

By Dr. Eric Morse, Executive Director,
Pierre L. Morrisette Institute for
Entrepreneurship



Our year began with a series of milestones and markers destined to enhance the growth and development of Entrepreneurship at Ivey for years to come.

In January, we recognized a generous commitment from an Ivey MBA graduate and

Entrepreneurship Advisory Council member through the unveiling of the Pierre L. Morrisette Institute for Entrepreneurship. We are delighted and proud to share the name of one of Ivey's best entrepreneurs and one of Canada's finest leaders.

We also refined our foundational Vision and Value statements, crafted five years ago, to ensure the continued development of programs and initiatives in support of HBA and MBA entrepreneurs-in-the-making, our network of entrepreneurial peers and stakeholders, and the broader economic community.

With the support of our Entrepreneurship Advisory Council, the Institute launched a number of exciting new initiatives: Entrepreneur-in-Residence provides HBA and MBA candidates with real-world exposure by matching student project teams with successful alumni entrepreneurs. Entrepreneur 1.0 is a 10-session course for engineers and scientists interested in creating successful businesses in the technology industry; this course is hosted in partnership with London-based TechAlliance. The Business Family Executive Program is a semi-annual 2-day retreat for family business leaders focussed on examining the business cycle from entrepreneur to growth and diversification to succession planning.

Alongside the new initiatives, we continue to support and promote a host of existing programs including the IBK Business Plan Competition and HBA Wes Nicol Business Plan Competition for students, and Quantum Shift for the crème-de-la-crème of Canadian entrepreneurs.

In this issue of Ivey Entrepreneur, Professor Paul Beamish, Director of Ivey's new Centre for Engaging Emerging Markets and a Canada Research Chair in International Business, and co-author Jane Lu of Singapore Management University, take an in-depth look at the timing and strategies to be considered by small to mid-size firms choosing to enter the global marketplace. As the research reveals, the recipe for success is a delicate balance of 'when', 'where' and 'how much'.

Please contact us with your comments and feedback on this issue of Ivey Entrepreneur. If you would like a copy of our 2006-2007 Annual Report or more information about the Institute's goals, programs and initiatives, please contact us at entrepreneur@ivey.uwo.ca

Sooner or later

More and more entrepreneurial ventures are taking to foreign markets. Paul Beamish finds that it's better not to wait.

When we think of the global environment of business, we often think of giant multinationals whose wealth and power span the world. But this ignores the important and growing role of small and medium sized entrepreneurial ventures (SMEs).

"Few multinational firms are born large," says Ivey Professor Paul Beamish, Director of Ivey's new Centre for Engaging Emerging Markets, and a Canada Research Chair in International Business. "Typically, they start off as SMEs."

International entrepreneurship

With increasing numbers of small to mid-size firms looking beyond their domestic markets, international entrepreneurship is becoming an exciting new research theme. Entrepreneurship and international business are two research paths that inevitably intersect: the very act of entering a foreign market involves innovation and risk-taking, both hallmarks of entrepreneurship.

Some new ventures, particularly in e-commerce, are global from the moment they're born. But most international SMEs start off as domestic firms, says Beamish, and then decide to expand. "An unsolicited export order is often the first reason. Others include such things as perceived opportunities and saturated local markets."

Beamish and co-author Jane Lu, of Singapore Management University, have written a paper, "SME Internationalization and Performance: Growth vs. Profitability," about to be published in the *Journal of International Entrepreneurship*. In their paper, Beamish and Lu compare the performance effects of two different internationalization strategies: exporting and foreign direct investment (FDI).

Two strategies: exporting and FDI

The decision to expand into foreign markets is a very important one for a small or mid-size firm. The two most common avenues are exporting and FDI. Both strategies come with different risks, and require different organizational structures and capabilities. "A firm should carefully consider its strategic objectives in terms of growth or profit before it decides whether to pursue exporting or FDI," says Beamish.

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The distinction between firm growth and profitability is important, says Beamish. “While both goals are common performance metrics, they are not the same thing. The reason we distinguish between different goals is that they require somewhat different actions to be pursued.”

