overruns occur because they include the impact of project overhead on unbudgeted or unscheduled work. However, these rates are subject to change if their components fluctuate over time, and should be reviewed regularly.

Regardless of which rate is used, the logic for determining earned value is the same.

Earned value performance indicators are measured in both work (hours or days) and monetary units. Consequences for not reviewing these indicators or taking remedial action include:

- Cost and schedule overruns that affect profit directly

- Penalties and liquidated damages for failure to perform as contractually obligated to do so

Life of a project...

All projects must be well planned, but even with the best of planning, actual performance can differ from assumptions and estimates. Therefore, it is best to anticipate change and uncertainty by building contingency into project budgets.

Because of the nature of competitive bidding, for some contractors may elect to make contingency nothing more than a markup for profit. Others build profit on top of contingency because they assume that it will be used entirely. However, to able to earn a reasonable profit, a cushion is always necessary for unanticipated events and costs, and performing less efficiently than planned. If the cushion erodes, then profit does too. A cushion can be maintained by giving project personnel less budget than is actually available so as to maintain the contingency reserve.

Owners of facilities for which construction work is being performed have the right to change their minds, even though there may be an associated cost in doing so. As a consequence, scope changes occur during the life of a project (often too frequently), and sometimes even before it starts. Scope changes can also occur because ideas and design concepts do not work as planned.

The framework for tracking actual performance against project budgets in work and monetary units includes:

- Original budget – at the beginning of the project before contingency

- Budget adjustment for scope changes before contingency

- Revised budget, which equals original budget plus budget adjustments for scope changes – this is the budget given to the project team

- Total budget, which equals the revised budget plus contingency – this is for use by project management and is approved by owner management – the expectation is that contingency will be fully used and that there will be no surplus or deficit

- Estimate to complete, which equals the revised budget plus contingency allocated

- Estimate at completion, which equals actual to date plus estimate to complete (forecast)

- Contingency allocated, which equals performance variances that have been recognized by project management, and included in the project accounting and reporting – contingency is recognized on a deliberate and anticipated basis – based upon both events that have occurred to date and are anticipated to happen in the future

- Performance variance – unbudgeted tasks adjustment (PVU) – the difference between budgeted and both actual incurred and anticipated behavior as a consequence of unforeseen unbudgeted tasks

- Performance variance – inefficiency/efficiency (PVE) – the difference between budgeted and both actual incurred and anticipated behavior as a consequence of efficiency or inefficiency:

    - Unfavorable variances require allocations from contingency and are positive amounts (inefficiency)

    - Favorable variances produce reallocations to contingency and are negative amounts (efficiency)

Note: this indicator is based on an estimate of current and/or future performance to completion – the variance may not have actually been incurred at any given time. Hence a project with positive cost and schedule variances at a point in time, could have forecasted negative performance variances due to anticipated future overruns.

Note: the more realistic the recognitions of performance variances are, the more accurate the current status of the project is likely to be for both the present and future; few surprises, if any, are likely to occur in the future.

- At completion:

    - Total budget at completion, which equals total revised budget plus contingency surplus (positive contingency – underrun)

    - Total budget at completion, which equals total revised budget less contingency deficit (negative contingency – overrun)

The methodology for tracking actual performance against project budgets in work and monetary units is as follows:

- Budgeted cost of work scheduled (BCWS) – planned cost of the total amount of work scheduled by the milestone date – the planned earned value (PEV) (based upon the revised budget before contingency)

- Actual cost of work performed (ACWP) – cost incurred to accomplish the actual work that has been performed to date

- Budgeted cost of work performed (BCWP) – the planned cost to complete the work that has been performed to date at standard or actual rates – the actual earned value (AEV) (based upon the revised budget before contingency):

    - If the actual earned value is based upon standard rates, then it equals the planned earned value upon completion of the project – the difference between the actual earned value and the actual cost of work performed is an adjustment to profit

    - If the actual earned value is based upon actual rates then it equals the actual cost of work performed throughout the project

- Schedule variance (SV) equals BCWP less BCWS:

    - The difference between the budgeted cost of work that was performed and the budgeted cost of work that was scheduled

    - A negative variance means that the project is currently behind schedule

- Cost variance (CV) equals BCWP less ACWP:

    - The difference between the budgeted cost and the actual cost of the work performed

    - A negative variance means that the project is currently over budget

- Schedule performance index (SPI):

    - SPI equals BCWP divided by BCWS

    - SPI < 1 means that the project is behind schedule

- Cost performance index (CPI):

    - CPI equals BCWP divided by ACWP

    - CPI < 1 means that the project is over budget

- Cost schedule performance index (CSPI) is the cost performance index multiplied by the schedule performance index

- Efficiency ratio – measure of productivity – measure of output/input:

  - ACWP/BCWP

- Activity ratio – measure of activity:

  - BCWP/BCWS

- Variance due to hours:

  - (Budgeted hours less actual hours) multiplied by budgeted rate

- Variance due to rate:

  - (Budgeted rate less actual rate) multiplied by actual hours

Note: cost and schedule variances are based upon actual performance; performance variances are based upon both actual and anticipated.

Note: the pitfall in any process that requires an estimate to complete, or an estimate of budget versus actual, is in the accuracy of the forecast. Poorly forecasted estimates to complete have a tendency to mask actual performance.

Milestones should be scheduled such that interim deliverables can be achieved on a regular basis; the tasks and steps to produce the results should be defined in detail so that performance is easy to measure.

The use of contingency can help buffer project management from surprises by the project team.

Projects must be managed on the basis of work and monetary units because situations can arise where a project is on budget from a work unit perspective, but is overrunning on monetary unit basis due to rate variances.

For example, the use of higher cost resources can cause a monetary unit overrun even if they incurred less work units than budgeted due to experience.

Life of a project – revised budgets example...

In this example, a simple project has an original budget of 25 days with 5 days of contingency for a total budget of 30. 25 days are allocated to the project team. A budget adjustment of 5 days for a change in scope occurs in the third period, increasing the total budget to 35 days – 30 days to the project team, and 5 for contingency.

At the end of the first period, project management is optimistic that the project will require only 24 days, and credits contingency one day for a total of 6.

However, circumstances change, and all of the contingency is allocated by the end of the fifth period, by which time the estimate at completion equals the revised budget plus contingency – the total budget.

The project overruns the total budget by one day – the overrun being in the last period. The cost variance is (6) days to the project team and (1) day to management, and hence, even the contingency reserve overruns impacting profit negatively.

Period	Original Budget	Budget Adjustment	Revised Budget	Contingency Reserve	Revised Budget with Contingency	Budgeted Cost of Work Scheduled PEV	Budgeted Cost of Work Performed AEV	Actual Cost of Work Performed	Performance Variance Unbudgeted Tasks	Performance Variance Inefficiency Efficiency	Estimate to Complete	Estimate at Completion	Cost Variance Against Revised Budget	Schedule Variance Against Revised Budget	Cost Performance Index	Schedule Performance Index	Cost Schedule Performance Index	Efficiency Ratio	Activity Ratio
1	25.00	0.00	25.00	6.00	31.00	3.00	3.00	2.00	0.00	(1.00)	22.00	24.00	1.00	0.00	1.50	1.00	1.50	0.67	1.00
2	25.00	0.00	25.00	2.00	31.00	6.00	6.00	5.00	2.00	1.00	23.00	28.00	1.00	0.00	1.20	1.00	1.20	0.83	1.00
3	25.00	5.00	30.00	5.00	35.00	9.00	11.00	9.00	2.00	0.00	23.00	32.00	2.00	2.00	1.00	1.22	1.22	0.82	1.22
4	25.00	5.00	30.00	2.00	35.00	12.00	14.00	14.00	2.00	1.00	19.00	33.00	0.00	2.00	0.86	1.17	1.00	1.00	1.17
5	25.00	5.00	30.00	0.00	35.00	15.00	17.00	17.00	2.00	3.00	18.00	35.00	0.00	2.00	0.88	1.13	1.00	1.00	1.13
6	25.00	5.00	30.00	0.00	35.00	18.00	20.00	19.00	2.00	3.00	16.00	35.00	1.00	2.00	0.95	1.11	1.05	0.95	1.11
7	25.00	5.00	30.00	0.00	35.00	21.00	21.00	22.00	2.00	3.00	13.00	35.00	(1.00)	0.00	0.95	1.00	0.95	1.05	1.00
8	25.00	5.00	30.00	0.00	35.00	24.00	23.00	25.00	2.00	3.00	10.00	35.00	(2.00)	(1.00)	0.96	0.96	0.92	1.09	0.96
9	25.00	5.00	30.00	0.00	35.00	27.00	25.00	28.00	2.00	3.00	7.00	35.00	(3.00)	(2.00)	0.96	0.93	0.89	1.12	0.93
10	25.00	5.00	30.00	0.00	35.00	30.00	27.00	31.00	2.00	3.00	4.00	35.00	(4.00)	(3.00)	0.97	0.90	0.87	1.15	0.90
11	25.00	5.00	30.00	0.00	35.00	30.00	29.00	33.00	2.00	3.00	2.00	35.00	(4.00)	(1.00)	0.91	0.97	0.88	1.14	0.97
12	25.00	5.00	30.00	(1.00)	35.00	30.00	30.00	36.00	2.00	4.00	0.00	36.00	(6.00)	0.00	0.83	1.00	0.83	1.20	1.00

Unfavorable variances are in parentheses except performance variances due to efficiency

Life of a project – monitoring partially loaded labor rates example...

In this example, a contractor bids a small project with a carpenter and a painter. The project is tracked using partially loaded rates, which are based upon prevailing wages to which employment and unemployment taxes and workers compensation costs have been added – these rates are the standard for budgeting purposes. The work hours are based upon the contractor's own standard estimating guidelines for each task to be performed.

Therefore, the budget is based upon both standard rates and hours for the work to be performed.

The rate cards are as follows:

- Partially loaded carpenter:
    - Straight time rate: $64.24
    - Time-and-a-half rate: $84.98
    - Double rate: $104.62
- Partially loaded painter:
    - Straight time rate: $61.71
    - Time-and-a-half rate: $82.01
    - Double time rate: $102.24

Note: fringe benefits are not subject to the overtime premium.

Note: workers compensation experience rates vary by contractor.

Note: unfavorable variances are shown in parentheses, except for performance variances due to inefficiency. Performance variances due to efficiency are shown in parentheses, which result in a credit to contingency.

Budgeted	Hours	Week 1	Week 2	Week 3	Week 4	Week 5	Total
Carpenter	Straight	40.00	40.00	40.00	40.00	0.00	160.00
	Time-and-a-half	0.00	0.00	0.00	0.00	0.00	0.00
	Double	0.00	0.00	0.00	0.00	0.00	0.00
	Total	40.00	40.00	40.00	40.00	0.00	160.00
Painter	Straight	40.00	40.00	40.00	40.00	0.00	160.00
	Time-and-a-half	0.00	0.00	0.00	0.00	0.00	0.00
	Double	0.00	0.00	0.00	0.00	0.00	0.00
	Total	40.00	40.00	40.00	40.00	0.00	160.00
All	Straight	80.00	80.00	80.00	80.00	0.00	320.00
Trades	Time-and-a-half	0.00	0.00	0.00	0.00	0.00	0.00
	Double	0.00	0.00	0.00	0.00	0.00	0.00
	Total	80.00	80.00	80.00	80.00	0.00	320.00

The project is scheduled over a four week period with no allowance for overtime for a total of 320 hours.

Budgeted	Cost	LR	Week 1	Week 2	Week 3	Week 4	Week 5	Total
Carpenter	Straight	$64.24	$2,569.61	$2,569.61	$2,569.61	$2,569.61	$0.00	$10,278.44
	Time-and-a-half	$84.98	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Double	$104.62	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Total		$2,569.61	$2,569.61	$2,569.61	$2,569.61	$0.00	$10,278.44
Painter	Straight	$60.71	$2,428.37	$2,428.37	$2,428.37	$2,428.37	$0.00	$9,713.48
	Time-and-a-half	$82.01	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Double	$102.24	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Total		$2,428.37	$2,428.37	$2,428.37	$2,428.37	$0.00	$9,713.48
All	Straight		$4,997.98	$4,997.98	$4,997.98	$4,997.98	$0.00	$19,991.92
Trades	Time-and-a-half		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Double		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Total		$4,997.98	$4,997.98	$4,997.98	$4,997.98	$0.00	$19,991.92
	Contingency							$2,998.79
								$22,990.71

The budget uses partially loaded rates (LR) for a total of $19,991.92. The contractor adds a 15 per cent contingency of $2,998.79 for a total budget of $22,990.71.

Note: for the remainder of the example, partially loaded labor rates are referred to merely as "loaded labor rates."

Actual	Hours	Week 1	Week 2	Week 3	Week 4	Week 5	Total
Carpenter	Straight	36.00	40.00	40.00	25.00	25.00	166.00
	Time-and-a-half	6.00	0.00	0.00	0.00	0.00	6.00
	Double	1.00	0.00	0.00	0.00	0.00	1.00
	Total	43.00	40.00	40.00	25.00	25.00	173.00
Painter	Straight	0.00	40.00	40.00	35.00	35.00	150.00
	Time-and-a-half	0.00	0.00	0.00	0.00	7.00	7.00
	Double	0.00	0.00	0.00	0.00	0.00	0.00
	Total	0.00	40.00	40.00	35.00	42.00	157.00
All Trades	Straight	36.00	80.00	80.00	60.00	60.00	316.00
	Time-and-a-half	6.00	0.00	0.00	0.00	7.00	13.00
	Double	1.00	0.00	0.00	0.00	0.00	1.00
	Total	43.00	80.00	80.00	60.00	67.00	330.00

Actual	Cost	LR	Week 1	Week 2	Week 3	Week 4	Week 5	Total
Carpenter	Straight	$64.24	$2,312.65	$2,569.61	$2,569.61	$1,606.01	$1,606.01	$10,663.89
	Time-and-a-half	$84.98	$509.86	$0.00	$0.00	$0.00	$0.00	$509.86
	Double	$104.62	$104.62	$0.00	$0.00	$0.00	$0.00	$104.62
	Total		$2,927.13	$2,569.61	$2,569.61	$1,606.01	$1,606.01	$11,278.37
Painter	Straight	$61.79	$0.00	$2,471.43	$2,471.43	$2,162.50	$2,162.50	$9,267.86
	Time-and-a-half	$83.64	$0.00	$0.00	$0.00	$0.00	$585.45	$585.45
	Double	$104.40	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Total		$0.00	$2,471.43	$2,471.43	$2,162.50	$2,747.95	$9,853.31
All Trades	Straight		$2,312.65	$5,041.04	$5,041.04	$3,768.51	$3,768.51	$19,931.75
	Time-and-a-half		$509.86	$0.00	$0.00	$0.00	$585.45	$1,095.31
	Double		$104.62	$0.00	$0.00	$0.00	$0.00	$104.62
	Total		$2,927.13	$5,041.04	$5,041.04	$3,768.51	$4,353.96	$21,131.68
	Contingency remaining							$1,859.03
								$22,990.71

The actual performance differs from planned. The project overruns by one week due to materials delays and weather problems. It requires an additional 10 hours of work. The carpentry work overruns the budgeted hours, but the painting work underruns. Both the carpenter and the painter incurred overtime hours.

The total hour variance for the carpenter is 13 hours over, and the total hour variance for the painter is 3 hours under.

