Dynamics of the Entrepreneur’s Role Composition

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Entrepreneur, who creates and develops his own business, is obliged to play a lot of different roles, which essentially depend on the stage a business is developing on. Entrepreneur’s personal success and the success of his business greatly depend on his ability to successfully play different roles at the different stages of the business developing. Success of an entrepreneur in his roles essentially depends on the correct definition of the roles themselves, and the degree of preparedness of the entrepreneur for having different roles – personal capabilities, knowledge and received skills and experience. At the same time, despite the large number of studies such question as definition of the company’s life phases which only metaphorically can be related to the life phases of living beings; definition of the dominating types of entrepreneurial activity; definition of the role filling and competencies specific to different stages of the company’s life cycle and definition of entrepreneurs’ place in organizational hierarchy are left unresolved.

This article is aimed to solve these issues.

The article highlights four key stages in the development of business depending on the type of business activity, which is important at the certain stage. New approaches to the definition of conceptual business modelling through value propositions, business models and organizational models are considered in this article. Certain types of business activities can be presented with a help of roles, focused on external or internal context at the conceptual or behavioural level. This paper shows that this requires substantially different competencies of the entrepreneur and formulates the direction for the future research.

Key words: Entrepreneur, Business, Management role, Life cycle, Business model, Organizational model.

Introduction

In today’s world entrepreneurship is becoming the increasingly widespread phenomenon that significantly affects the economic, social and political life of entire countries (Khanna, 2011). In the enterprise development the personality of the entrepreneur plays a crucial role. The entrepreneur creates and develops his own business using his or her competencies and capabilities, his own and borrowed resources.

In the process of creation and development of business entrepreneur has to perform an essentially different activities – starting from conceptual work on the development of business concepts to performance of business processes such as the production of goods and customer service. Difficulty of entrepreneurs’ self-development lies in the fact that the entrepreneur activities significantly vary according to the level of maturity, complexity and size of the company, which is governed by the entrepreneur.

Today a conceptual managerial toolbox has been already drafted. It makes possible to systematically identify how to describe the company, its changes, types of entrepreneur activities, competencies and capabilities required to perform business activities. The paper presents an approach designed to link the issues which are under entrepreneurs’ responsibilities at different stages of business development, and relevant to these issues competences and abilities of the entrepreneur.

Literature Review

The Life Cycle of the Company

According to (Greiner, 1972), the dynamics of organizational development is well described as a series of revolutionary and evolutionary stages. The nature of this heterogeneity is that any organization is a complex system in which a large number of elements are linked with each other by unclear links. While some elements of the organizations can develop faster pace, the other elements fall behind in their development. Accumulated imbalance is settled on the revolutionary stage, creating the opportunities for future evolution, and laying the foundation for the accumulation of some new problems. As one of the examples the author (Greiner, 1972), cites a decision to delegate powers, which raises the problem of monitoring implementation.

The author identifies five key phases of evolutionary growth; each of them has their own crisis which ends in the revolutionary period. The first phase is Creativity. This is a stage of company’s birth, creation of a product and a market as a whole, which is characterized by high energy, informal communication, and rapid adaptation to customer
requirements. Because of the crisis of leadership of a sole entrepreneur the stage of company management (Direction) appears. On this stage the functional structure is formed, standardization of processes and other instruments of regular management are introduced. The stage ends with the crisis of autonomy, which allows moving to the stage of Delegation, which is characterized by decentralization, formalizing communication and creating profit centers. The stage ends with crisis control, through which the company comes to the stage of Coordination – the formation of product groups, planning formalization, centralization, and so on. The crisis of personnel on this stage leads to the stage of Collaboration – decentralization of additional functions; focus on the team work, implementation of information systems.