Exporting is an easier and less risky strategy than FDI. Exports increase sales, resulting in economies of scale and production efficiencies. They also help firms gain knowledge of overseas markets and new technological capabilities, leading to future FDI. On the other hand, exporting is dependent on overseas government trade regulations and currency exchange rates that can change quickly.

FDI requires more investment and leaves the SME less flexible if it needs to suddenly withdraw from an overseas market. With greater risk, though, comes the opportunity for greater reward. Firms learn a lot about host countries by being on the spot, and can gain access to cheaper and newer resources.

“Liabilities of foreignness”

Any firm that moves into an international market has a steep learning curve, a disadvantage often referred to in the research literature as the ‘*liabilities of foreignness*’. An entrant to a foreign country has little knowledge about local customers and business practices. It also has few, if any, relationships with customers, buyers, suppliers, and regulatory bodies. “SMEs can reduce the liabilities of foreignness by partnering with local firms through equity and non-equity alliances or through acquisitions of local firms,” says Beamish. “The good news is that these liabilities go away or decline as the SME acquires more experience of operating in the foreign country.”

Comparing growth and profitability

In their study, Beamish and Lu found that exporting and FDI both led to firm growth. The results differed for the Japanese SMEs in the study, though, when they looked at profitability. Exporting, which had a positive impact on firm growth, had a negative impact on profitability. The explanation for this finding may ring true to Canadian exporters in the present: the value of the yen increased significantly during the time period studied. “We can conclude from

about the authors



Jane W. Lu
Assistant Professor
School of Business
Singapore Management
University



Professor Paul W. Beamish
Canada Research Chair in
International Management
Director, Asian Management
Institute
Director, Ivey Publishing
Director, Engaging Emerging
Markets Centre

our study that exporting is an effective growth strategy,” says Beamish, “but SMEs must understand that profitability could be weakened or even reversed during periods of currency appreciation.” There are ways to mitigate this risk and SMEs that are dependent upon exporting should explore these options.

FDI, on the other hand, had a positive effect on both growth and profitability. The impact on profitability was U-shaped: profitability declined in the early stages of FDI, and then improved. “In the initial stages of foreign direct investment, firms may have to pay ‘*tuition*’ in terms of profits for their foreignness,” says Beamish, “but an extended level of FDI is associated with improved profitability.”

The reality for most international SMEs is a combination of both exports and FDI. In their study, Beamish and Lu looked at how firms could best configure these activities. They found that a combination of high levels of exporting and FDI led to higher firm growth, but because of greater demands on firm structures and management capabilities, tended to depress profitability.

Age matters

Another important finding for entrepreneurs is that age has an effect on performance. Beamish and Lu found that SMEs that expand into global markets at a younger age achieve higher growth rates than SMEs who are more established in their domestic market. “The older an SME, the harder it is for it to adapt to new environments and new ways of doing business,” says Beamish. “Early internationalizers have not yet developed rigid routines, and are still flexible and able to learn more quickly in international markets.”

Pros and cons of “newness”

Interestingly, younger firms who expand into foreign markets do not initially perform as well financially as older ones at the time of their entry. All new ventures face the ‘*liabilities of newness*’, a disadvantage that is well documented by existing research. New firms do not enjoy relationships with buyers, customers, suppliers, and governmental and regulatory agencies. Nor do they have the benefit of experience. “The liability of newness can cause these firms to make more mistakes when entering foreign markets, leading to worsened rather than improved financial performance at the early stages of internationalization,” says Beamish, “but they learn more quickly to adjust, and those that survive perform better in the long run than their more entrenched peers”

This finding confirms the validity of another proposition of entrepreneurship research, the ‘*learning advantages of newness*’. “Newer firms have less rigid ways of conducting business and are more able to learn new ways of doing business,” says Beamish. “Hence, newer firms may perform better than older ones in international markets that are “new” as compared to domestic markets.”

Lessons for managers

Going global is a big step for an entrepreneurial firm but the right strategy helps mitigate the risk, says Beamish. Managers thinking about moving into foreign markets should consider:

- their goals in terms of growth or profit,
- their risk-taking and investing capabilities, and
- their sources of competitive advantage

“Growth-oriented firms can use both exporting and FDI, but those that are more risk-averse should consider starting off with exports,” says Beamish. “Profit-oriented firms should avoid high levels of both exporting and FDI activities simultaneously.”