Variances	Hours	Week 1	Week 2	Week 3	Week 4	Week 5	Total
Carpenter	Straight	(4.00)	0.00	0.00	(15.00)	25.00	6.00
	Time-and-a-half	6.00	0.00	0.00	0.00	0.00	6.00
	Double	1.00	0.00	0.00	0.00	0.00	1.00
	Total	3.00	0.00	0.00	(15.00)	25.00	13.00
Painter	Straight	(40.00)	0.00	0.00	(5.00)	35.00	(10.00)
	Time-and-a-half	0.00	0.00	0.00	0.00	7.00	7.00
	Double	0.00	0.00	0.00	0.00	0.00	0.00
	Total	(40.00)	0.00	0.00	(5.00)	42.00	(3.00)
All Trades	Straight	(44.00)	0.00	0.00	(20.00)	60.00	(4.00)
	Time-and-a-half	6.00	0.00	0.00	0.00	7.00	13.00
	Double	1.00	0.00	0.00	0.00	0.00	1.00
	Total	(37.00)	0.00	0.00	(20.00)	67.00	10.00

Variances	Cost	Week 1	Week 2	Week 3	Week 4	Week 5	Total
Carpenter	Straight	($256.96)	$0.00	$0.00	($963.60)	$1,606.01	$385.45
	Time-and-a-half	$509.86	$0.00	$0.00	$0.00	$0.00	$509.86
	Double	$104.62	$0.00	$0.00	$0.00	$0.00	$104.62
	Total	$357.52	$0.00	$0.00	($963.60)	$1,606.01	$999.93
Painter	Straight	($2,428.37)	$43.06	$43.06	($265.87)	$2,162.50	($445.62)
	Time-and-a-half	$0.00	$0.00	$0.00	$0.00	$585.45	$585.45
	Double	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Total	($2,428.37)	$43.06	$43.06	($265.87)	$2,747.95	$139.83
All Trades	Straight	($2,685.33)	$43.06	$43.06	($1,229.47)	$3,768.51	($60.17)
	Time-and-a-half	$509.86	$0.00	$0.00	$0.00	$585.45	$1,095.31
	Double	$104.62	$0.00	$0.00	$0.00	$0.00	$104.62
	Total	($2,070.85)	$43.06	$43.06	($1,229.47)	$4,353.96	$1,139.76

The painter who was scheduled to work is not available due to an accident; a higher rate painter is substituted, and is able to complete the work with less hours.

The total cost variance for the carpenter is $999.93. The total cost variance for the painter is $139.83. The total cost variance is $1,139.76.

Carpenter	Week 1	Week 2	Week 3	Week 4	Week 5
Hours					
Budgeted cost of work scheduled (PEV)	40.00	80.00	120.00	160.00	160.00
Budgeted cost of work performed (AEV)	37.00	72.00	108.00	147.00	160.00
Actual cost of work performed	43.00	83.00	123.00	148.00	173.00
Estimate to complete	120.00	85.00	49.00	25.00	0.00
Estimate at completion	163.00	168.00	172.00	173.00	173.00
Performance variance due to budget adjustment	3.00	3.00	3.00	3.00	3.00
Performance variance due to efficiency	0.00	5.00	9.00	10.00	10.00
Total performance variance	3.00	8.00	12.00	13.00	13.00
Contingency remaining	21.00	16.00	12.00	11.00	11.00
Total contingency	24.00	24.00	24.00	24.00	24.00
Total project budget	184.00	184.00	184.00	184.00	184.00
Cost variance	(6.00)	(11.00)	(15.00)	(1.00)	(13.00)
Schedule variance	(3.00)	(8.00)	(12.00)	(13.00)	0.00
Cost performance index	0.86	0.87	0.88	0.99	0.92
Schedule performance index	0.93	0.90	0.90	0.92	1.00
Cost schedule performance index	0.80	0.78	0.79	0.91	0.92
$					
Budgeted cost of work scheduled (PEV)	$2,569.61	$5,139.22	$7,708.83	$10,278.44	$10,278.44
Budgeted cost of work performed (AEV)	$2,376.89	$4,625.30	$6,937.94	$9,443.31	$10,278.44
Actual cost of work performed	$2,927.13	$5,496.74	$8,066.35	$9,672.36	$11,278.37
Contingency remaining					$541.83
Total project budget					$11,820.20
Actual fully loaded labor rate	$68.07	$64.24	$64.24	$64.24	$64.24
Budget fully loaded labor rate	$64.24	$64.24	$64.24	$64.24	$64.24
Fully loaded labor rate variance	($3.83)	($0.00)	($0.00)	($0.00)	($0.00)
Cost variance	($550.24)	($871.44)	($1,128.41)	($229.05)	($999.93)
Schedule variance	($192.72)	($513.92)	($770.88)	($835.12)	$0.00
Cost performance index	0.81	0.84	0.86	0.98	0.91
Schedule performance index	0.93	0.90	0.90	0.92	1.00
Cost schedule performance index	0.75	0.76	0.77	0.90	0.91

	Cost of variances		
	Hours	Rate	Total
Straight	($385.44)	$0.00	($385.44)
Time-and-a-half	($385.44)	($124.42)	($509.86)
Double	($64.24)	($40.38)	($104.62)
Total	($835.12)	($164.80)	($999.92)

Note: due to rounding, the total cost variance is shown in the spreadsheet as either $999.92 or $999.93.

Carpenter performance results in a cost overrun of $999.92 with a 13 hour overrun:

- During the project, actual earned value lags planned earned value
- A performance variance for a budget adjustment of 3 hours is necessary to finance unplanned work
- A performance variance for inefficiency of 10 hours is incurred – the 10 hours were incurred at straight, time-and-a-half, and double time rates – the result is an hour variance cost of $835.12
- No rate variance occurs for straight time work
- Rate variances occur because hours are incurred at time-and-a-half and double time rates – the result is a rate variance cost of $164.80
- In the first week, the actual loaded labor rate is higher than budget due to overtime

Painter	Week 1	Week 2	Week 3	Week 4	Week 5
Hours					
Budgeted cost of work scheduled (PEV)	40.00	80.00	120.00	160.00	160.00
Budgeted cost of work performed (AEV)	0.00	40.00	80.00	116.00	160.00
Actual cost of work performed	0.00	40.00	80.00	115.00	157.00
Estimate to complete	160.00	120.00	77.00	42.00	0.00
Estimate at completion	160.00	160.00	157.00	157.00	157.00
Performance variance due to budget adjustment	0.00	0.00	0.00	0.00	0.00
Performance variance due to efficiency	0.00	0.00	(3.00)	(3.00)	(3.00)
Total performance variance	0.00	0.00	(3.00)	(3.00)	(3.00)
Contingency remaining	24.00	24.00	27.00	27.00	27.00
Total contingency	24.00	24.00	24.00	24.00	24.00
Total project budget	184.00	184.00	184.00	184.00	184.00
Cost variance	0.00	0.00	0.00	1.00	3.00
Schedule variance	(40.00)	(40.00)	(40.00)	(44.00)	0.00
Cost performance index	~	1.00	1.00	1.01	1.02
Schedule performance index	0.00	0.50	0.67	0.73	1.00
Cost schedule performance index	~	0.50	0.67	0.73	1.02
$					
Budgeted cost of work scheduled (PEV)	$2,428.37	$4,856.74	$7,285.12	$9,713.49	$9,713.49
Budgeted cost of work performed (AEV)	$0.00	$2,428.37	$4,856.74	$7,042.28	$9,713.49
Actual cost of work performed	$0.00	$2,471.43	$4,942.86	$7,105.36	$9,853.31
Contingency remaining					$1,317.20
Total project budget					$11,170.51
Actual fully loaded labor rate	~	$61.79	$61.79	$61.79	$65.43
Budget fully loaded labor rate	$60.71	$60.71	$60.71	$60.71	$60.71
Fully loaded labor rate variance	~	($1.08)	($1.08)	($1.08)	($4.72)
Cost variance	$0.00	($43.06)	($86.12)	($63.08)	($139.82)
Schedule variance	($2,428.37)	($2,428.37)	($2,428.37)	($2,671.21)	$0.00
Cost performance index	~	0.98	0.98	0.99	0.99
Schedule performance index	0.00	0.50	0.67	0.73	1.00
Cost schedule performance index	~	0.49	0.66	0.72	0.99

	Cost of variances		
	Hours	Rate	Total
Straight	$607.09	($161.48)	$445.62
Time-and-a-half	($424.97)	($160.49)	($585.45)
Double	$0.00	$0.00	$0.00
Total	$182.13	($321.96)	($139.83)

Note: due to rounding, the total cost variance is shown in the spreadsheet as either $139.82 or $139.83.

Painter performance results in a cost overrun of $139.83 with a 3 hour underrun:

- During the project, actual earned value lags planned earned value

- A negative performance variance for efficiency of 3 hours is earned – this credit increases contingency

- An unfavorable rate variance of $321.96 results from an actual higher painter rate than budgeted – this variance is partially offset by favorable hours variance of $182.13

- Higher actual loaded rates than budgeted and overtime incurred

All trades	Week 1	Week 2	Week 3	Week 4	Week 5
Hours					
Budgeted cost of work scheduled (PEV)	80.00	160.00	240.00	320.00	320.00
Budgeted cost of work performed (AEV)	37.00	112.00	188.00	263.00	320.00
Actual cost of work performed	43.00	123.00	203.00	263.00	330.00
Estimate to complete	280.00	205.00	126.00	67.00	0.00
Estimate at completion	323.00	328.00	329.00	330.00	330.00
Performance variance due to budget adjustment	3.00	3.00	3.00	3.00	3.00
Performance variance due to efficiency	0.00	5.00	6.00	7.00	7.00
Total performance variance	3.00	8.00	9.00	10.00	10.00
Contingency remaining	45.00	40.00	39.00	38.00	38.00
Total contingency	48.00	48.00	48.00	48.00	48.00
Total project budget	368.00	368.00	368.00	368.00	368.00
Cost variance	(6.00)	(11.00)	(15.00)	0.00	(10.00)
Schedule variance	(43.00)	(48.00)	(52.00)	(57.00)	0.00
Cost performance index	0.86	0.91	0.93	1.00	0.97
Schedule performance index	0.46	0.70	0.78	0.82	1.00
Cost schedule performance index	0.40	0.64	0.73	0.82	0.97
Efficiency ratio	1.16	1.10	1.08	1.00	1.03
Activity ratio	0.46	0.70	0.78	0.82	1.00
$					
Budgeted cost of work scheduled (PEV)	$4,997.98	$9,995.96	$14,993.94	$19,991.92	$19,991.92
Budgeted cost of work performed (AEV)	$2,376.89	$7,053.67	$11,794.69	$16,485.59	$19,991.92
Actual cost of work performed	$2,927.13	$7,968.17	$13,009.21	$16,777.72	$21,131.68
Contingency remaining					$1,859.03
Total project budget					$22,990.71
Actual fully loaded labor rate	$68.07	$63.01	$63.01	$62.81	$64.98
Budget fully loaded labor rate	$62.47	$62.47	$62.47	$62.47	~
Fully loaded labor rate variance	($5.60)	($0.54)	($0.54)	($0.33)	
Cost variance	($550.24)	($914.50)	($1,214.52)	($292.13)	($1,139.76)
Schedule variance	($2,621.09)	($2,942.29)	($3,199.25)	($3,506.33)	$0.00
Cost performance index	0.81	0.89	0.91	0.98	0.95
Schedule performance index	0.48	0.71	0.79	0.82	1.00
Cost schedule performance index	0.39	0.62	0.71	0.81	0.95

		Cost of variances	
	Hours	Rate	Total
Straight	$221.65	($161.48)	$60.18
Time-and-a-half	($810.41)	($284.90)	($1,095.31)
Double	($64.24)	($40.38)	($104.62)
Total	($653.00)	($486.76)	($1,139.76)

Overall performance resulted in a cost overrun of $1,139.76 with a 10 hour overrun:

- During the project, actual earned value lags planned earned value
- A performance variance for a budget adjustment of 3 hours is necessary to finance unplanned work
- A performance variance for inefficiency of 7 hours is incurred
- There is an unfavorable rate variance of $486.76 resulting from an actual higher painter rate than budgeted and overtime and an unfavorable hour variance cost of $653.00
- There are higher actual loaded rates due to use of a higher rate than budgeted and overtime
- As a consequence of the overrun for the carpenter time, the contractor revised the time standards for carpentry work

The total project cost was $21,131.68. The unused contingency is $1,859.03.

Work power loading...

Work power loading is process of scheduling project activities with resources over time. The activities are laid out over time from the work breakdown structure, and resources are scheduled based upon elapsed time commitments.

Resources include materials and supplies, facilities, and equipment, and human – the workers that make up the work power loading schedule. The resources are first assigned by full time equivalents and planned skill levels. Workers are then matched to activities based upon availability and actual skill levels. Because of differences between planned and actual workers at certain skill levels, the cost and schedule estimates may change.

A Gantt chart is used to show the scheduled activities in the work breakdown structure according to budget and start and end dates. This chart should be updated as the project progresses to show actual progress against budget and schedule. Budgets can be shown at a high level in work days and converted to work hours to be reconcilable with other project management documents as necessary.

In the example that follows, a project is organized over a nine week period, with six activities in the work breakdown structure. The project has a budget of 90 work days before contingency.

Activity		Start Date	End Date	Work Days	01/10/10	01/17/10	01/24/10	01/31/10	02/07/10	02/14/10	02/21/10	02/28/10	03/07/10	03/14/10
Demolition	Scheduled	01/04/10	01/08/10	10										
Framing	Scheduled	01/11/10	01/29/10	24										
Drywall	Scheduled	01/18/10	02/05/08	27										
Taping	Scheduled	01/25/10	02/12/10	14										
Painting	Scheduled	02/15/10	02/26/10	10										
Clean-up	Scheduled	03/01/10	03/05/10	5										
Total				90										

The work power loading schedule shows workers assigned to activities by week, with work day estimates per week.

Activity	Start Date	End Date	Work Days	01/10/10	01/17/10	01/24/10	01/31/10	02/07/10	02/14/10	02/21/10	02/28/10	03/07/10	03/14/10
Demolition	01/04/10	01/08/10											
Laborer 1			5	5									
Laborer 1			5	5									
Framing	01/11/10	01/29/10											
Framer 1			14		5	5	4						
Framer 2			10			5	5						
Drywall	01/18/10	02/05/08											
Drywall 1			14			4	5	5					
Drywall 2			13			4	4	5					
Taping	01/25/10	02/12/10											
Taper			14				5	4	5				
Painting	02/15/10	02/26/10											
Painter			10							5	5		
Clean-up	03/01/10	03/05/10											
Laborer			5									5	
Totals			90	10	5	18	23	14	5	5	5	5	

The actual performance overruns both budget and schedule by 13 work days and one elapsed week respectively. The problem began in the framing activity, and rippled through the project from that point on.

Activity		Start Date	End Date	Work Days	01/10/10	01/17/10	01/24/10	01/31/10	02/07/10	02/14/10	02/21/10	02/28/10	03/07/10	03/14/10
Demolition	Scheduled	01/04/10	01/08/10	10										
	Actual	01/04/10	01/08/10	10										
Framing	Scheduled	01/11/10	01/29/10	24										
	Actual	01/11/10	02/05/10	30										
Drywall	Scheduled	01/18/10	02/05/10	27										
	Actual	01/25/10	02/12/10	27										
Taping	Scheduled	01/25/10	02/12/10	14										
	Actual	01/25/10	02/19/10	22										
Painting	Scheduled	02/15/10	02/26/10	10										
	Actual	02/22/10	03/15/10	10										
Clean-up	Scheduled	03/01/10	03/05/10	5										
	Actual	03/08/10	03/12/10	4										
Total Scheduled				90										
Total Actual				103										
Cost Variance				(13)										

In addition to the cost of the work day overrun, there are additional cost overruns due to the project overhead being incurred for one extra week.

If fully burdened labor rates are used, the approximate cost of the project overhead is included in the cost overrun calculations, whereas straight and loaded labor rates do not pick up the full cost.

Note: in overrun situations, actual overhead costs may differ from planned because either more or less resources are being used than standard.

Critical path analysis...

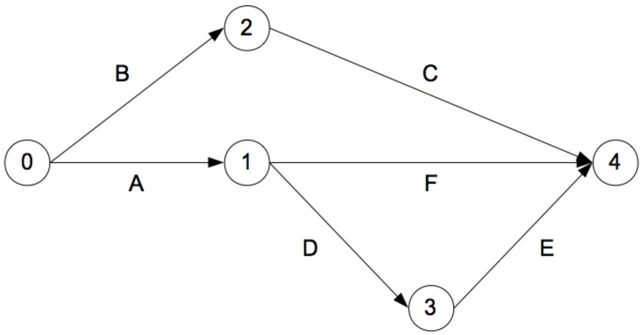
The project critical path is sequence of activities that represent the longest duration. The critical path is determined by tracking the elapsed time for activities in the work breakdown structure and their interdependencies, using the Program Evaluation and Review Technique (PERT) and the Critical Path Method (CPM).

A PERT chart shows the activities and dependencies. Coding conventions for PERT charts can be quite complex.

Critical path analysis requires properly sequencing activities and determining the impact of schedule changes in one activity that affect others. This type of analysis is useful when multiple activities can be performed concurrently. A delay in one activity may cause the entire project to slip behind schedule.