From the entrepreneur’s point of view the source of heterogeneity is a limit of the administrative resources of the entrepreneur who is not physically able to solve all management development problems, establishing the company consistently – system by system. Exactly what issues and in what sequence entrepreneur decides, it determines the necessary development of the necessary potential role of the entrepreneur. At the same time, all the crisis according to (Greiner, 1972) – are the crisis of management or the crisis related to the resolution of the purely administrative problems, not associated with the personality of entrepreneur (founder). At the same time, the role played by entrepreneurs in creating business and the role that entrepreneurs can play on the stage of big business management, deciding, for example, the problem of coordination or cooperation, differs significantly.

According to (Adizes, 2004) the concept of life cycle foresees that the founder of the company in several stages has the ability to go out of business, leaving investors a share of business on the stage of Infancy, or handing over control to professional managers on the stage of Adolescence. In fact, the transition to a new stage of life cycle means for the founder the change of the management role and - often - personal transformations.

**Business Model**

The concept of the business model (De Wit & Meyer, 2010) is widely used in the contemporary theory and practice of management. Activity representation through the business model ties into a coherent structure such elements as consumers’ choice, value proposition, internal value chain, required tangible and intangible resources, economic model and so on. This uniqueness of the business model becomes an important competitive advantage of modern business. On the other hand, according to (Chesbrough, 2006) the business models become open, based on the new division of labor and highlighting the fact that the company in today’s world cannot create value themselves, and has to involve a close and transparent cooperation of its suppliers, partners and clients. According to (Adner, 2012) the successful commercialization of innovation today involves not just the creation of a well-composed business models, but also embedding of the business models in the business environment. The examples given by the author convincingly prove that the successful introduction of new business models without a role understanding of the players in the selected ecosystem is impossible.

Research (Blank & Dorf, 2012) used the concept of the business model as a basis for creation algorithm of starting a new business, which is intended to significantly increase the percentage of startups that have survived the launch period and reached maturity. The approach is based on the recommendation of iterative setting up a business model as an integrated way of creating value and
obtaining economic benefits. This setting is necessary because the business idea of customer needs and the value proposition are hypotheses, not justified facts. The entrepreneur should focus on the verification of these hypotheses, using available resources and energy. Authors emphasize that during this period the whole business model should be adjusted and only then an organization can start building.

**Organizational Model**

The concept of organizational model was considered by (De Wit & Meyer, 2010). They included organizational structure, organizational culture and organizational processes which associate business and organizational model into it. Separating of the business model and organizational model is important because it allows focusing entrepreneur-founder’s attention on the different aspects of the company development. If the business model provides value proposition for the customer and profit proposition for the owner, then the organizational model helps to ensure an offer to employees or people proposition (Kim & Mauborgne, 2009).

The organizational model must correspond to the business model. Organizational culture, according to (Trompenaars & Hampden-Turner, 1998), is the attitude of workers to the prestige of the company, a common cause, and some common professional and ethical behaviors. So the behavior of employees in the processes, projects and management implementation (goal setting, decision making, coordination, etc.) must correspond to the business model. Because of the sustainable behaviors of employees together with formal organizational structures the organizational model emerges.

It should be noted that in the model of (Greiner, 1972), the Creativity stage is related to formation of the business model. Such stages as Direction, Delegation, Coordination and Collaboration are applied to the search and development of the organizational model relevant the business models. Similarly research (Adizes, 2004), notes that there is the need to involve “professional management” on the Adolescent stage, which means the need to play a certain managerial role by one of the participants of a management control of the company. It should be mentioned that the distribution of formal authority is not the same as the distribution of management roles. One person can play several roles. Thus, the founder may be a functional manager and a Chief Executive Officer, and perform governance on behalf of the co-founders and investors. Owner may also perform other roles - depending on how these roles are defined and how they are distributed among the participants of management process.