And lastly, “Entrepreneurs should think carefully about timing. Sooner may be better than later, especially if the firm is able to mitigate their liabilities through alliances or partnerships.”

Paul Beamish has written extensively in the area of international management, particularly joint ventures and alliances, and has twice been recognized as one of the top three contributors worldwide in international strategic management.

Family Business Day

by David Simpson, Director, Business Families Centre

The Business Families Centre (BFC) at the Richard Ivey School of Business recently co-hosted a special event honouring National Family Business Day. This fourth annual event is a collaboration between the BFC and the Canadian Association of Family Enterprise (CAFÉ) southwestern Ontario chapter. At the BFC, our mandate has always included a three pronged approach to Business Families: study, support and celebrate. This unique once a year gathering allows us to do all three.

The keynote address, delivered by David Ganong, MBA '70 and fourth generation head of Ganong Bros., Limited, offered numerous insights using the Ganong family business as our case study.

Since 1873, the Ganong family has put their heart and soul into the craft of chocolate and confectionary manufacturing, headquartered in St. Stephen, New Brunswick. David Ganong, only the fourth leader of a business



Keynote speaker, David Ganong, MBA '70, sites CEO stability as a competitive advantage of family owned and operated business.

spanning more than 130 years, sites CEO stability as one of the competitive advantages that enabled his family's business interests to survive in the cyclical candy business. A long term strategic view combined with a conservative balance sheet allow Mr. Ganong to make tough strategic choices that publically held

firms have difficulty making due to the overriding emphasis on quarterly results. Mr. Ganong also credits his grandfather's decision to create a strong board of independent businesspeople to act as company directors which, in his words, "protect you from yourself". The Board ensures Ganong is professionally run with a constant eye to entrepreneurial initiatives. A lesson for all business families to be sure.

National Family Business Day also supports business families by providing an open forum to discuss unique challenges. This year we heard from Noah Tepperman, third generation member of Tepperman's, Canada's largest independent retailer of furniture and appliances, and Rick Doerr, second generation head of Westervelt College. Since both participants have semi-active, semi-retired fathers involved in their businesses, the audience was determined to explore the unique father son dynamics. The quest to create an entrepreneurial legacy within a family business was deemed to be of vital



Co-hosts David Simpson, Ivey Business Families Centre and Jeff Noble, Canadian Association of Family Enterprise with business family panelists Noah Tepperman, Tepperman's and Rick Doerr, Westervelt College.



Grant Thornton Family Enterprise of the Year 2007 award winner Steelway Building Systems, owned and operated by brothers Jason and Bryan White.

significance, but generational respect was the fine balancing act. The question and answer forum allowed many in the audience to share their experiences, creating a learning environment for all.

Finally, National Family Business Day celebrates business families and this year our venue was host to the Grant Thornton "Family Enterprise of the Year" award. Three unique business families were introduced as finalist with iceculture inc. and Metropolitan Maintenance earning runners up awards. The top award went to Steelway Building Systems who now advance to the National awards competition, held this year in Halifax in May.

Most importantly, this annual event serves to remind us of the tremendously important and influential force family controlled businesses (FCB) play in the world's economy. We now recognize that FCB's produce nearly 45% of our GDP, account for nearly 70% of new jobs and are vital anchors in the communities in which they operate. Thanks to recent research, we also know that family businesses outperform and outlast other forms of business ownership and that they are beginning to be recognized for that success. Family Business Day allows us to continue to study, support and celebrate our business families.

Student Watch

September 2007 marked the 5th annual *Turn Key Sorting Solutions Innovation Challenge*.

HBA students enrolled in Professor Eric Morse's entrepreneurial course "Creativity, Opportunity Recognition & Expertise" were assigned the challenge of developing and launching a successful new venture within a time frame of just two weeks and a capital investment of just \$5.

The innovation and creativity showcased by the five- and six-member teams included Home Coming VIP passes, imported sportswear sales, a web-based contractors' guidebook, pre-packaged breakfast-to-go and a big screen video game gallery, to name but a few.