The critical path determines the shortest time in which the project can be completed. A delay in a critical path activity impacts the planned project completion date. Lead time is the difference between two activities that are scheduled to start in sequence, i.e., one must start before the other. Lag time is the difference between two activities that are scheduled to end in sequence.

Float or slack is the amount of time that an activity can be delayed without impacting subsequent activities (the free float) or the project end date (total float).



In this simplistic example, there are 6 activities with 4 milestones to be achieved as follows:

Activity	Work Day Estimate	Predecessor	Successor
A	10		D,F
B	15		C
C	20	B	
D	15	A	E
E	15	D	
F	18	A	
A+F	28		
B+C	35		
D+E	30		
A+D+E	40		

The critical path at the beginning of the project consists of activities A, D, and E = 40 days.

The path of activities A and F has 12 days of float.

The path of activities B and C has 5 days of float.

Owners may have specific requirements for the use of critical path analysis for work power, materials and supplies, facilities, and equipment scheduling. These requirements may include the definition of an activity for scheduling purposes to ensure that no intermediate deliverable milestone is more than a defined period of weeks in duration. (Two weeks is a common standard.)

Critical path analysis a complex subject, for which there are many books and seminars.

Project management software...

Two common project management software packages are:

- Microsoft Project:

  www.microsoft.com/project/en/us/default.aspx

- Oracle Primavera:

  www.oracle.com/us/products/applications/primavera/index.html

OUTLINE FOR A STRATEGIC PLAN PRESENTATION

Strategic plans are long-term statements of direction augmented with short-term initiatives for nimbleness. Strategy is the beneficial positioning and posturing of an enterprise in the marketplace so as to deliver value over time.

Strategy is a set of program actions (plans, policies, projects, and on-going activities) for positioning and posturing an enterprise advantageously with its constituencies.

Key questions to be addressed

- Positioning
    - Where is the enterprise now and what is its current state (the point of departure)?
    - Where should the enterprise be and what should its state be in the future (the point of arrival)?
- Posture – how and when will it get from the current state to the future state and with whom?
- Performance – how will progress be measured?

Outline of the plan

- Enterprise strategy

  - Aspirational strategy

    - ♦ Values
    - ♦ Guiding principles
    - ♦ Vision

      - ➢ External
      - ➢ Internal

    - ♦ Mission
    - ♦ Value proposition
    - ♦ Key success factors

  - Industry positioning and posture

    - ♦ Industry sector
    - ♦ Enterprise/business model
      (by segment if conglomerate or diversified)
    - ♦ Research and development capability
    - ♦ Intellectual property

- Competitive strategy – position and posture

- Performance improvement strategy

- Constituency-based strategy – objectives, goals, and strategic initiatives

  - Opportunities for collaborative advantage
  - Opportunities for cooperative advantage

- Functional strategy

- Governance
    - Legal vehicles
    - Organizational structure and management team
    - Standard of ethics
    - Sustainability – statement of ecological, economic, and social responsibility
- Key performance indicators
- Financial plan, projections, and assumptions
- Tactical action plans
- Process for maintaining the strategic plan

OUTLINE FOR A BUSINESS PLAN

Business plans are subsets of strategic plans aimed specifically as focused succinct presentations to potential investors.

Packaging of strategy for financing...

Strategic plans are long-term statements of direction augmented with short-term initiatives for nimbleness.

Business plans (for financing) can be developed by lifestyle enterprises and upwardly mobile enterprises, and both entrepreneurial and institutional enterprises, although the type of financing needs will be different. They can also be used for internal presentations for business unit financing within larger entities.

Business plans take those elements of a strategic plan that would be of interest to investors and compress them down into a simple format from which effective presentations can be made.

The strategic plan and business plan are source documents for other legal documents that will be required for investors and regulators in the capital raising process.

Sources of funds from financing activities can include:

- Private debt
- Private equity
- Public debt
- Public equity

The plan documents serve as the source for private placement memoranda or registration statements and prospectuses for public offerings.

The packaging and presentation of business plans require special attention because, whereas a high degree of precision is required, investors usually do not have much time for detail. Investors often receive many presentations, and will review only those in detail that they are specifically interested in.

Contents of the business plan package include:

- Investor term sheet
- One line elevator pitch
- Executive summary
- PowerPoint presentation
- Detailed business plan
- Financial plan

Tell a story...

The business plan is a marketing piece for money.

Business plans must tell a story of innovation and opportunity that intrigues the investor. The entrepreneur or chief executive officer must personally tell the story with passion and enthusiasm.

The storyteller or chief executive officer must be believable, and the plan must be perceived as executable and capable of achieving wealth for the investors.

Note: investors will not sign non-disclosure agreements as a general rule – therefore trade secrets should not be revealed.

The PowerPoint presentation is an essential ingredient of the plan because it is visual. It should be prepared carefully from a written document that describes the plan in greater detail. This document acts as a reference guide from material contained in the strategic plan.

The executive summary should capture the salient points of the plan in two to three pages. It should be written last and should summarize each point of the presentation.

A private placement memorandum and prospectus should be written in full narrative form.

Outline for a business plan for financing – PowerPoint presentation...

- Cover
    - Name
    - Location (address, phone number, website URL)
    - Principal (name, title, phone number, email address)
    - Tag line with supporting works (just a few) that explain exactly what the venture does (summary of value proposition)
- Team
    - Top members
    - Exact roles
    - Supported by specific relevant background
- Overview
    - Value proposition – the benefit provided to customers for a specific need
    - Target markets
    - Current status
        - ♦ Launch date
        - ♦ Customers
        - ♦ Financing to date
        - ♦ Financing required going forward
- Problem/opportunity
    - Why there is a problem
    - What the problem is
    - What is the market and how big is it
    - Factors that define the size and scope of the opportunity

- Solution
    - What solution specifically is being offered to whom
    - How is the solution delivered
        - Through an existing supply chain
        - By disrupting the marketplace
    - How does the solution compare to that of competitors?
        - Benefit
        - Cost
        - Features
    - Are end-users distinct from buyers?
- Benefits
    - What are the benefits
    - Who are the beneficiaries
    - When are they realized, and by whom?
- Intellectual property
    - Duplication prevention
    - Proprietary protection
    - Unique domain expertise
- Competitive advantage
    - In markets
    - By product and/or service features
    - Barriers to entry
- Marketing strategy
    - By segment
    - By channel

- Business/revenue/cost models
  - Assumptions
  - Pricing (unit)
  - Cost of revenue at price points
  - Sensitivity and sustainability of differing assumptions
    - ♦ Competitive pressure on price
    - ♦ Supplier pressure on cost
    - ♦ Longer sales cycles
- Financial projections (in the context of the marketing strategy)
  - Assumptions
    - ♦ Transaction volume
    - ♦ Revenue
    - ♦ Cost of revenue
    - ♦ Operating expenses
    - ♦ Capital expenditures
    - ♦ Growth rates
  - 3 – 5 year projections
- Financing requirements – reconcilable to financial projections
  - Rounds, timetable, and milestones
  - Deliverables to date
  - Measures of accomplishment by deliverable
- Summary
  - Restate the value proposition with benefits and features
  - Reinforce the tag line

Outline for a business plan for financing – detailed document...

- Management team
  - Roles and responsibilities
  - Qualifications
- Enterprise overview
  - Position within the industry
  - Values
  - Mission
  - Vision
  - Value proposition
- Needs opportunity
  - Situation in the marketplace
  - Complication that makes the situation difficult
  - Problem to be addressed
  - Solution offered by the enterprise
- Markets and market segments
  - Size and growth potential
  - Evidence of readiness and awareness
  - Position in the supply chain
- Products and/or services
  - Value and benefits
  - Functions and features
  - Differentiators
    - ♦ Distinctive features
    - ♦ Proprietary functions

- Research and development
  - Capability
  - Intellectual property
  - Protection
  - Feasibility study results
    - ♦ Proofs of concept
    - ♦ Prototypes
- Competitive strategy
  - Advantage
  - Competition
  - Barriers to entry
- Business and revenue/profit models
  - Product pricing and projected and forecasted volumes
  - Cost of products sold
  - Operating expenses
  - Operating profit
- Marketing strategy and action plans
  - Channels
  - Alliances and partnerships
- Operations strategy and action plans
  - Insourced activities
  - Outsourced activities
- Finance strategy and action plans
  - Amount of financing and for what purpose
  - Schedule of total financing and investor rounds

- Financial plan
    - Assumptions
    - Projections and forecasts
    - Milestones for key events and accomplishments
    - Constraints
    - Risk factors
    - Contingencies

- Investment opportunity and exit strategy as supported by term sheet

Elevator pitch...

Elevator pitch outline (30 seconds):

- Problem statement

- Solution statement

- Name

- Affiliation

For example:

“It's sad but you know that most business plans don't get financed. We have developed a way for all business plans to get financed from vision to value every time. Fred Bloggs – Business Plans Unlimited.”

Note: present a business card in “Asian” style facing the recipient with both hands; receive a business card from the recipient with both hands – read it, and comment on the credentials.

Term sheet...

Investor financing term sheet outline:

- Amount of financing requested
- Description of ownership interest
- Deal structure
- Capital structure of enterprise
- Sources of funds
    - Amount of financing raised to date in prior rounds
    - Amount of financing anticipated in future rounds
- Uses of funds

DUE DILIGENCE CHECKLIST

The due diligence package is a set of documentation prepared by an enterprise for review by potential investors and lenders. It can also be used for establishing a baseline for strategic planning and profit improvement initiatives.

The checklist for the package includes:

- Enterprise
  - Governance
    - Legal form of holding entity and subsidiary entities
      - Articles of incorporation
      - Charter
      - By-laws
      - Certificate of incorporation
      - Certificate of good standing
        - State of incorporation
        - Foreign authorizations
    - DBA/fictitious names
    - Tradenames
    - Licenses and authorizations
      - Business
      - Professional
      - Sales and use tax

- Management
  - Major shareholders
  - Directors
  - Officers
- Relevant board minutes and resolutions
- Organization charts

- Capitalization
  - Equity capital
    - Schedule of shares authorized, issued, outstanding , and float by class and series
    - Schedule of shareholders
    - Schedule of warrants and options and vesting schedules
    - Stock purchase agreements
    - Stock warrant agreements
    - Stock option agreements
      - √ Qualified
      - √ Non qualified
    - Restricted stock agreements and vesting schedules
    - SEC filings
  - Debt capital
    - Schedule of debt
    - Schedule of debt holders
    - Indentures

    - ♦ Schedule of assets
        - ➢ Inventory
        - ➢ Investment capital assets with appraisals
            - √ Facilities (land and buildings)
            - √ Equipment

- Plans and reports
    - ♦ Strategic
    - ♦ Business plan for financing
    - ♦ Operational
    - ♦ Financial
    - ♦ Private placement memoranda
    - ♦ Prospectuses and registration statements
    - ♦ Audited or compiled financial statements
    - ♦ Annual reports to shareholder investors
    - ♦ Schedule of key:
        - ➢ Employees
        - ➢ Customers
        - ➢ Suppliers
        - ➢ Investors
        - ➢ Competitors

- Intellectual property
    - ♦ Patents
    - ♦ Trademarks, trade names, and service marks
    - ♦ Copyrights
    - ♦ License agreements
        - ➢ Licensed from
        - ➢ Licensed to

- Research and development
  - ♦ Description of capability
  - ♦ Feasibility studies and proofs of concept
  - ♦ Major projects
- Marketing and product materials and descriptions
  - ♦ Articles and press releases
  - ♦ Brochures
  - ♦ Advertisements
  - ♦ Websites
  - ♦ Product specifications
  - ♦ Warranties and service contracts
- Insurance
  - ♦ Schedule of carriers and policy premiums, terms, limits, claims and settlements
  - ♦ Key man
  - ♦ Director and officer
  - ♦ Business liability
  - ♦ Product liability
  - ♦ Property and casualty
  - ♦ Errors and omissions
  - ♦ Workers compensation
  - ♦ Health
  - ♦ Self insurance through a captive insurance company
- Litigation
  - ♦ Pending actions
  - ♦ Orders, decrees, and judgments

- Merger and acquisition activity
    - Business valuations
    - Outstanding offers
    - Rejected offers
- Professional service providers
- Relationships
    - Attorneys
    - Accountants and auditors
    - Consultants
    - Financial institutions
        - Commercial banks
        - Investment banks
        - Insurance companies
        - Finance companies
    - Marketing and public relations
    - Factoring companies
    - Collection agencies
- Strategic alliances
    - Joint ventures
    - Distributor relationships
    - Insourcing and outsourcing

- Employees

    - Schedule of employees
    - Schedule of compensation and benefits
    - Profit sharing and pension plans
    - Labor agreements
    - Employee loan agreements
    - Contracts
    - Employee handbook
    - Job descriptions

- Customers

    - Receivables

        - ♦ Schedule of aged receivables
        - ♦ Schedule of customers, terms, amounts owing., and guarantors
        - ♦ Schedule of leases

    - Proposals and major orders outstanding from

    - Contracts

    - UCC filings

- Suppliers
  - Credit and leases
    - ♦ Schedule of aged payables
    - ♦ Schedule of creditors, terms, amounts owing, and guarantees
    - ♦ Schedule of leases
    - ♦ Contracts
      - ➢ Unsecured debt and short-term borrowings
      - ➢ Secured debt
        - √ Real-estate
        - √ Vehicles
        - √ Other
      - ➢ Leases
        - √ Operating
          - ⇒ Vehicles
          - ⇒ Other equipment
          - ⇒ Facilities
        - √ Capital
  - Proposals and major orders outstanding to
  - UCC filings
- Investors
  - Debt
  - Equity

- Regulators

  - Tax filings

    - ♦ Income tax returns
    - ♦ Employment tax returns
    - ♦ Sales and use tax returns
    - ♦ Property tax returns
    - ♦ Tax audit reports

  - Other regulatory reports

    - ♦ Environmental
    - ♦ Professional

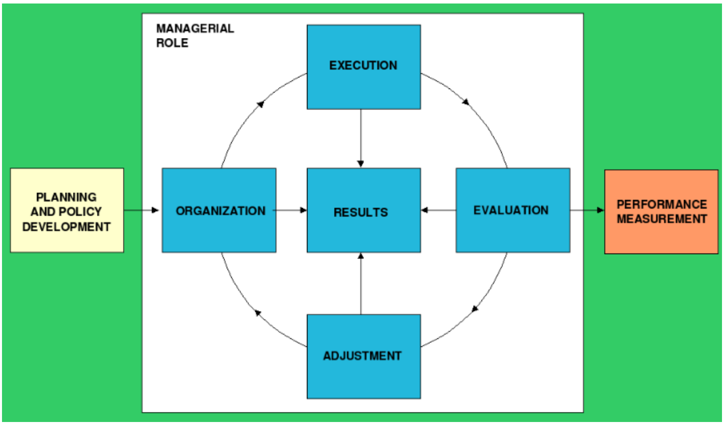
FINANCIAL PERFORMANCE MEASURES

Of interest to lenders, investors, and management

Lenders, investors, and other interested parties review financial measures of performance of enterprises for making credit, acquisition, and divestiture decisions. These measures are also of interest to regulators, such as taxing authorities, who use them for trend analysis.

If lenders, investors, and regulators are reviewing certain measures of financial performance of an enterprise, then management must be also.

The managerial role is about applying resources to activities to achieve results, and is conducted within the context of planning and policy development and performance measurement activities.



As activities are executed, management should be evaluating performance and making adjustments accordingly.

Financial performance for competitive advantage

Each industry has a set of fundamental economic characteristics that determine its growth and profitability. Financial performance measures should be used to determine how an enterprise can outperform competitors based upon asset performance, profit, and cash flow advantages.

Growth is measured in terms of increase in the size and share of the market.

Profitability is measured in terms of prices and economic costs which include the cost of capital and the extent to which a differentiated product can attract a premium price over a market commodity.

"Steady state" is where the residual value of the enterprise grows at a stable rate.

Basis for profitability

Accounting profit equals net income – the generally accepted accounting principles (GAAP) basis for comparison of enterprises in the same and different industries. Net income consists of operating income and gains from investment asset sales less income tax expense.

Economic profit equals accounting profit less opportunity cost of capital – value created in excess of an investor's required return.

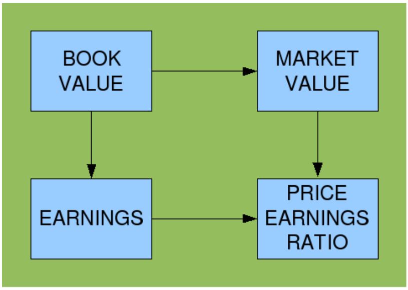
EBITDA – a hybrid between net income and cash flow – a tool used when evaluating enterprises independent of their balance sheet structures – especially useful in asset sale situations.