**Managerial Roles**

Author of the research (Mintzberg, 1990) was one of the first scientists who deeply studied the managerial roles and distinguished following groups: interpersonal (Figurehead, Leader, Liaison), informational (Monitor, Disseminator, and Spokesperson), decisional (Entrepreneur, Disturbance Handler, Resource Allocator, and Negotiator). According to research (Mintzberg, 2009), in order to carry out administrative activity in three dimensions – outside the organization, within the organization and within the department, and in order to successfully perform managerial roles, managers should possess competencies combined in four groups: personal, interpersonal, competence in the field of information and competence in the field of actions. The role model and the related competency model are very useful because they work out the way for personal development of the manager. At the same time, the model does not formalize activities and roles, played by entrepreneurs.

The way to resolve task of forming a composition of necessary management roles was offered in the research of Adizes (1992), which classified managerial roles into two dimensions: performance – efficiency and short- or long-term perspective. The steering role (P) is focused on achieving efficiency in the short term, providing a clear definition and meeting the needs of its customers. Administrative role (A) is focused on the short term performance, and provides regulation, planning and organizing ongoing activities. The entrepreneurial role (E) is aimed at ensuring the long-term effectiveness. It involves the active adaptation to changing conditions. Integrating role (I) focused on the long-term performance and provides the creation of a unique organizational culture that ensures the integrity of the organization. This paper (Adizes, 2004) links the concept of roles’ composition and the concept of life cycle of the organization. However, less attention is paid to the manager’s position in the organizational hierarchy and how this position is related to the roles’ composition.
According to the research (Buckingham & Coffman, 1999), there is a fundamental difference between the managerial roles of manager and managerial roles of leader, determined fundamental difference in their place in the organizational hierarchy. A person having a role of a manager pays attention on the inner environment of his organization, to be more specific on the company’s personnel. Manager selects employees according to their abilities. He or she formulates expectations, motivates employees to develop their skills and helps them to find their own place in the organization.

A person in a role of leader pays attention to the outer environment of the company – mainly to the competition and trends. Leaders have a look at the future and create it. The leader’s role is very clear, specific and different from other management and executive roles. The leaders believe that they can turn dreams into reality and they have to take responsibility for the transformation of the status quo to something better. These leaders are ready to defend their rights to this role, they believe in their own ability to overcome all obstacles and move on. Thus according to the research (Buckingham & Coffman, 1999), manager and leader are two fundamentally different roles that can simultaneously be played only by very gifted people.

**Key Results**

For a holistic representation of the role of the entrepreneur there is a need to use some dimensions: deployment in time, deployment of the organizational hierarchy and determination of the activity type. Deploying of the entrepreneur’s role in the time is associated with the life cycle of the company, but can be precisely represented through a certain type of managerial tasks that should be settled at different stages of business development cycle. Deploying of the entrepreneur’s role in the hierarchy is connected to the fact that increasing company develops management (organizational) hierarchy and entrepreneur has a possibility to take different places there. Types of activities can vary considerably depending on considering the intellectual operation, dealing with ideas or social interactions with other people, dealing with behaviors.

**Entrepreneurial Activities at Different Stages of the Business Development Cycle**

Up-to-date managerial knowledge can identify macro stages of business development. That clearly articulates both managerial tasks that should be solved by an entrepreneur and the types of activities that an entrepreneur needs to perform at each macro-stage. Each of the stages is significantly different and has its clear task.

At the first stage the entrepreneur is working on the business idea or business concept. This idea can be expressed in different ways, but its key elements are understandings of the client, client’s needs and value proposition for the client. The problem of determining a client and his needs boils down to the fact that not all needs are realized. The knowledge of the customer and his needs can be interpreted as knowledge of life in all its complexity. So the entrepreneur at this stage needs to develop the ability to ‘see’ what others do not see. Such knowledge may be the result of reflected personal experience or the result of non-reflected personal experience (so called insight), the result of systematic research or the result of creating idea of a new product, based, for instance, on the knowledge of new technologies and on possibilities of their application. Along with the client understanding the notion of the possible number of customers should be also made. That will determine the possible scope of business.

New ideas generally appear at the intersection of existing ideas as a result of new combinations or changes in usual proportions. So at the first stage key capacity is the ability to distinguish and work with ideas (concepts). Technologies of dealing with ideas, such as lateral thinking, systematic thinking, and with information (studies, surveys, expert analyses) can help an entrepreneur at this stage. A very useful thing in this work will be a constant compliance check of the needs to the customer and value proposition to defined needs.