The 2007 Turn Key cup was awarded to Jordan Guirlanda, Andrew Hines, Mike Wiener and Alim Somji who created *Ace20*, a seminar that included worksheets and a Q&A panel marketed to first year HBA's enrolled in Bus20 lectures. *Ace20*'s income statement reported a tidy profit.

Honourable mentions go to: Jay Hamilton, Chi Chen, Pete Machalek, Pete Markvoort, Brett Jackman, Jess Gale and Jamie Duncan who marketed memorabilia to Home Coming alumni; and to Raj Ramnauth, Neil Peet, Jeremy Bornstein, Dustin Walper, Alison Moreau and Sydney Dundas who negotiated exclusive rights with Mill Street Brewery to a 3-day promotional and sales campaign during Home Coming Weekend.



Team Ace20's Jordan Guirlanda, Andrew Hines, Mike Wiener and Alim Somji.

The Pierre L. Morrissette Institute for Entrepreneurship has accomplished a great deal over the past five years. We delight in those accomplishments with the understanding that there remains much still to be done.

Our goals continue to be to create a world class program and reputation in entrepreneurship. We believe that our new vision captures the aspirations of the entrepreneurship community at Ivey.

Our Values

- Learning that transforms lives
- Research that profoundly impacts academic and practitioner audiences
- Outreach that builds the Ivey Brand
- Best Students – Best Process – Best Outcomes

Our Purpose

- To enable learners to create and capture value as owner leaders of high growth enterprises

Our Vision

- Ivey will be the first choice of the best learners who are pursuing or wish to pursue an entrepreneurial path. We will be admired by our peers and external stakeholders for our innovative programs, research productivity and contribution to practitioners. Through our interaction with learners we will transform lives and significantly contribute to the Canadian Economy. The Ivey Brand will be synonymous with entrepreneurial success.

AlumniSpotlight

ENTREPRENEURIAL IVEY ALUMNI... IN THE NEWS

Bioware Corp., an Edmonton-based company created in the early 1990's by **Ray Muzyka, MBA '01**, Augustine Yip and Greg Zeschuk, was part of a \$620 million purchase by California video game maker Electronic Arts. Muzyka and partners, who met in medical school, began by authoring medical instructional software before transitioning to computer, console, hand-held and online video games. This is the second time in two years that the company has been sold.

The Edmonton Journal
Friday, October 12, 2007

The National Arts Centre Foundation is pleased to announce the appointments of Gail O'Brien as

Chair and **Grant Burton, MBA '68** as Vice Chair of the Foundation's Board of Directors. Mr. Burton is President of Starcan Corporation which is engaged in industrial manufacturing across Canada and in the United States. His current volunteer activities include the Toronto Summer Music Festival and the Ivey Entrepreneurial Council. Other current volunteer activities include Big Brothers of Canada, Big Brothers of Toronto, Toronto Community Foundation, Toronto District Health Council and the Trillium Foundation.

The Globe and Mail
Thursday, October 25, 2007

George A. Cope, HBA '84 assumes the role of Chief Executive Officer (CEO) of BCE and Bell Canada upon closing

of the group's pending acquisition of the Company. Currently serving as President and Chief Operating Officer of Bell Canada, Mr. Cope will continue to work closely with Michael J. Sabia, the current CEO of BCE and Bell Canada.

Mr. Cope serves on the Boards of Directors of BMO Financial Group and NII Holdings, Inc. (formerly known as Nextel International), and on the Advisory Board of the Richard Ivey School of Business at the University of Western Ontario. A past recipient of Canada's Top 40 Under 40 Award, he holds an Honours Business Administration degree from the University of Western Ontario.
MONTREAL, Oct. 17 /CNW/

The Ivey Entrepreneur newsletter is made possible by a grant from the HBA Class of 1970.

This newsletter is published for individuals in business and academic life who have a particular interest in entrepreneurship. If you have any comments or questions please contact us. If you or your organization would like to obtain a copy of this newsletter, free-of-charge, please contact: **The Pierre L. Morrissette Institute for Entrepreneurship** Richard Ivey School of Business, The University of Western Ontario, 1151 Richmond Street North, London, Ontario, Canada N6A 3K7 P: 1-877-333-4344 F: 1-519-850-2306
E: entrepreneurship@ivey.uwo.ca W: www.ivey.uwo.ca/entrepreneurship

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