Most measures are expressed as ratios.

Note that some measures apply only to publicly traded enterprises, unless equivalents can be obtained based upon valuations, or from an actual or assumed offer.

Value

Price to earnings (PE) ratio – measures how much an investor is willing to pay for earnings:



- Price per share
- Divided by earnings per share (net income after tax)
  - Average shares outstanding
  - Fully diluted (all options and warrants exercised)

Note: it is useful to compare a PE ratio to the interest rate on an annuity at a certain level of risk.

For example: a PE ratio of 20 is equivalent to 5% simple interest, assuming the same level of risk.

Price to book value ratio – measures market value as a ratio of equity capital (paid-in, retained earnings, and repurchased) on a "GAAP basis":

- Price per share
- Divided by book value

Price to sales ratio – measures volatility in cyclical enterprises:

- Price per share
- Divided by sales per share

Price to operating cash flow ratio – valuation based upon operations:

- Price per share
- Divided by operating cash flow (cash provided by operations – net income plus depreciation expense plus amortization expense unadjusted for accruals and deferrals)

Profitability – measures an enterprise's overall effectiveness in business development and operations

Return on sales revenue – gross profit margin:

- Gross profit on sales revenue
- Divided by gross or net sales revenue

Return on sales revenue – operating profit margin:

- Operating profit
- Divided by gross or net sales revenue

Return on sales revenue – net profit margin:

- Net income (net profit)
- Divided by gross or net sales

Net interest margin:

- Net interest income
- Divided by average interest earning assets

Return on equity:

- Net income
- Divided by total average equity

Return on financial capital (enterprise from an investee's context):

- Net income

  Or: net operating profit after taxes (NOPAT)
- Divided by: average financial capital

Return on invested capital (enterprise from an investor's context):

- Net income

  Or: net operating profit after taxes (NOPAT)
- Divided by: average invested capital

Risk-adjusted return on capital:

- Economic return on capital
- Divided by economic capital

Return on assets:

- Net income
- Divided by total average assets

Retention (in the context of investments):

- Increase in the value of an investment:
  - Expressed as a percentage per annum
  - Or: expressed as a annual percentage yield (incorporating the effect of compound interest)(

Return on investment:

- Net benefits equals: benefits less costs
- Divided by: costs

Or:

- Present value of future returns discounted at cost of capital
- Less: cost of investment

  Note: the full cost basis of the asset should be included in the calculation

Capitalization rate:

- Net operating income
- Divided by cost or value of income producing asset

Retention rate:

- Net income less dividends
- Divided by: net income

Reinvestment rate:

- Retention rate
- Multiplied by: return on equity

Dividend yield:

- Annual dividend per share
- Market price per share

Dividend payout ratio:

- Annual dividend
- Divided by net income

Contribution margin:

- Sales revenue less variable expenses
- Divided by sales revenue

Liquidity – measures an enterprise's ability to meet its short-term obligations

Current ratio:

- Current assets
- Divided by current liabilities

Quick test (2 or greater for liquidity strength):

- Current assets less inventory
- Divided by current liabilities

Leverage – measures the extent to which an enterprise has been financed by debt

Debt to equity ratio:

- Debit capital (capitalization ratio)

  Or: long-term debt (debt capital and other debt)

  Or; long-term debt plus short-term debt

  Or: long-term debt plus short-term debt plus short-term borrowings

- Divided by equity capital (total equity)

Liabilities to equity ratio:

- Total liabilities
- Divided by total equity

Financial leverage:

- Total assets
- Divided by total equity

Operating leverage:

- Percentage change in operating income
- Divided by percentage change in sales

Interest coverage (1.5 or greater to be able to cover interest expense):

- Earnings before interest and income tax or EBITDA
- Divided by interest expense

Funded debt – measure of debt service (ability to repay debt) financed by financial institutions:

- Long-term debt

  Or: long-term debt plus short-term debt

  Or: long-term debt plus short-term debt plus short-term borrowings

- Divided by EBITDA

Activity – measures how effective an enterprise is using its resources

Inventory turnover – measures how many times inventory is replaced in a given period, indicating the degree to which inventory includes slow moving items:

- Sales revenue

  Or: cost of products sold

- Divided by average inventory

Asset turnover – measures sales or total revenue generated by assets – hence the usefulness of assets:

- Sales revenue

  Or: total revenue

- Divided by fixed assets

  Or: total assets

Average collection period – measures average time period for which receivables are outstanding:

- Accounts receivable
- Divided by average daily sales

Turnover (UK)

- Sales revenue

  Or: resources used

- Divided by resources available

Efficiency:

- Cost and expenses

- Divided by revenue

Solvency – measures an enterprise's ability to meet its obligations as they come due

Equity to assets ratio:

- Total equity

- Divided by total assets

Debt to assets ratio:

- Long-term debt

  Or: long-term debt plus short-term debt

  Or: long-term debt plus short-term debt plus short-term borrowings

- Divided by total assets

Profitability analysis

DuPont Model:

- Return on equity
- Equals financial leverage multiplied by return on assets
- Return on assets
- Equals asset turnover multiplied by net profit margin

Market

Market share:

- Number of relationships
- Divided by total number available

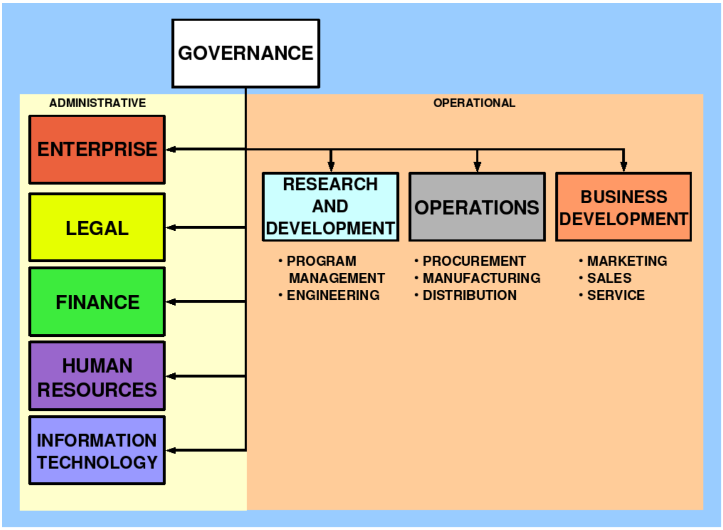
ENTERPRISE FUNCTION MODEL

The Enterprise Function Model is generic and applies to all enterprises in every industry, both product-driven and service-driven. It represents the highest level functions within an enterprise.

This material provides background on the model and includes:

- Overview of functions
- Functional responsibilities
- Terminology

Overview of functions



The Enterprise Function Model is generic and applies to all enterprises in every industry, both product-driven and service-driven. It represents the highest level functions within an enterprise.

A function is a group of knowledge-related (subject area) activities that have a purpose.

The model includes a manufacturing function, for which there is usually an equivalent in non-manufacturing industries. In its de minimis form, it consists of assembling and packaging. In its most significant form, it comprises fabrication, with all of the related processes, such as cutting, milling, and machining of metals, glass, plastics, and wood.

For example, the equivalent in the food services industry is the food preparation function. The equivalent in the construction industry is the project management function. Even the gift wrapping activity within a department store, with both assembly and packaging activities, is equivalent to a manufacturing function.

The equivalent in non-product industries is delivering the service itself. For example, in airline industry, the equivalent is providing the transportation, and all of the support that accompanies it, such as managing baggage and serving meals. In the hospitality industry, the equivalent is providing the accommodation, with all the support, such as room service, newspapers, internet, etc.

In both product-driven and service-driven industries, there is always a service function within the business development activities related to the sale itself, such as handling complaints, exchanges, returns, etc.

It makes no difference whether the functions are insourced or outsourced – they are all represented within the Enterprise Function Model.

The scope of the functions varies by industry.

Whereas all enterprises have a research and development function to some extent, those in industries that are heavily dependent upon intellectual property will have a more extensive function than those that don't.

For example, in a lifestyle business enterprise, the owner may perform most research on their own or with limited assistance; in an upwardly mobile enterprise in the pharmaceutical industry, entire departments will perform research. Nevertheless, for the enterprise to be sustainable, there must always be some form of research and development.

The Enterprise Function Model is intended to provoke thoughts on how functions should be deployed.

Functional responsibilities

- Governance (board of directors and chief executive offer or equivalents in business entities other than corporations)

- Administrative functions

    - Enterprise (support to the Governance function)

        - ♦ Planning and policy development
        - ♦ Performance measurement
        - ♦ Investor relations
        - ♦ Government affairs
        - ♦ Brand management
        - ♦ Community relationships
        - ♦ Real estate
        - ♦ Philanthropy
        - ♦ Ombudsman (segregated duty)
        - ♦ Internal audit (segregated duty)

    - Legal

    - Finance

        - ♦ Treasury – liquidity and capital management
        - ♦ Controller – accounting and reporting

    - Human resources

    - Information technology

- Operational functions
    - Research and Development (market, product, infrastructure)
        - Program management
        - Engineering
    - Operations
        - Procurement
        - Manufacturing (or industry equivalent)
        - Distribution
    - Business Development
        - Marketing
        - Sales
        - Service

The research and development activity is both a process and a function. It is a process because it has end-to-end activities; it is a function because of the depth and breadth of functional knowledge and technical skills necessary within the discipline.

Research and development is a cross-functional activity that involves stewards from all disciplines. The only full-time members of a research and development function are program/project managers and engineers.

Note: the terms "engineer" and "engineering" are generic. In some industries, such as the pharmaceutical industry, the engineers include doctors and scientists.

All other participants are loaned from other areas within the enterprise. An assignment in the research and development should be part of any career development plan that involves rotation through various functions of the enterprise.

Large information technology projects should always be performed in the research and development Function because they affect markets, products, and infrastructure, and hence require cross-functional involvement.

In the early stages, the leadership of such projects can be a representative from an administrative function or an operational function depending upon scope and objectives.

In the latter stages, as the emphasis shifts to more technological disciplines, the leadership can shift to a representative from the Information Technology Function.

The leadership of such projects, should always include a cross-functional steering committee, that acts as a board of directors, and a program/project office that acts as a controller.

Very large initiatives, such as programs resulting from strategic plans, may have substantive market, product, and infrastructure components, of which information technology is only one component.

If systems development is not a core competency of the enterprise, which in most cases it is not, it should be outsourced to a systems integrator that has the pre-requisite knowledge and skills.

Terminology: "operating," "operations," and "operational"

As in so many cases, terminology is not used consistently in business between one discipline and another.

In this material, the term "operations" means the function that procures materials and supplies, manufactures products (or equivalent), and distributes them to channels.

In this material, the term "operational" means the activities of three functions:

- Research and Development
- Operations
- Business Development

Consistent with accounting convention, the term operating is used in conjunction with cash flows from all activities except financing and investing – this includes all operational activities and all administrative activities. Cash flows from financing and investing activities relate to the funds flows, not the cost of the activity associated with generating the funds flow.

The Chief Operating Officer has responsibility for the operational activities (versus the administrative activities) of the enterprise. The Chief Operations Officer has responsibility for the procurement, manufacturing, or equivalent, and distribution activities of the enterprise.

Terminology: "distribution" and "delivery"

The term "distribution" means the movement of products between suppliers and plant and warehouse facilities of the enterprise, and channels.

The term "delivery" in the context of product and service delivery means providing products to customers and rendering service at the point of sale (or shortly thereafter).

TERMINOLOGY

The omnibus language of value...

The *omnibus language of value* comprises a broad set of vocabulary related to enterprises, entities, individualpreneurship, and enterpriship (entrepreneurship, leadership, and management).

The word "value" means something of worth or usefulness. Language has evolved around this word over time within the disciplines of entrepreneurship, leadership, and management that is valuable to know.

Absorption costing

- Absorbing expenditures for costs and expenses as capital
- Absorbing manufacturing costs and expenses into inventory assets as product costs

Activity-based costing

A method of determining product and/or services costs based upon cost of resources that events and activities use, and the cost of objects that use activities

Added value

The difference between the exchange value earned for an item and the actual cost of the work performed and the direct materials and supplies – added value is analogous to gross profit

Adjusted earnings

- EBIT – earnings before interest and income taxes

- EBITDA – earnings before interest, income taxes, depreciation and amortization

Advance

To supply money or products and/or services on credit

Advantage

- Favorable
- Superior
- Beneficial

Amortization

An expense that relates to intangible assets, and is in effect the charge for "loss of relevance" over time – in effect, the development cost of the intangible asset expires over time

Aptitude

Suitability for activities

Architecture

An organized framework of policies, principles, standards, models, and methods

Art

An discipline that requires both knowledge and skills

Aspiration

- Dream of a future state

- May be hard or impossible to achieve from the current state of affairs without higher order effects kicking in

Aspirational advantage

- Stated values and enacted values are consistent
- Loyal relationships with constituencies

Aspirational statement

Long-term statement of direction, augmented by near-term vision

Assets

- Items owned by the enterprise, or items owed to the enterprise, and due from constituencies
- Represent economic opportunities

Associate

Employee in a non-managerial capacity (supervisor or staff) – nevertheless, such an individual may hold leadership positions

Attitudes

States of mind or dispositions that cause an individual to act or react in a certain way towards an event, activity, or information

Base labor rate

Wage or salary

Behaviors

Any forms of action or reaction – usually defined by society or culture

Belief

Something that is accepted as true, or placing trust or confidence in another thing

Board of directors

- In the United States – responsible to the shareholder investors for the performance of the enterprise

- In Europe (and elsewhere) – responsible to both the shareholder investors and the employees (in some cases to employees before shareholders – especially those enterprises that have high employee ownership)

Book value of assets, liabilities, and an enterprise

The value at which assets and liabilities are carried on a statement of financial position of an enterprise.

A statement of financial position shows the value of assets (resources for opportunities) and liabilities (obligations) at a point in time. The difference between the value of total assets and total liabilities is the owners' equity in "for profit" businesses, partners' capital in partnerships, and net assets in "not-for-profit" associations, or government entities. Equity is also referred to as net worth.

Net asset value is also the difference between the value of total assets and total liabilities less an adjustment in some cases for certain intangible assets that do not provide for economic opportunities in the future.

The basis for the valuation of assets and liabilities is determined by purpose according to financial, managerial, and regulatory accounting policies and principles. "Generally Accepted Accounting Principles" are promulgated by bodies designated by the American Institute of Certified Public Accountants.

For assets, valuation is based upon fair value when it is necessary to mark-to-market, or historical cost less depreciation, amortization, depletion, or impairment. For almost all liabilities, valuation is based upon fair value.

In theory, the book value of an enterprise represents what the shareholder investors collectively would receive in the event of a liquidation (less the costs to liquidate). However, the market value of the assets and liabilities may differ significantly from book value at liquidation.

Bootstrapping

Financing growth internally from retained earnings as opposed to raising additional financial capital from external sources

Breakeven

Revenue equals costs and expenses

Sales revenue breakeven analyses address cost, volume, and profit relationships

Breakeven point

- A major milestone when reached – an opportunity for *permanence*

- Breakeven point occurs when revenue equals costs and expenses (including the expense of assets: depreciation and amortization)

- Cash breakeven does not include depreciation and amortization

- Breakeven calculations performed on a period basis, such as daily, weekly, monthly, quarterly, and annually, or on a cumulative basis since the beginning of a measurement period (including inception)

- Period calculations are useful when seasonality and cyclicity can impacts performance

Building sustainable advantage

- Considering sustainability responsibly in all decision making:
    - Environmentally
    - Economically
    - Socially
- Meeting the needs of both current and future generations
- Gaining a beneficial position that will continue over time from:
    - Aspirational advantage (with employees, customers, suppliers, and investors)
    - Competitive advantage (against competitors)
    - Collaborative advantage (with customers, or suppliers, or peers)
    - Cooperative advantage (with customers, or suppliers, or peers)
- Achieving performance excellence

Building sustainable advantage from vision to value

Activities required to build a position that is

- Responsible
- Meets both current and future-oriented needs
- Advantageous

from the creation of a vision to the delivery of the resulting value on an ongoing basis

Budget

- An annualized enterprise financial plan at a working level of detail

- Translation of strategic plans, tactical plans, operational plans, and financial plans into specific period-based financial and non-financial goals

Burn rate

Negative cash flow during a defined period of time

Business

- As a discipline – delivering a product and/or service to a customer for a profit

- As an entity:

    - Sole proprietorship (individual)
    - Partnership (pass-through):

        - ♦ General
        - ♦ Limited
        - ♦ Limited liability

    - Limited liability company (pass-through as a partnership or as a "Subchapter S" corporation)

    - Corporation:

        - ♦ General ("Subchapter C")
        - ♦ Pass-through to individuals ("Subchapter S")
        - ♦ Professional – pass-through to individuals
        - ♦ Foreign

Business-as-usual

Continuing with the status quo without regard to future potential or improvement

Business owner

Lifestyle business enterprise owner

Business plan for financing

Abstracts of strategic and tactical plans, specifically aimed at raising capital from third-party investors

Capabilities

The capacities and abilities of people, processes and functions, and products and/or services to realize potential quality and value

Capital

- Resource used to generate income from economic activity
- Wealth from which income is derived

Capital – debt

Money loaned for a fixed period of time at a certain interest rate (fixed or variable):

- Bonds
- Commercial mortgage loans
- Debentures
- Long-term loans (more than one year)
- Notes

Note: when issued, long-term debt has a maturity of more than one year – however, from an accounting perspective, the short-term portion (one year or less) is classified as a current liability.