At the second stage the business model is set. The starting point in this setting is to understand the client and value proposition of the first stage. Model setting occurs in two directions: inside and outside. On the one hand, business model is a process of creating value proposition for the customer and resources necessary for this. The same value can be created in many different ways and there are very important resources of various types, which can determine the specific configuration of the business model. Such resources can be a human
labor of certain qualification, access to technology, information and material resources.

The business model cannot exist without external business relationships with other organizations, institutions and individuals. Implementation of a business model can only be obtained by building with model into such relationships. The subjects of such relationships can be partners (product development, product promotion, market development, etc.), suppliers (of technology, information, resources, etc.), that in the modern world are also combined in networks. Such connections are stable and productive if partners are united by common understanding of value proposition for client, common technology or technical knowledge, willingness to perform a certain role in value creation networks.

The activity on internal and external business models configuration has a dual nature – cognitive and social. Such configuration includes work with the knowledge, setting business model as a concept, the nomination hypotheses, their verification, generalization of results. It is a work with conceptual, highly abstract models which allow describing strategy and business model, together with the external context (for example, via business ecosystem). The ideal business model is built into selected business ecosystem.

It is not enough for an entrepreneur to have an idea, it is desirable to create internal and external links, which have not been before and which will implement a business model. To implement this activity it is needed to develop a social capacity to set up connections. Creating the internal links foresees creation of a team of people who have a common understanding of the work they perform, and who can effectively interact in the processes and projects. Creating the external links needs a constant search for partners, maintenance and development of partnerships. These inside and outside activities require a lot of energy and time. Creating relationships is a quintessence of the entrepreneurial activity, since the processes, chains and network of value creation appear as a result of relationships development.

If during the first stage a well-balanced and worked-out idea appears, the result of the second stage should be a working business model built into the business context and ready for scaling. At the third stage the organization is developing. The organization provides business continuity and sustainability, as it includes its own logic of existence and development. The logic is set up by organizational hierarchy (structure), managerial system and organizational culture. All these elements must comply with business idea and business models and, in addition be consistent with each other.

Organizational hierarchy occurs as a natural reaction to the division of labor, when the functional competence requirements are imposed on business processes. This may be not only the ruling or power hierarchy, but an expert or a status hierarchy. The hierarchy in the organization is very important because it is the most natural way of organizing social systems. To find his place in the power hierarchy for the entrepreneur can be very painful due to the change in his roles. It is necessary to be ready to these changes.

Organizational culture is a way to manage invisible things; it is the impact on behavior through management beliefs, practices of problem solving, organizational rituals and symbols. It is important to note that conscious influence on organizational culture is an extremely difficult task that requires both authority and specific competences. Usually in the companies culture is made up by Chief Executive Officer (CEO) – a person who has all power. This may be a founder, who acquired all necessary competence and plays the role of CEO. This may be a CEO, a hired employee, but in this case the person playing that role must have all power in the organization.

The capacities, required for setting organizational culture, are associated with the ability to “read” cultural artefacts and see certain patterns of behavior; to understand the causes of human behavior in organizations and the factors that influence people’s behavior. Apart from social capacity for forming organizational culture it is very important to have a personal (behavioral) capacity to play the role of CEO. Organizational culture is mainly provided by examples of behavior, which top person shows. Therefore, it is crucial how such a person is able to systematically customize his or her own behavior according to the needs of organization.
Managerial system is another important element of the organizational model. The way the organization makes decisions, sets goals, performs coordination and motivation of employees, and may be factors that increase or slow down organizational development and implementation of the business model. When a business starts, an entrepreneur plays role of entire management system. But when the organization grows, it should be done differently as soon as the organizational complexity increases. If during business creation all appropriate parts of the system are set up, then with increasing organizational hierarchy, managers should appear. These managers should have the common understanding of management principles adopted in the organization, and they should form the management team.