Capital – equity

- Money contributed from shareholder investors (owners) as evidence of their investment and ownership position in an entity in the form of shares of capital stock:

    - Preferred
    - Common

- Sole proprietorship (individual)

- Shares of stock are authorized by the articles of incorporation and issued to shareholder investors

- Outstanding shares represent the difference between shares issued and shares that have been repurchased as treasury stock

- The structure of equity capital consists of:

    - Capital stock

        - ♦ Paid-in capital at par or stated value
        - ♦ Additional paid-in capital in excess of par or stated value

    - Retained earnings

    - Other comprehensive income – unrealized gains and losses

    - Less: treasury stock

- Equity represents the residual interest in assets (after liabilities have been settled)

- Investors may receive distributions of equity in the forms of dividends and the return of paid-in capital under certain circumstances

- If sales or transfers of the capital stock is not restricted, a shareholder investor may sell shares to another investor at a price (value) that may be a multiple or fraction of the book value of the equity- this price can be expressed as a multiple of earnings

Capital – financial (capitalization)

Money (or monetary equivalents and property) invested in an enterprise in terms of its debt and/or equity capital (invested in the associated legal entity or in the holding entity if a multi-entity structure) – financial capital is employed as investment capital and operating capital

- If the entity is a corporation, then the financial capital is classified as debt capital and equity capital as appropriate

- If the entity is a partnership, then the financial capital is classified as partners' capital

- If the entity is a limited liability company, then the financial capital is classified as members' capital

Note: some types of preferred stock are a hybrid of both debt capital and equity capital.

Capital – human

The application of individuals to the economy, and their characteristics in terms of their ability to be economically productive for themselves, and the enterprise with which they are associated, either as an employee or as an independent contractor

Capital – intellectual

Knowledge that provides an advantage and must be protected

Note: intellectual capital has a perceived market value, although such value cannot be recorded in the financial statements prepared according to GAAP - the perceived value is based upon the net income (as discounted cash flows) that the intellectual capital has the potential to generate in the future.

Capital – invested

- Investors' investment in an enterprise, i.e., their share of the financial capital of an enterprise

- An enterprise's position in certain capital assets, including investments in other enterprises

Capital – natural

- Anything related to the environment invested in or used by the enterprise

- Initial source of all raw materials

Capitalization

The book value of the equity of an enterprise plus the fair value of its long-term debt (debt capital)

Capitalize

- Broad – to classify the cost of an expenditure as a transfer of capital from one form to another versus an expired cost (expense)

- Narrow – to classify the cost of an expenditure as a transfer of working capital to investment capital assets versus a different form of working capital, or an expired cost (expense)

- To convert an expense to capital (as an asset)

Career

Endeavor of achievements in both personal and professional lives

Cash flow – net

Net income plus depreciation and amortization

Cash flow – operating

Difference between cash provided by operations and cash used by operations, and cash used by financing for the settlement of interest including finance charges

Cash flow – free

Operating cash flow less cash used by investing for purchases of investment capital assets

Causals

Appreciate peace and harmony; creativity and relationships

Challengers

Appreciate energy and excitement; action and adventure

Change

To replace one thing or state by another, thus making it different

Channel

Method through which products are distributed and sold

Coaching

Providing guidance on entrepreneurship, leadership, and management

Collaborative advantage

Relationships between suppliers, or customers, or peers:

- As a partnership with a common mission
- Operating dependently for mutual value

Commitment

- Pledge
- Engagement

Commitment to becoming an ongoing concern

- Mindset shifts from valuing the enterprise on the basis of assets (start-up/early stage)...

- ...to valuing the enterprise on the basis of reasonably achievable discounted cash flows (emerging or growth stages)...

- ...based upon a positive response from the marketplace

Commodity

A product that is indistinguishable and interchangeable with another product of the same type because there is little to no value added

Most commodities are natural products, such as produce, minerals, and oils

Community-at-large

- Geographic:

  - Local
  - Regional
  - National
  - Continental
  - Global

- Demographic - segmenting populations into different groups, such as age, gender, occupation, and income

- Psychographic – segmenting populations based upon lifestyle, activities, opinions, beliefs, and interests – can be measured in terms of frequency, recency, location, and value of transactions

Competence

- Knowledge (functional)
- Skills:
    - Personal:
        - ♦ Intra
        - ♦ Inter
    - Professional/technical

Competitive advantage

Position and posture that offers constituencies better value than competitors

Constituencies

Constituencies are the parties with whom an enterprise has relationships for the purpose of earning revenue:

- Primary
    - Employees
    - Customers
    - Suppliers
    - Investors
- Secondary
    - Regulators
    - Competitors
- Community-at-large

Constituency – investors

Providers of capital

- If the entity is a sole proprietorship, the investor is an individual
- If the entity is a partnership, the investors are partners (and owners); if the entity is a limited liability company, the investors are members (and owners)
- If the entity is a corporation, debtholder investors are the providers of debt capital and stockholders are the providers of equity capital issued in shares of capital stock – stockholders are also referred to as shareholder investors

Constituents

Members of a constituency class

Cooperative advantage

Relationships between suppliers, or customers, or peers:

- As an association with a similar mission
- Operating independently for mutual value

Cost

- Exchange value bid by a buyer for an item or or price paid when accepted
- Value that must be given up in order to acquire a product and/or service

Cost and expenses

Costs absorbed in products and/or services (expired product and/or service costs) and expired operating costs (period costs)

Cost and expenses – fixed

Fixed costs and expenses tend to remain constant regardless of variations with quantities and volumes of activity

Cost and expenses – indirect (overhead)

- Cost and expenses not directly attributable to specific materials and supplies, people, processes, and products and/or services, but allocable based upon a formula or transfer priced/charged

- Indirect costs are *overhead* at a specific organizational unit level, and are hence uncontrollable at that level and below

  Note: both costs and expired costs are allocatable or chargeable at specific organizational unit levels , such as the plant, or the product lines, business lines, business units, and the enterprise itself.

Cost and expenses – variable

Variable costs and expenses tend to fluctuate in amounts in accordance with variations with quantities and volumes of activity

Cost and expenses – semi-fixed/semi-variable

Cost and expenses that have fixed and variable components

Cost – controllable

A cost controlled at a specific level of organizational unit

Cost – direct

Cost directly attributable (and hence traceable) to a specific organizational unit, or materials and supplies, people, processes, and products and/or services

Note: direct costs that are associated with a measure, such as a quantity or time, do not expire – hence they may be expressed as a cost per unit, which may include time per period.

Cost – marginal

Cost of one extra unit of output

Cost – period

Costs incurred over specific periods of time – period costs are either allocated to products or expire

Cost – process

Costs directly attributable to processes – process costs may be augmented by costs that have been allocated

Cost – product

- Costs directly attributable to products – product costs include period costs that have been allocated for asset-related, employment-related service-related, etc., purposes

- All production cost are product costs; from a managerial accounting and reporting perspective, some selling expenses can be allocated to products as costs of selling

Costs – production

Costs directly attributable to production of products, which may be attributable to individual products or allocatable to products depending on their traceability

Cost – standard

Predetermined rates for labor and material and supplies, and overhead applied to quantities and volumes

Cost – uncontrollable

A cost controlled at a higher level of organizational unit for which a specific lower level cannot negotiate

Cost basis of assets

Total cost of an asset, including its original acquisition (including transportation and taxes) plus value-adding items such as labor and associated period costs

Cost center

An organizational unit that incurs cost, but does not earn profit

Cost driver

An event, activity, or object that incurs cost

Cost of capital (investee)

Exchange value paid for capital at a certain level of risk:

- Debt capital – interest cost (based upon rates and finance charges)

- Equity capital – acquisition cost per share and dividend cost

Cost of capital (opportunity cost for investor)

The rate of return that an investor would otherwise be receive on an investment at the same risk level

Cost of products sold

Costs associated with products sold including labor, materials and supplies, and overhead capitalized in inventory

Cost of sales (revenue)

- Cost associated with sales including cost of products sold, cost of services sold, and other merchandise-related costs

- The cost expires from inventory (expensed) in the period in which a sale is made

Cost of services sold

Cost of services related delivered to service delivery of hard and soft products, and supporting services for which there are contracts, or as performed

Culture

- Knowledge and skills learned from leaders and role models

- Shared values, attitudes, behaviors, beliefs, and that influence further behaviors

Current assets and liabilities

Assets and liabilities that are one year old or less

Data

Raw materials for information – underlying facts and figures about events, items, and people

Depreciation

An expense that relates to tangible assets, and is in effect the charge for "wear and tear" over time – in effect, the acquisition cost of the tangible asset expires over time

Development stage enterprise/entity

An enterprise that is not yet earning substantive revenue because significant effort is being devoted to its organization, and is nevertheless incurring expenses – an enterprise in the development stage should be disclosed as such

Director

An individual elected by the shareholder investors of a corporation to administer the affairs of an enterprise and protect its assets

Discounted cash flow method of valuation

Future free cash flow projections from an investment or the enterprise itself, discounted at an interest rate such as the risk-adjusted weighted average cost of capital

Disposal and exit costs

Costs incurred with activities that alter the scope of an enterprise

Earned value (of work performed)

In project or production work:

- Budgeted cost of work performed at standard or actual rates
- Actual cost of work performed if budgets are not used

Cost of work performed – fully loaded labor cost burdened with product and/or service-related overhead

Earnings from primary operating activities

Earnings from primary operating activities of the enterprise, such as selling products and/or services related to the mission

Earnings from miscellaneous secondary activities

Earnings from secondary operating activities as a consequence of primary activities, such as dividends from equity investments, interest, etc.

Earnings – adjusted

- EBIT – earnings before interest and income taxes

- EBITDA – earnings before interest, income taxes, depreciation and amortization

Economic ecosystem

A system of production, distribution, and consumption of goods for a community (local-to-global) and their environment

Economic profit

Profit above the cost of capital

Economic value

Difference between the exchange value and the cost of value exchanged

Economic value add

The difference between the after tax cash flow generated by an enterprise less the cost of capital deployed to generate the cash flow

Economics

- Production, distribution, and consumption of goods (products) and services
- Factors of production include land, labor, and capital
- Entrepreneurship is the driver of production by integrating land, labor, and capital

Ecosystem

- Derived from "ecological" and "system" to describe life systems
- A community of organisms interacting with one another and with the physical and chemical factors that make up their environment
- In business, the community of organisms (enterprises) form supplier-customer relationships with one another in a marketplace – physical factors includes the products and/or services exchanged, and the chemical factors include the specific transactions between the enterprises over time

Efficiency ratio

Efficiency – ratio of work performed to effort applied

Enterprise

A group of activities (and related juristic persons) intended to produce income organized for:

- Profit as a business of any size and type:
  - Unincorporated or incorporated
  - One or many entities
  - One entity is designated as the "holding entity" in a multi-entity structure
  - Note: an enterprise can incubate an enterprise.
- Not-for-profit associations:
  - Membership groups
  - Public charities
  - Private foundations
- Government agencies

Notes:

1. When an enterprise is referred to as entity, the reference is specifically to the holding entity, unless otherwise specified

2. "Not-for-profit" is a generic term; "non profit" means an entity that has been approved by a taxing authority as being exempt from income tax

3. Not-for-profit does not mean not for revenue

Enterprise owner

Ownership in the holding entity in a group of entities that make up an enterprise

Enterprise segment

Component of a diversified or conglomerate enterprise

Enterprise value

The equity value of the enterprise plus the fair value of its long-term debt plus minority interests in affiliates, less minority interests of affiliates, and cash and cash equivalents

Enterpriship

The process of building enterprises with sustainable advantage, and has a framework of three related disciplines: entrepreneurship, leadership, and management – "Enterpriship" is derived from four words: management, leadership, enterprise, entrepreneurship

Entity (business)

Accounting and tax reporting business structure

Entity (general)

Something that exists either in material or in abstract form

- Something that has properties (characterized by nouns)
- Legal

Entity (legal)

Something in real form:

- Individual
- Corporation

Entrepreneur

Individual who organizes, operates, and assumes risk for an enterprise with the intention of transforming innovative ideas into products and/or services for profit

Entrepreneur – serial

Individual who starts mainly multiple upwardly mobile enterprises and moves on to start others when either a management team takes control and/or the enterprise becomes lifestyle in nature

Entrepreneurial enterprise

- Not yet fully established as an ongoing concern
- May have to rely upon external capital as opposed to bootstrapping to finance future growth (early to late stages)...
- ...and is either in the emerging or growth stages of development (or decline stage, if it cannot institutionalize)

Entrepreneurial role

- Transforming innovative ideas into value
- New business development and continuous improvement
- Process and product orientation

Entrepreneurialism

Innovative attitude within any enterprise – entrepreneurial or institutional

Entrepreneurship

Competency (set of knowledge, skills, and activities) required to start, develop, and assume risk for an enterprise

Environment

An ecosystem consisting of:

- Air
- Water
- Soil, minerals, and oils
- Plants and animals

Equity value

The market capitalization of the enterprise adjusted for the dilution effects of warrants, options, and convertible securities (including bonds and preferred stock) less the conversion costs

Established

- First stage – founded and organized
- Second stage – stabilized – predictable patterns become apparent
- Third stage – permanent – enhancing or maintaining the current position or changing it

Excellence

High quality of results

Exchange

Process of offering an item and receiving another (usually of same or similar value)

Executive

Top line of official management with major areas of authority and responsibility (either functional or business unit)

Expenditure

- Money paid out (in cash or credit)

- Expenditures are either capitalized or expensed – meaning that cost either represents the transfer of capital from one form to another within the enterprise, or expires

Expenses

Portion of costs that have expired during an accounting period:

- Type:
    - Operating (from primary activities)
    - Miscellaneous (from secondary operating activities)

- Classifications (representative):
    - Asset-related
    - Employment-related
    - Service-related (non asset and employment-related)

Note: costs of revenue (sales, products sold, services sold) are expensed in the accounting period when the revenue is generated

Expenses – administrative

- Expenses associated with administrative activities

- From a managerial accounting and reporting perspective, administrative expenses can be allocated to people, process, and product and/or service costs if they are directly traceable

Expenses – general

An expense that is not specifically classified when entered into the accounting and reporting system

Expenses – selling

- Expenses associated with selling products and/or services – i.e., generating sales revenue

- According to generally accepted accounting principles and income taxes, selling expenses expire within the current period

Fair value of an asset or liability

The value at which an asset or a liability could be bought or sold in an arm's length transaction in competitive markets based upon prices without concessions, financing, or incentives, when both the buyer and the seller are informed and are acting for their own best interests without the influence of third-parties; or an estimate when no established market exists

Fair value is also referred to as exit value

Feeling

Emotional response

Financial plan

Translation of tactical and operational plans into financial targets in terms of revenue, costs and expenses, operating capital, investment capital, financial capital, and other sources and uses of funds – proforma set of projected financial statements:

- Cash flow statements
- Income statements
- Balance sheets (statements of financial position)

Financing

The process of raising money:

- Equity capital
- Debt capital
- Other debt

When the enterprise raises and collects the money, the offering is funded

When the enterprise finances another enterprise, the offering is financed

Financing activities (accounting term)

Activities related to raising, issuing, managing, and retiring financial capital (debt capital and equity capital) and non capital debt, including making dividend payments

Fully burdened cost

Cost of a unit burdened by all other direct and indirect-related items – a fully loaded cost of a unit burdened by indirect-related items

Fully loaded cost

Cost of a unit burdened by all other direct-related items

Functions

A group of knowledge-related (subject area) activities that have purpose:

- Governance

- Administrative

  - Enterprise
  - Legal
  - Finance
  - Human Resources
  - Information Technology

- Operational

  - Research and Development
  - Operations
  - Business Development

Future value

Value based upon addition of simple or compound interest to the current value over a period of time

GAAP

Generally Accepted Accounting Principles

Goals

Quantifiable measures of achievement – the "target" is the final goal

Goal – stretch

Higher standard for achievement, such as 115% of base goal

Going concern

GAAP requires an auditor to consider whether an entity can continue as a going concern based upon its ability to meet its obligations – doubt arises from:

- Inability to generate sufficient cash flows from operating activities
- Inability to sell assets to generate cash
- Inability to restructure debt

Goods

Products that meet the needs of buyers in which there is economic value

Governance disciplines

Attitudes and behaviors required to build sustainable advantage from vision to value by taking responsibility for an enterprise, positioning it, and establishing relationships:

- Stewardship
- Strategy
- Structure

Gross profit

- On revenue: revenue less cost of revenue
- On sales: sales revenue less cost of sales

Gross sales revenue

- Total amount charged to customers for products and/or services rendered in the primary course of business before discounts, returns, and allowances

- Sales discounts consist of:

    - Trade: reduction from list price
    - Cash: early payment

Guiding principles

Standards of behavior and directives supporting the values

Higher order effects

- Events or situations that could not have been envisioned or anticipated at the beginning of an endeavor, but become apparent as activity proceeds – providing additional opportunities or threats

- Higher order effects may make it possible to achieve an aspiration after some activity that seemed unachievable when the activity was started – conversely, higher offer effects can destroy any aspiration or vision from ever being achieved

- Expect the unexpected

Holding entity

The entity at the top of an ownership structure – usually referred to as a holding company if a partnership, limited liability company, or corporation – can also be an individual (the individualprise)

Impermanence

The notion that because everything is in a state of flux, nothing lasts forever

Income

Gain accruing over time – financial return on wealth

Income – comprehensive

Changes in equity during a period with the exception of investments by and distributions to shareholder investors:

- Net income
- Other comprehensive income

Income – earned

- For enterprises – net income from all sources
- For individuals – salaries, wages, tips, fees, and grants – i.e., labor related

Income – gross

- Revenues from the delivery of products and/or services
- Gains realized on transactions from:
    - Divestitures/disposals of assets
    - Exchange/translation of foreign currencies

Income – net

Gross income less:

- Expenses from the delivery of products and/or services (including cost of revenue)

- Losses realized on transactions from:

  - Receivables write-downs of write-offs

  - Inventory write-downs or write-offs

  - Divestitures/disposals of assets

  - Exchange/translation of foreign currencies

Operating income plus income from discontinued operations, extraordinary items, and provision for income taxes

Income – operating

Operating profit plus capital gains less capital losses from non-revenue producing activities

Income – other comprehensive

Unrealized changes in equity during a period, with the exception of investments by and distributions to shareholder investors and earnings, due to fair valuation of:

- Financial instruments

- Exchange/translation of foreign currencies

Income – unearned

For individuals – capital gains, dividends, and interest

Individual

A natural person (as opposed to a corporation)

Individualpreneur

An individual who behaves as an enterprise in their own right

Individualpreneurship (individual entrepreneurship)

A discipline, mindset, and activity whereby an individual (the "individualpreneur") behaves as an enterprise in their own right, and is fully responsible for both professional and personal income generation and expense management

Individualprise

The notion of an individual as an enterprise with multiple streams of income from employment, entrepreneurship/business ownership, and investing activities

Industry

A group of enterprises that share common activities, products and/or services and/or common methods of distribution

Information

Data organized in a form that is useful to people

Infrastructure

The set of facilities and equipment, processes and functions (and data) that enable value to be earned and added

Innovation

New or changed/enhanced concepts, such as markets, methods, processes, and products and/or services

Inspirational statement

Highly descriptive and compelling message that impacts mind, body, and soul

Institution

- Government
- Academic/educational
- Philanthropic
    - Benevolent
    - Charitable
    - Humanitarian
- Established enterprise

Institutional enterprise

- Established:
    - Stable – predictable constituency patterns emerging
    - Is becoming *permanent* as a consequence of product and/or enterprise institutionalization
- Becoming, is, or was an ongoing concern
- In the growth or maturity stages of development (or decline stage, if it cannot remain as an ongoing concern)

Internal rate of return

The discount interest rate that makes the present value of all future cash flows equal zero

Intrapreneur

Agent of change within an enterprise who takes the risk to transform an innovative idea into value (or at least start the process)

Intrapreneurial enterprise (intrapreneurial institutional enterprise)

Institutional enterprise that innovates internally that result in new products and/or services and the incubation of entrepreneurial enterprises

Intrapreneurship

Competency (set of knowledge, skills, and activities) required to foster a culture of change within an enterprise so as to keep it sustainable over time

Intrinsic value

Value of free cash flows from the enterprise plus the residual value of the enterprise

Intuition

Looking for meaning through insight and understanding

Invention

A method, process, and product and/or service that has not previously existed (and is somewhat unique)

Investing activities (accounting term)

Activities related to acquiring, managing, and divesting investment capital assets

Item

An asset or a liability, or a product and/or service

Judging

Closure:

- Forming an opinion
- Evaluating a situation

Knowledge

Information that has been learned and retained

Labor rate – base

Wage or salary

Labor rate – fully burdened

Fully burdened labor – fully loaded labor burdened with indirect overhead at the level of burden – employment-related, asset-related, and service-related costs:

- Fully loaded labor
- Indirect overhead
    - Employment-related
        - ♦ Labor
        - ♦ Supervision
        - ♦ Management
    - Asset-related
    - Service-related

Labor rate – fully loaded

Fully loaded labor – compensation burdened with other direct labor costs that are employment-related, and asset-related:

- Employment-related
    - Compensation
    - Benefits
    - Taxes
    - Insurance
- Asset-related
    - Occupancy
    - Individual equipment

Leader

- Sets direction that others will follow through influence with aspirational, inspirational, and motivational statements

- Providing either directive or supportive guidance styles

- Either transformational or transactional

Leader – transactional (micro-level leadership)

A transactional leader establishes either an empowering or power-centric relationship with their followers:

- Empowering – process of migrating from a directive to a supporting style based upon the commitment and competence of followers

- Power-centric – command and control approach to getting results through rewards or punishments

Leader – transformational (macro-level leadership)

A transformational leader enacts change in the environment within an enterprise operates, or within an enterprise itself, or both

Leadership

Competency (set of knowledge, skills, and activities) for aspiring, inspiring, and motivating others (through influence) to get results

Leadership role

- Setting direction that others will follow (through influence) to achieve results

- People orientation

Legal vehicle

The appropriate combination of a business entity and a legal entity with other considerations such as domicile and situs

Liabilities

- Liabilities are items owed by the enterprise, and due to constituencies

- Liabilities represent economic obligations

Lifestyle enterprise

- A small to medium sized enterprise serving the lifestyle needs of a local community

- In traditional lifestyle industries such as, but not limited to agriculture, automotive, contracting, food service, hospitality, travel and entertainment, light manufacturing and/or distribution, professional services, retail, and wholesale

- On a regular cyclical and/or seasonal basis

- Closely held by a single owner, family, friends and/or business associates

- With low to medium risk

Lifestyle (business) enterprise owner

Owner of an enterprise serving local community – may also be the founding entrepreneur:

- As an active owner-manager, making a living from its activities for their own lifestyle

- Or as a passive owner-manager, with a management team in place (but always the ultimate manager performing the role of the governance function)

Note: a lifestyle enterprise owner can be a sole proprietor, partner, member of a limited liability company, or a shareholder investor in a corporation.

Liquid

Having cash or near cash equivalents for the acquisition of assets and/or the settlement of liabilities

Loss

- Capital depreciation

- Plus: expense less revenue

Management – competency

Practice discipline and competency for directing and controlling events and activities

Management – role

Those with authority and responsibility for directing and controlling the events and activities of an enterprise

The *stewards* with the highest levels of authority and responsibility for the enterprise to the *shareholder investors/owners* – directing and controlling events and activities on their behalf – the governance function has ultimate responsibility:

- Board of directors

- Chief executive officer

Management – team

- Board of directors – elected by shareholder investors/owners

- Officers – elected by Board of directors:

    - Executives
    - Other official members of management

- Non-official managers (appointed by officers)

Manager

- Member of the management team
- With a well defined area of responsibility for people, processes and functions, and/or products and/or services
- In a reporting line to an executive
- Either in an official or non-official capacity

Managerial role

- Applying resources to activities to achieve results
- Process orientation

Market

- A set of potential buyers (prospects) and/or actual buyers (customers) and potential and/or actual sellers (suppliers) who are motivated to execute transactions
- Motivated buyers have the desire, want or need, authority, and resources to demand and purchase a product and/or service
- Motivated sellers that the desire, want or need, authority, and inventory to supply and sell a product and/or a service

Market capitalization

- For a publicly traded enterprise, the market price per share of stock multiplied by the number of shares outstanding, including restricted stock, but not treasury stock – a measure of the market's perception of the value of an enterprise and fluctuates as market prices of shares change

- For private enterprises, the valuation has to be appraised because there is no public market for its equity, although there may be investors willing to buy part or all of the outstanding shares.

Market coverage

Breadth of the channels and geographies through which a product is distributed to ensure the maximum reach to customers

Market price

The price at which an item is offered in a marketplace for transactions

Market segment

A division of a market by certain criteria used for targeting specific customers, such as:

- Geographic

- Demographic and/or psychographic

Market share

Sales of a product a percentage of the total sales in the market (or industry) in which it competes, measured by revenue and/or volume

Market value (fair)

The most probable exchange value of an item or price at which an item would trade in an auction environment whereby:

- The buyer and seller are motivated, informed, and acting in their own best interests without pressure
- The market is open to competition
- The price has been offered over time and does not include concessions and incentives, including financing or related products and/or services
- The price is offered for cash (or cash equivalent)

Marketplace

A place where buyers and sellers can meet, either physically or virtually through telecommunications (phone and/or internet)

Measurement

Comparison of an actual result against a standard metric

Mentoring

Providing guidance on subject matter; developing functional knowledge and technical skills

Methodology

A discipline of systematic policies and rules, processes, procedures, an techniques

Metric

A characteristic or item being measured

Migration path (for building a sustainable enterprise)

- From a start-up venture...
- ...to an entrepreneurial enterprise...
- ...to an institutional enterprise...
- ...to an intrapreneurial enterprise...
- ...to a sustainable enterprise...

Mindset and action for change

- Causing change...
- ...or acting as a consequence of change...
- ...thus causing further change

Mission

An aspirational and inspirational statement of purpose, supported by a set of high level objectives and addressing core competencies

Model

A representation of an item as a form or pattern

Motivational statement

Motion for action through:

- Association
- Incentive, such as reward and recognition
- Opportunity for gain
- Threat or fear of loss

Multipreneur

Individual who pursues multiple upwardly mobile and/or lifestyle business activities as a portfolio, either serially or in parallel

Net operating profit after taxes (NOPAT)

Earnings from primary activities without the cost of debt

Net present value

The difference between the present value of future cash inflows and the present value of future cash outflows discounted at a risk adjusted rate of interest:

- The risk free rate is based upon the yield of a riskless investment such as US Treasury Bonds

- A risk adjusted rate is based on the riskless rate plus a risk premium

Net profit (from revenue from products and/or services)

Revenue less costs and expenses

Net purchases

Gross purchases less discounts, returns, and allowances

Net sales revenue

Gross sales less discounts, returns, and allowances

Objectives

Specific realistic statements of direction and intended results in accordance with values, vision, and mission

Officer

An individual appointed by the board of directors to represent the enterprise in an official capacity, and subject to approval authority powers, commit the enterprise contractually, as prescribed in its charter or by-laws

Ongoing concern

An ongoing concern is an enterprise that does not intend to discontinue operating activities

- Has the competence and commitment to:
  - Operate indefinitely, and will not:
    - Become inactive
    - Seek bankruptcy protection
    - Liquidate its assets
  - Earn profit
  - Finance operating and investing activities:
    - Fund itself through seasonal and cyclical downturns
    - Bootstrap organic growth and investment capital asset management
    - Raise expansion and growth capital at attractive rates
- Fosters the entrepreneurial mindset through intrapreneurship
- Avoids business-as-usual

Note: the definition of "ongoing concern" is based upon rational and emotional factors; "going concern" is defined by GAAP.

Operating activities (accounting term)

Activities related delivering products and/or services to customers, and associated activities such as collecting revenues, and settling payables

Operating profit

Gross profit less operating expenses from primary and miscellaneous secondary activities

Operational plans

Address sales and production activities – quantifiable targets for markets, products, and constituencies in terms of growth, share, rates, volumes, quality, and satisfaction

Organization

Generic term for an enterprise, an entity, or a component thereof

Organizational costs

Costs associated with organizing an entity associated with an enterprise

Organizational unit

A component of an enterprise and/or entity subdivided into:

- Functions
- Business units, business lines, and product and/or service lines
- Divisions, departments, and branches

Note: from a managerial perspective, organizational units can cross legal entities.

Overhead

Costs and expenses not directly attributable (but allocable or chargeable) to products and/or services:

- Indirect costs and expenses allocated or transfer priced/charged to products (product-related)
- Operating expenses (enterprise operating-related)
- Financing-related

Owner (business or enterprise)

- Either a possessor of:
  - Capital in a:
    - Partnership
    - Limited liability company
  - Equity capital in a corporation
- Or a sole proprietor

Owner-manager

Actively involved lifestyle enterprise owner

Note: the term “owner-operator” is sometimes used generically; however this term applies more specifically to the trucking-related industries

Organic growth

Growth within existing and new markets from existing and new products and/or services without acquisitions and/or mergers

Party

An entity or group of entities organized for a specific purpose

Pass-through

A relationship whereby the net income of an entity (partnership, limited liability company, or S corporation) is passed through to the owning entities – ultimately individuals

People

Groups of individual persons, either unorganized or organized into teams, organizational units, enterprises, families, households, constituencies, or the community-at-large

- Individuals on their own account
- Individuals as representatives (constituents) of one or more enterprises (employees, independent contractors, and members of the board of directors)

Performance excellence

Doing the right things, and then doing things well in terms of the quantity, rate, volume, and quality of events, activities, and results:

- Aligning:
    - Externally with constituencies
    - Internally with stewards (shared values and vision)
- Exceeding requirements and expectations:
    - Commitment
    - Effectiveness
    - Use (frequency) and utilization (quantity of usage)
    - Sustainability

Note: quantity relates to process inputs; volume relates to process outputs.

Perceiving

Openness:

- Using senses
- Being flexible

Performance

Rate and volume of accomplishment of events and activities, and quality of results

Permanence (in the context of enterprising)

Related to the ability of the enterprise to generate income on an ongoing basis – the notion that there will be a continued set of customers for a product and/or service or an enterprise (in toto) based upon:

- Either the availability of contracts
- Or loyalty and routine, as defined by the frequency, recency, and location of transactions

A requirement for an enterprise becoming an ongoing concern and sustainable

Personal characteristics

Specific characteristics of each individual:

- Intra-personal (self)
- Inter-personal (relationships with others)

Personal Style

Set of personality characteristics

Personality

- External characteristics of an individual that determine values, attitudes, beliefs, and behaviors
- Derived from the Latin work “persona” meaning “mask”

Phase

Phase defines units of work in research and development projects according to a lifecycle development methodology:

- Planning and policy development
- Scoping
- Development
    - Analysis
    - Design
    - Construction
    - Implementation
- Enhancement (uses same activities as development)
- Maintenance
- Performance measurement

Philosophy

To understand:

- Guiding principles for practical activities
- How to capture knowledge
- Ethics
- Aesthetics in design

Philosophy of change within permanence

Addresses the notion that to keep an enterprise as an ongoing concern:

- Permanence principles can only be adhered to by a mindset and actions for change
- Change must be enacted with a clear expectation for the value added that will be earned from the resulting change...
- ...and the performance required to earn it

Philosophy of permanence

A set of guiding principles for keeping an enterprise as an ongoing concern for its constituencies and the community-at-large

Physiology

How living organisms function, especially with respect to human function

Plan

Proposed statement of direction and course of action to achieve a desired result

Policy

Guide to decisions and actions – what to do

Politics

To understand:

- Governance
- Authority and power

Preferences

- Values
- Attitudes
- Beliefs
- Behaviors

Present value (of a set of future cash flows)

The present value of a set of cash flows that will occur at some time in the future

Price

The exchange value offered by the seller for an item or earned based upon an accepted bid

Principles

Assumptions for plans, policies, processes ,and systems
– bases for rules

Process

A group of activities that:

- Takes in one or more kinds of input
- Creates output that is of value:
    - To external constituencies
    - To internal constituencies

Product

- Tangible output from a process that is something of value ("hard product") - an item that meets a customer's want or need
- Products are either component products or end products
- Products are either commodities or value-added

Product and/or service

Refers to either "hard" or "soft" products

Note: service delivery capabilities are assumed to be bundled with both hard and soft products.