So if the entrepreneur forms a team of employees at the first stage, thus at the third stage a management team appears, which is a key factor in shaping the organizational model. The entrepreneur can play many different roles in the team and CEO is just one of them. Capacities of CEO are gained by training and through experience in forming his or her own organizational models. CEO is a separate career path other than the path of the entrepreneur. The combination of these paths of entrepreneur-founder and CEO is possible, but usually involves long founder’s involvement in the affairs of the company as CEO role for the entrepreneur actually becomes dominant.

The fourth stage of development involves the scale by attracting financial resources in the form of credit, private placement, initial public offering, or in other forms. By this stage of the business idea has been usually implemented in a running business model that is scalable by using the equity of the founder and configured organizational model. Financial leverage provides fundamentally different possibilities of development. At this stage usually an investor role appears and there is a need of corporate governance. Corporate governance foresees not only the development of the business model and organizational model, but also the interaction with investors in certain ways.

Such interaction requires in particular implemented systems of strategic decision making, cash flow management, risk management, a system of regular communication with investors. This, again, requires certain requirements to the capabilities of the founder, who must be able to interact with investors playing role of CEO or to join the group of other investors, building corporate governance system to interact with the management of the organization, playing the role of investor.

If these competencies are obtained and work on the organization of corporate governance is done, a business can get a huge financial leverage, which speeds up development, and therefore can be considered as a significant competitive advantage. Financial markets are willing to finance businesses that have the potential, but require hard work on proving the existence of such prospects.

This are fundamentally different competences, in particular requiring entrepreneur’s ability to speak the language of investment bankers, to manage risks, to develop corporate governance, to interact with groups of investors coming from different legal systems, different jurisdictions and cultures.

**Key Roles of the Entrepreneur**

With the development of the company the role of the entrepreneur changes significantly. With the passage of time the range of possible roles, which the entrepreneur can choose, also changes. These changes are associated with the development of the organizational hierarchy.

At the first stage the entrepreneur serves as carrier and architect of business idea. He or she is the only driving force of the business. The ego and the energy of the entrepreneur are the essence of a role at this stage. Entrepreneur-architect acts like a creator of entrepreneurial idea, explores the business context, tackles its elements together and forms an understanding of potential customer, existing needs and value proposition.

The sources of the architectural solutions can be existing customers and their needs, for which a new value proposition is created. In this case, the entrepreneur-architect creates new combinations of old properties of products or understands - how a customer’s experience of usage of existing products forms new needs.

This may be a new technology, for which entrepreneur develops a new application. In this case, new ideas are often related to customers, products and markets, which are not there. Today
a source of innovation for business more and more often become new ideas of business models, value propositions which are implemented in a fundamentally different way, for example through the use of IT technologies and IT solutions. More and more new digital technologies can create entirely new business models, and influence customers, their products and their own business model. The key decision of the entrepreneur-architect is to become an entrepreneur who moves at the second stage and begin to invest in his own business idea using available resources such as money, time, relationships, technologies and other.

At the second stage it is a must to have a company that implement business idea in a form of business model. Therefore, here one can talk about the role of the entrepreneur-founder. At this stage activity of an entrepreneur is very responsible for this, because the fate of founded enterprise is decided. The key challenge is to set a business model as working one. In fact, the idea of the first stage is an assumption of entrepreneur-architect, a hypothesis that should be tested by entrepreneur-founder.

A large number of companies (start-ups) cease to exist just because they are based on wrong assumptions. Wrong assumptions may be related to the client and his needs. Client is not a specific person or a group of people whose needs are known to an entrepreneur. Client is a generalized essence, the role of which is played by enough people who shape the market, and who have a need for this role. It is often difficult to transfer a specific personal experience of an entrepreneur into a clear business idea and business model because of the fact that role needs have generalized and abstract nature.