Product and/or enterprise institutionalization

- Becoming a permanent feature within society...
- ...as defined by the constituencies within the marketplace...
- ...regardless of whether the founding entrepreneur or lifestyle enterprise owner stays or not

Productivity

Rate at which output is produced

Professional

Individual in an occupation that requires specialized knowledge and skills, who has usually received formal training in such areas as (but not limited to):

- Accounting
- Architecture
- Engineering
- Finance
- Health care
- Human resources
- Information technology
- Law
- Marketing
- etc.

Professional services firm

Enterprise that provides professional services such as accounting, architecture, consulting, engineering, finance, human resources, information technology, legal, marketing, etc.

Proficiency

Advanced state or level of knowledge (breadth and depth) and skills (experience) in a discipline as evidenced by capabilities

Profit

Financial gain

- Difference between sale and purchase price less expenses (capital appreciation)

- Difference between revenue and expenses

Profit center

An organizational unit that earns profit and incurs cost

Psychology

Understanding human behavior

Purchases

Items purchased for the enterprise:

- Materials and supplies to be transformed into products and/or services

- Operating items (service-items) such as operating (business development, research and development, and administrative) and office supplies

Quality

- Perceived value of an item by a prospect or customer at premium or discount from expected or market price or value

- Perceived value is based upon the value proposition, augmented by abundance, convenience, scarcity, and risk

- Minimal defects in research and development, and sales and production

Rate of return

Gain or loss on an investment over a certain period of time

Relationship

An association or connection between parties

Reporting segment

- External reporting segment of an enterprise based an internal segment such as a business unit, business line, or product and/or service line

- Enables investors to review information that management is reviewing

  Note: required by GAAP.

Requirements

Needs and wants

Residual value

- Remaining value after use

- Salvage value

- Trade-in price or value

Revenue

The total amount charged to customers over a period (gross receipts) or per transaction for the delivery of products and/or services (at a certain price), or received from financing and investment activities

- Type:
  - Operating (from primary activities)
  - Miscellaneous (from secondary operating activities)
  - Financing (customers) and investing
- Classifications:
  - Commissions
  - Dividends from equity investments in other enterprises
  - Fees
  - Interest from financing (customers) and investments in other enterprises
  - Rent
  - Sales

Note: interest from financing customers should be classified as operating revenue when it is directly related to primary activities

Retained earnings

Earnings retained in the enterprise for reinvestment (including financing operations in the case of shortfalls) versus earnings paid out to shareholder investors as dividends

Risk

Potential loss of capital

Risk/return profile

The relationship between the risks associated with an investment and the potential return on the investment

Run rate

Rate at which costs and expenses are incurred over a defined period of time:

- Cost run rate represents expenses that can be recovered through sales of products and/or services to customers

- Expense run rate represents operating expenses that are not recovered from sales

  Note: payroll costs and expenses are included in both rates.

Sales

- Specific: revenue from the exchange of products or delivery of services for cash or credit

- General: the result of the exchange of assets, use of assets, and products and/or services for cash or credit

Satisfaction

When expectations meet requirements

Science

Method for systematizing knowledge

Self-reliant

Having confidence to exercise one's own judgment

Sensing

Using the senses to understand reality

Service

Non-tangible output from a process which can be associated with tangible items in three forms:

- Service-oriented product ("soft product") - represented by tangible items that support the service
- Service delivery at the time of sale (or shortly thereafter)
- Supporting service after a sale

Service-oriented product

A non-tangible product represented by tangible items such as, but not limited to: accounts, agreements, brochures, contracts, policies, procedures, relationships, statements, and transactions

Shareholder investor/owner

- Either a shareholder in a corporation (based upon share of ownership)
- Or an owner as a:
    - Sole proprietor
    - Partner in a partnership (based upon percentage of ownership)
    - Member of a limited liability company (based upon percentage of ownership)

Skill

Method obtained by experience and/or training

Social

Community living

Society

- Segment of a community or a group of communities
- Membership group organized for some purpose, including as an enterprise

Sociology

Understanding human social behavior

Solopreneur

An individual who works alone; can also be described as a micropreneur

Stabilizers

Appreciate safety and security; law and order

Stage

Stage defines position in the product or enterprise development lifecycle (which are related), or financing

The migration stages of the product development lifecycle are:

- Research and Development
- Introduction
- Growth
- Maturity
- Decline

The stages of the enterprise development lifecycle are:

- Start-up (no substantive revenue, positive cash flow, or profit)
- Emerging (little revenue, no substantive positive cash flow, or profit)
- Growth
- Maturity
- Decline

The stages in the financing for upwardly mobile enterprises are:

- Seed – for the idea
- Early
    - Research and development
    - Take to market
- Expansion – in production
- Late – market growth
- Mezzanine

Capital investments are made in terms of rounds of financing

A “late stage enterprise” from a financing perspective may be an “emerging or growth enterprise” from a lifecycle perspective

Standard

A reference point used for comparative purposes based upon a definition of behavior, form, or size

Start-up costs

Costs associated with starting an entity associated with a business enterprise, a business line, or a product and/or service line

Stewards

- Collectively responsible for activities and assets of an enterprise
- Employ stewardship competencies and commitment
- Share values and vision
- Collectively have the vision to transform opportunities into value
- Capable

Note: an employee is a steward only if they share the values and the vision of the enterprise.

Stewardship

Responsibility for the performance of an enterprise and the delivery of value to constituencies

Structure

The enabler of relationships between an enterprise's infrastructure, products and/or services, markets, and constituencies that deliver value

Stewardship competencies

- Enabling competencies
    - Entrepreneurial role
    - Leadership role
    - Managerial role
- Domain competencies
    - Functional knowledge
    - Technical skills
    - Enabling technologies
- Core competencies – activities done well

Strategic plan

- Long-term statements of direction – typically three-to-five years or more, with short-term initiatives as necessary from the point of departure to one-to-three years out
- Decisions made in the present about the future

Strategy

The beneficial positioning of an enterprise in the marketplace so as to deliver value over time

Strategy – competitive

Position and posture in both broad or narrow markets with products and/or services that:

- Are differentiated through distinctive and unique features that command premium prices...
- ...or can be offered at discount prices (if desired) as a consequence of being a low cost provider
- Are hard to replicate
- Enable a tight fit between people, processes and functions
- Require high barriers to entry

Strategy – constituency-based

Narrowing the gap between where the enterprise is and where it wants to be with respect to each of its constituencies with:

- Collaborative relationships
- Cooperative relationships

Strategy – enterprise

Aspiration and industry position and posture

Strategy – functional

Strategy for functional disciplines (areas of knowledge and subject matter expertise) and functions

Strategy – performance improvement

- Repositioning in markets and products and/or services
- Restructuring – acquiring or divesting
- Reengineering
    - Efficiency and effectiveness
    - Structure (processes)
    - Strategy (positioning)

Subchapter C Corporation

A corporation that may have an unlimited number of domestic and foreign shareholder investors, and has its net income taxed directly under the Internal Revenue Code

Subchapter S Corporation

A corporation that is limited in the number and type of shareholder investors, and passes its net income through to its shareholders as distributive income for the purposes of taxation under the Internal Revenue Code

Supply chain

Chain of value chains between suppliers of raw materials (suppliers) and users of end-products and/or services (customers)

Sustainable

Being able to continue over time:

- Either by developing, enhancing, or maintaining the current state
- Or by changing it

Sustainability

Being able to provide for current generations without damaging the ability of future generations to provide for themselves

Sustainable development

- Being environmentally, economically, and social responsible
- And promoting sustainability

Sustainable enterprise

- Employs three criteria for sustainability in all decision making – are *the mindset and intended actions* responsible:
    - Environmentally?
    - Economically?
    - Socially?
- Gains a beneficial position that will continue over time by:
    - Either developing, enhancing or maintaining the current position
    - Or by changing it

  To build:
    - Aspirational advantage
    - Competitive advantage
    - Collaborative advantage
    - Cooperative advantage

Enacting change is routine for continuing as an ongoing concern in order to develop, enhance, or maintain earnings

System

- A set of elements forming an entity or unitary scheme whereby each element has a relationship with at least one other
- An integrated set of elements forming a whole organized configuration whereby each element has a relationship with at least one other

Tactical action plans

- Long-term deployment and execution of strategy in *short-term* steps...
- ...with short-term improvements
- Decisions made in the present about the present

Targets

Criteria for achievement of results as defined by intermediate and final goals

Team

Together everyone achieves more

Team members have shared values, vision, mission, objectives, and goals as a team and with the enterprise

Team – self directed

A self-directed team is fully empowered within itself for its results, and will appoint its own leaders

Three waypoints of entrepreneurship

- Transforming an innovative idea into a product or service (as a venture)
- Transforming the product or service into an emerging entrepreneurial enterprise
- Transforming the entrepreneurial enterprise into an institutional enterprise

Three waypoints of intrapreneurship

- Transforming an innovative ideas into a product or service (as an institutional enterprise)
- Integrating the product or service into the enterprise
- Building sustainable advantage

Time value of money

Value of money is higher today than in the future because:

- It can be invested risk free in US Treasury bonds and earn interest, or in a risker investment and earn a higher rate of interest
- Inflation as a consequence of price increases

Tool

Hardware and/or software for performing activities (within methodologies)

Total capital employed by the enterprise

Total uses of funds equals total sources of funds equals total assets – the total assets employed by the enterprise

Total cost of ownership

The total cost of owning an asset (land or product) or a service contract, including a subscription, over its life including:

- Acquisition
- Development
- Enhancement
- Maintenance
- Support
- Disposal

Total value added

The earned value of an item plus the added value

The exchange value earned for an item equals the total value added plus the cost of direct materials and supplies when the actual cost of work performed equals the budgeted cost

If the actual cost of work performed is more than budgeted, then either both the added value and total value added are reduced, or the exchange value earned must increase by the variance to accommodate the loss in value caused by the overrun

Transaction (financial)

An interaction between two or more parties that results in an exchange of value

Stems from an economic event

Transaction (non financial)

Activity that establishes, enhances/updates, or maintains a business relationship

Thinker

Analyzes data innovatively and rationally

Triple bottom line

Triple bottom line is a concept for:

- Environmental reporting
- Economic reporting
- Social reporting

based upon the notion of:

- People
- Planet
- Profits

UNICAP

Uniform capitalization rules (Internal Revenue Code)

Upwardly mobile enterprise

- A small to large enterprise focused on large market dominance (share either industry-wide or in niches) with local-to-global aspiration in traditional or non-traditional industries
- With growth potential from highly innovative people, processes, and products and/or services, and/or duplication of a business system
- Financed by third-party investors (closely or widely held) seeking capital appreciation, and potentially cash flow from dividends and/or interest
- With medium to high risk

Value

Something of worth or usefulness

Value added – economic

The additional value of a commodity over the cost at each stage of production

Value added – perceptual

The value of an item as perceived by a prospect or customer above a baseline for a commodity

Value added – technical

The cost of the effort applied to transform (raw) materials and supplies into a item of greater value, as measured by earned value (the cost of the work performed)

Value chain

- The value added activities that earn value and add value to materials and supplies
- The activities produce a component of a product or a finished product and/or service and deliver it to a customer
- The value chain is defined by a process/function model that maps processes between and within functions – the model represents the plan, whereas the chain represents reality

Value management discipline

- Shared values, vision, and value:
  - Values – common beliefs
  - Vision – of what the community (and the enterprise) can become
  - Value – something of worth or usefulness
- Maximizing value:
  - Enterprise-based – enterprise value:
    - Market value of the equity for shareholder investors
    - Market value of the debt for debtholder investors
    - Less: cash and cash equivalents

- Consistency-based – sharing value above the cost of doing business:

    - ♦ Employees – compensation, career development, and workplace

    - ♦ Customers – product and/or service quality and satisfaction

    - ♦ Suppliers – ease of doing business

    - ♦ Investors – generating returns at hurdle rates above the cost of capital:

        - ➢ Capital appreciation
        - ➢ Interest
        - ➢ Dividends

Value proposition

A statement of benefits and differentiating features for the enterprise and its products and/or services

Values

System of beliefs that:

- Sets expectations for behavior

- Establishes positions and priorities

- Provides a framework for decision making

Variable direct costing – marginal costing

- Fixed manufacturing costs are treated as period costs instead of product costs
- The variable costs are the marginal costs

Variance (finance)

Difference between budget and actual, standard and actual, or prior period and current period

Variance (statistics)

In a population of data points, mean of the squares of the differences between respective data points and their mean

Variance – controllable

A variance that is controllable at that specific level of organizational unit

Variance – uncontrollable

A variance that is not controllable at that specific level of organizational unit – it is controllable at a higher level of organizational unit

Variance – volume

A variance that occurs as a consequence of a difference between budgeted and actual volume

Venture

Start-up or early stage entrepreneurial enterprise (as a opposed to a hobby):

- Start-up (no income):
  - Unorganized
  - Organized as a "development stage entity"
- Early stage of financing
- With an uncertain outcome

A "development stage entity" does not have gross income, or has modest gross income only but with no substantive net income

Vision

Inspirational statement of a future state (reasonably achievable) within the context of a longer term aspiration (dream)

Vision – external

What a community (local-to-global) can become as a consequence of the enterprise's activities and the products and/or services that it offers

Vision – internal

What the enterprise itself can become

Visionaries

Appreciate analysis and ideas; innovation and understanding

Waypoint

- Waypoints are about making the journey – here the term is used to describe the journeys of entrepreneurship and intrapreneurship
- Entrepreneurship is characterized as linear, but in reality is haphazard and highly iterative – intrapreneurship is a iterative process
- The journeys are adventures into the unknown, with the potential for both positive and negative experiences – most learning comes from the negative experiences and the failures that may ultimately lead to success (or not)

Wealth

Abundance:

- As a minimum: enough money (in liquid or illiquid form) to meet an individual's need for life
- At status quo: having enough cash flow to support a life style

Results from a steady cash flow from steady net income, which results from a steady gross income

Webpreneur

An entrepreneur doing business primarily on the internet

Weighted average cost of capital

The cost of capital (debt and equity) from each source is weighted proportionally to its percentage of total

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APPENDIX 1

Economic Census of the United States 2007
Summary of employer and nonemployer firms

www.census.gov

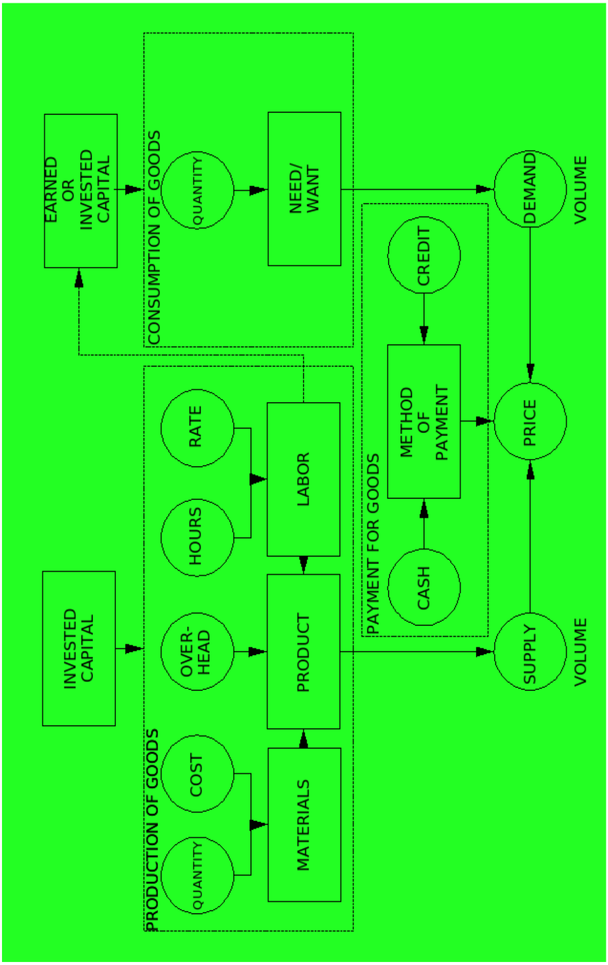
US Economic Census 2007 – Employer and Nonemployer firms

Employment size of enterprise	Firms			Paid Employees		Annual Payroll (1,000)		Sales or Receipts (1,000)		Per Firm: Average Employees	Per Firm: Average Payroll	Per Firm: Average Sales or Receipts	Per Employee: Average Wage	Per Employee: Average Sales or Receipts	Payroll Sales Ratio
Firms with 1 to 4 employees (or with no employees as of Mar 12)	3,705,275	61.25%	13.35%	6,139,463	5.09%	$234,921,325	4.67%	$1,434,680,823	4.67%	2	$63,402	$387,200	$38,264	$233,682	0.16
Firms with 5 to 9 employees	1,060,250	17.53%	3.82%	6,974,591	5.78%	$222,419,546	4.42%	$1,144,930,232	3.72%	7	$209,780	$1,079,868	$31,890	$164,157	0.19
Employer firms 1 to 9 employees	4,765,525	78.77%	17.17%	13,114,054	10.87%	$457,340,871	9.10%	$2,579,611,055	8.39%	3	$95,969	$541,307	$34,874	$196,706	0.18
Firms with 10 to 19 employees	644,842	10.66%	2.32%	8,656,182	7.18%	$292,088,277	5.81%	$1,395,498,431	4.54%	13	$452,961	$2,164,094	$33,743	$161,214	0.21
Firms with 20 to 99 employees	532,391	8.80%	1.92%	20,922,960	17.35%	$768,546,555	15.29%	$3,792,920,977	12.34%	39	$1,443,575	$7,124,315	$36,732	$181,280	0.20
Employer firms 1 to 99 employees	5,942,758	98.23%	21.41%	42,693,196	35.40%	$1,517,975,703	30.20%	$7,768,030,463	25.27%	7	$255,433	$1,307,142	$35,555	$181,950	0.20
Firms with 100 to 499 employees	88,586	1.46%	0.32%	17,173,728	14.24%	$686,862,018	13.66%	$3,612,050,221	11.75%	194	$7,753,618	$40,774,504	$39,995	$210,324	0.19
Firms with 500 to 749 employees	6,094	0.10%	0.02%	3,695,682	3.06%	$152,059,022	3.02%	$800,475,934	2.60%	606	$24,952,252	$131,354,764	$41,145	$216,598	0.19
Firms with 750 to 999 employees	2,970	0.05%	0.01%	2,561,972	2.12%	$109,833,289	2.18%	$636,199,229	2.07%	863	$36,980,905	$214,208,495	$42,871	$248,324	0.17
Employer firms 1 to 999 employees	6,040,408	99.85%	21.76%	66,124,578	54.83%	$2,466,730,032	49.07%	$12,816,755,847	41.70%	11	$408,371	$2,121,836	$37,304	$193,827	0.19
Firms with 1,000 to 1,499 employees	2,916	0.05%	0.01%	3,552,259	2.95%	$153,957,992	3.06%	$792,993,702	2.58%	1,218	$52,797,665	$271,945,714	$43,341	$223,236	0.19
Firms with 1,500 to 1,999 employees	1,542	0.03%	0.01%	2,664,416	2.21%	$120,606,441	2.40%	$695,739,349	2.26%	1,728	$78,214,294	$451,192,833	$45,266	$261,123	0.17
Firms with 2,000 to 2,499 employees	942	0.02%	0.00%	2,094,728	1.74%	$94,001,450	1.87%	$544,038,807	1.77%	2,224	$99,789,225	$577,535,889	$44,875	$259,718	0.17
Firms with 2,500 to 4,999 employees	1,920	0.03%	0.01%	6,687,266	5.54%	$320,640,371	6.38%	$1,979,674,138	6.44%	3,483	$167,000,193	$1,031,080,280	$47,948	$296,036	0.16
Firms with 5,000 to 9,999 employees	952	0.02%	0.00%	6,628,415	5.50%	$324,791,017	6.46%	$2,263,012,551	7.36%	6,963	$341,167,035	$2,377,114,024	$49,000	$341,411	0.14
Employer firms 1 to 9,999 employees	6,048,680	99.98%	21.79%	87,751,662	72.76%	$3,480,727,303	69.24%	$19,092,214,394	62.11%	15	$575,452	$3,156,427	$39,666	$217,571	0.18
Firms with 10,000 employees or more	975	0.02%	0.00%	32,852,603	27.24%	$1,546,050,929	30.76%	$10,654,527,510	34.66%	33,695	$1,585,693,261	$10,927,720,523	$47,060	$324,313	0.15
Employer firms	6,049,655	100.00%	21.79%	120,604,265	100.00%	$5,026,778,232	100.00%	$29,746,741,904	96.77%	20	$830,920	$4,917,097	$41,680	$246,648	0.17
Nonemployer firms	21,708,021		78.21%					$991,791,563	3.23%			$45,688			
All firms	27,757,676		100.00%	120,604,265	100.00%	$5,026,778,232	100.00%	$30,738,533,467	100.00%			$1,107,389			

	Firms	Sales or Receipts (1,000)
Corporations	1,428,932	$174,794,549
Individual (sole) proprietorships	19,089,091	$650,934,198
Partnerships	1,189,998	$166,062,816
Nonemployer firms	21,708,021	$991,791,563

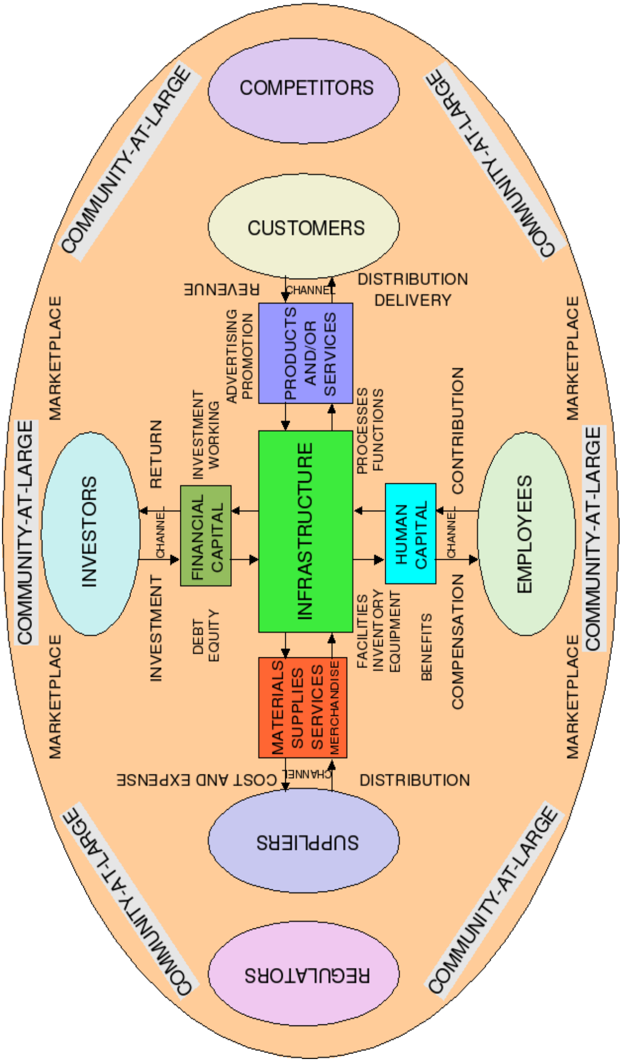
APPENDIX 2

Economic System Model



APPENDIX 3

Business Constituency Model



APPENDIX 4

BUSINESS PLAN WORKBOOK
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MANAGEMENT TEAM

- **Team members (board members and officers)**
- **Roles and responsibilities**
- **Qualifications**
- **Relevant background**
- **Advisory board**

ENTERPRISE OVERVIEW

- **Position within the industry**
- **Values**
- **Mission**
- **Vision**
- **Value proposition**
- **Key success factors**

ENTERPRISE OVERVIEW...(CONT'D)

- **Demographics**
  - **Location**
    - **Address**
    - **Voice number**
    - **Fax number**
    - **URL**
    - **email address for point of contact**
  - **Tag line**
  - **Logo**
  - **Entity and domicile**
  - **Professional advisors and relationships**
    - **Accountants**
    - **Attorneys**
    - **Bankers**
    - **Consultants**
    - **Insurance agents**
- **Current status**
  - **Launch date**
  - **Financing to date**

NEEDS OPPORTUNITY

- **Situation in the marketplace**
- **Complication that makes the situation difficult**
- **Problem to be addressed**
  - **Why there is a problem**
  - **What the problem is**
  - **What the market is and how big it is**
  - **Factors that define the size and scope of the opportunity**

NEEDS OPPORTUNITY...(CONT'D)

- **Solution offered by the enterprise**
  - **What solution specifically is being offered to whom**
  - **How the solution is delivered**
    - **Through an existing supply chain**
    - **By disrupting the marketplace**
  - **How does the solution compare to that of competitors**
    - **Benefits**
      - **What are the benefits**
      - **Who are the beneficiaries**
      - **When are they realized, and by whom**
    - **Cost**
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MARKETS AND MARKET SEGMENTS

- **Industry segment**
- **Market lifecycle (emerging, growth, mature, decline)**
- **Size and growth potential by segment**
  - **Broad**
  - **Narrow**
  - **Niche**
- **Evidence of readiness and awareness of prospective customers by segment**
- **Position in the supply chain**

PRODUCTS AND/OR SERVICES

- **Value and benefits**
- **Features and functions**
- **Differentiators**
  - **Distinctive features**
  - **Proprietary functions**

RESEARCH AND DEVELOPMENT

- **Capability**
- **Intellectual property**
  - **Duplication protection**
  - **Unique domain expertise**
- **Proprietary protection**
- **Feasibility study results**
  - **Proofs of concept**
  - **Prototypes**

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- **Advantage**
  - **In markets**
    - **Broad**
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BUSINESS AND REVENUE/PROFIT MODELS

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  - **Infrastructure**
    - **Processes**
      - ➢ **Planning and policy development**
      - ➢ **Research and development**
      - ➢ **Sales and production**
      - ➢ **Performance measurement**
    - **Functions**
      - ➢ **Administrative**
      - ➢ **Operational**
    - **Facilities (locations – leased and owned)**
      - ➢ **Administrative**
      - ➢ **Sales**
      - ➢ **Production**
      - ➢ **Warehouses**
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      - ➢ **Supplies**
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BUSINESS AND REVENUE/PROFIT MODELS...(CONT'D)

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      - **Unit prices**
      - **Projected and forecasted volumes**
    - **Gross sales revenue**
    - **Sales revenue net of discounts, returns, and allowances**
    - **Other related revenue**
  - **Cost of revenue**
    - **Product and/or service costs at various price points**
    - **Other related costs**
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HUMAN RESOURCE STRATEGY AND ACTION PLANS... (CONT'D)

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        - **Engineering**
    - **Business development**
      - **Marketing**
      - **Sales**
      - **Service delivery**
    - **Operations**
      - **Procurement**
      - **Manufacturing**
      - **Distribution**
-

HUMAN RESOURCE STRATEGY AND ACTION PLANS... (CONT'D)

- **Acquisition, development, advancement, retention and attrition**
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- **Schedule of total financing and investor rounds**
  - **Rounds, timetables, and milestones**
  - **Deliverables to date**
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  - **Cost of revenue**
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  - **Other income**
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  - **Growth rates**
  - **Capacity**
  - **Policies for credit, sales, service, and collections**

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  - **Income**
  - **Financial position (balance sheet)**

- **Budget**

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  - **Capital structure of the enterprise**
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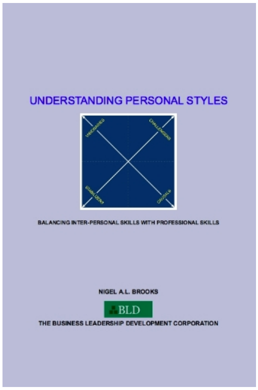
    - **Amount of financing raised to date in prior rounds**
    - **Amount of financing anticipated in future rounds**
  - **Uses of funds**
- **Potential exit strategy**

Also by Nigel A.L. Brooks...

Understanding Personal Styles



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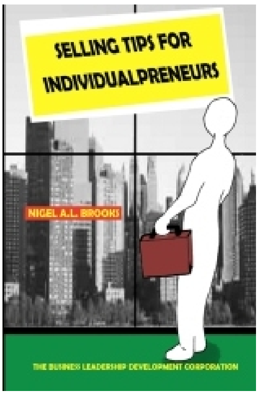

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About Nigel A.L. Brooks

Nigel A.L. Brooks is an individualpreneur, entrepreneur, business owner, corporate executive, management and marketing consultant, motivational speaker, and expert author.

He obtained his professional experience as a partner at Andersen Consulting (now Accenture, Ltd.), as a vice president at Booz Allen Hamilton, Inc. (now Booz and Company), as a senior vice president at the American Express Company, as president of Javazona Cafes, Inc., as president of The Business Leadership Development Corporation, and as a principal at TechKnowPartners, LLC. He has been a contributing editor for the Bank Administration Institute magazine, and has served on boards of entrepreneurial networks.

He was educated at the University of Exeter, Devon, United Kingdom.

He has local-to-global experience (North and Latin America, Europe, and Asia-Pacific) from start-up entrepreneur to Fortune 100 executive. He has experience in the construction, education, financial services, high-tech, manufacturing (aerospace, automotive, consumer products, and pharmaceuticals) and distribution, merchandising, oil and gas, professional services, telecommunications, transportation, and public administration industries.

He is the founder of The Business Leadership Development Corporation, originally a management consulting firm, and now a publishing company.

He offers management and marketing consulting services "from vision to value" through Nigel Brooks, LLC and TechKnowPartners, LLC - specializing in business strategy, technology strategy, organizational reviews, and performance assessments. TechKnowPartners is a technology strategy and infrastructure professional services firm.

He is the developer of the “enterpriship” discipline. Enterpriship is the process of building sustainable advantage, and has a framework of three related disciplines: entrepreneurship, leadership, and management.

“Enterpriship” is derived from the words managem*ent*, lead*er*ship, enter*pri*se, and entrepreneur*ship*.

He is also the developer the "individualpreneurship" discipline and the notion of an individual as an enterprise. As an individualpreneur, he is a director/officer employee of the Arizona Sonora Development Corporation and an entrepreneur/business owner at Nigel Brooks, LLC, The Business Leadership Development Corporation, TechKnowPartners, LLC, Achieve Plan B, and Vitaprise. He is an investor in both private and public equities.

Thus as an individualpreneur, his sources of income include fees, salary, and bonuses; distributions from LLCs and S Corporations; net profit from sole proprietorships; and capital gains, dividends, and interest from investments.

More specifically, distributions and net profit are sourced from commissions, fees, and royalties from referrals and professional services that include affiliate and network marketing, consulting, and product sales.

Achieve Plan B is a consulting service that shows others how to become individualpreneurs; Vitaprise is a core network marketing opportunity within the Achieve Plan B service.

Currently his principal activities are at TechKnowPartners, LLC.

About The Business Leadership Development Corporation (BLD)

The Business Leadership Development Corporation is a publishing company that offers articles, books, and seminars to entrepreneurs, lifestyle business enterprise owners, executives, and managers, and the enterprises they serve.

***

The material contained herein has been developed from research and seminars that BLD has conducted over several years. BLD's intellectual capital consists of a set of models, methodologies, and tools that have been developed for strategic management consulting, executive coaching and mentoring, and professional training engagements.

One of BLD's principal intellectual capital offerings to its clients and customers is packaged as ***Enterpriship BLDer™,*** a set of capabilities that provide a systematized approach to building enterprises through models, methodologies, and tools. BLD also offers intellectual capital packaged as **Sustainable Advantage BLDer™,** which provides a framework for **Building Sustainable Advantage<>*From Vision to Value*™**.