Wrong assumptions may be related to an adequacy of value proposition to customer’s needs. The principal difference between the new company and existing business is that the start-up doesn’t have any sales history, customers’ base or even market statistics, since the market may not yet exist. A key indicator for monitoring at this stage is the remainder of the money that allows entrepreneurs to continue and finish the test by creating a coherent and workable business model.

To perform the role of entrepreneur-founder is the same as to be a man of orchestra. Founding entrepreneur does everything by himself. Even if there are several founders, they have to invest much, sometimes everything to get at the second phase working new business. Founders have to build and test business processes, collect the necessary resources and communicate with customers and suppliers. At this stage, the business model often changes several times and the main task of the founder is to keep the integrity of the composition of the business model, reaching model, which works.

At the third stage organizational model of the company is consciously evolving, including organizational culture, organizational structure and managerial system. This is a typical task for the CEO, along with strategic management, P&L management, sustainability and business stability etc. If the entrepreneur continues to play the role of CEO at this stage, his or her role can be treated as a role of entrepreneur-CEO. This role is very typical for the founders, who managed to significantly develop the company and who are eager to run the company for a long time.

But this is not the only option for the entrepreneur. The entrepreneur can sell his entire business, can remain beneficiary without influence over the management or can get out of Board of Management or can get in Board of Directors or Supervisory Board. A founder, who has significant technological expertise, could come in, even in the composition of functional technical and technological leadership remaining a beneficiary of profits.

Development of the organizational model is a special challenge. During this stage, playing the role of entrepreneur-CEO, entrepreneur may face the need of significant internal transformation. CEO should be a manager and a leader. If the entrepreneur-founder creates a team of employees to adjust the business model, the entrepreneur-CEO must create management team, growing up professional managers who possess their own ego to fruitful cooperation (decision making, coordination, goal setting, motivation of employees etc.). Being a team leader at the start-up stage is not the thing to inspire people in a large company for cooperation and common achievements. Fundamentally different approaches, tools and personal capacity are needed at stage two and stage three.

The fourth stage involves active cooperation with the investment community. If the entrepreneur’s
ambition is to create, for example, global business, it is often necessary to gain global investment resources. At this stage entrepreneur becomes entrepreneur-investment manager.

The interaction with the investment community is a new difficult challenge for an entrepreneur. Cooperation with investors provides, inter alia, an understanding of global investment conditions; sufficient knowledge to select a specific investment tools; building of the corporate governance system; ensuring constant communication and interaction Board of Management with Board of Directors and Board of Directors with investors.

During this work new opportunities and new risks for the company can occur. Thus, when entering the stock exchanges in different jurisdictions there is a need to be in compliance with requirements of regulators in other jurisdictions.

Entrepreneur-investment manager becomes less entrepreneur but more an investor, dealing with new flow of information, building monitoring systems, controlling the activities of the company, communicating with the investment communities. But this is not the only option, in addition to this entrepreneur can choose for himself the role of all of the previous stages.

Role composition provides some simplification. For example, attraction of investors and business partners may be required at the first or second stages (angel or venture investments). On the other hand, the proposed model “refines” key activities of the various stages of business development. Development of content of the roles and consistency of increasing the capacity and competencies of the entrepreneur in various stages of business development is the subject of further research.

Conclusions
The paper presents an approach of determining the composition of the entrepreneurs’ roles. Within the approach four key stages of company development were identified: creation of business idea or business concept; business model setting; development of organizational model or organization; scaling through attracting financial resources. The paper shows the filling of entrepreneurial activity at each of the identified stages of development, including work with the concepts, configuration of internal and external relations, and creation of organizational culture. It is shown that different types of activity have varying natures – cognitive, social, personal (behavioral). Four types of entrepreneur’s roles are identified, among them: entrepreneur-architect, entrepreneur-founder, and entrepreneur-CEO and entrepreneur-investment manager. Defined stages and role activity of the entrepreneurs can help in teaching entrepreneurs – by his (her) own or in educational institutions; individually or as part of the managerial groups.

References