

The Transactional Imagination: Founder entrepreneur, micro-foundations and macro-structures

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Abstract

This paper reports on the results of two entrepreneurial experiments and discusses how knowledge creation in between could make the difference between venture death and venture success. The first experiment has ended in failure. The search for knowledge which might turn failure into success has uncovered a theoretically uncharted space in the fields of strategy, management, organization and entrepreneurship. This space is transactional innovation. Knowledge gained from field research to fill that space has yielded findings which argues for the need to re-conceive the nature of a firm, re-define the roles of founder entrepreneurs, and re-create knowledge tradition based on micro-foundations, actor dependent causalities and macro-structures. The usefulness and relevance of these new conceptualizations are then put to test in the second experiment. The second experiment, while still in progress, has already had three years of resounding success.

Introduction: The calling

Enterprise formation is in the business of procreation. The founder entrepreneurs are entrusted with that task. In turn, market economies have entrusted the founder entrepreneur with the procreation of their future. The statistics is not good in this regard. Fifty percent of the new born enterprises die within two years, and 90 percent of them die within ten years. Obviously these founder entrepreneurs need help.

The venture capitalists are the first to come to help. (Ante, 2008)

But the numbers that these venture capitalists could assist are extremely limited, when measured against the total number of firms given birth to every year. Obviously there is a need for more pervasive help, and this is where the academic world could play a part...

What is it that the academic world could do that even venture capitalist could not do? How can the academic world make itself relevant and useful to the founder entrepreneurs? The answer is: theory. "There is nothing more useful than a good theory", as Kurt Lewin used to say. Most of the founder entrepreneurs act without good theory. Most of them are running blind, without sound interpretative

schemes and intervention theories. By theory here we concur with what Weisbord says: “A theory is not a method. It is a way of interpreting reality that helps you act with more certainty” (Weisbord).

This paper firstly reports on the failure of an entrepreneurial venture, launched in part under the aegis of the Nature of Entrepreneurial Work Research Program at the University of Hong Kong. While attempting to save this venture, a search for relevant and useful knowledge in existence to guide the effort has ended in vein. The poverty such knowledge for the entrepreneurs locked in the founding process had come to be acutely felt. The most critical missing piece is the lack of perspectives and paradigms on the transactional space and how entrepreneurs could act with them and within it to ensure venture survival and prosperity. This triggered off a new field research initiative on the side, through participant observation. The finding of this initiative has resulted in a new way of conceiving the nature of the entrepreneurial firm, of the roles of founder entrepreneurs, and of the types of entrepreneurial competencies needed to facilitate the earning of the birth right for a new born enterprise. This new set of hypotheses is then used to guide the founding of another entrepreneurial venture. This second new venture has not only earned its birth right, but is now well on the way to move to newer height. The paper will share this experience and these new conceptualizations. It ends with a calling for more research into the transactional realm, an area critical to the life and death of enterprises.

The experimental phase of the Nature of Entrepreneurial Work Research Program

A fascination with what the entrepreneurs really do in order that they could achieve phenomenal success has led to a life-long research program. This program has led to a typological understanding of entrepreneurial work. (Tam, S. 2002) When the theoretical yield of participant observation was found to be approaching a limit, a decision was made to change the research strategy. The researcher had resigned from the University of Hong Kong, to be fully engaged in entrepreneurial work, from there to see if new insight into the entrepreneurial processes could be realized in the course venture experimentations.

One of the gaps of knowledge which the researcher had not been able to gain access to is a consequence of the research method adopted in phase one. Very little could be learnt through participant observation about the early enterprise formation period. This is because the researcher had invariably arrived at sites at a stage when the company’s existence is already assured and assumed. We learnt that each of the successful enterprises has evolved its unique formula of success, and we could understand that these formulae fall into types and obey hidden evolutionary and systemic order. But as a rule the process of searching for the formula has been based on self reported data, without the researcher’s involvement or presence. Such lack of solid knowledge will prove to be fatal when the researcher entered into the phase of experimentation.

Conducting venture creation experiments will thus enable the researcher to go through the initial stages of a firm’s existence, before the realization of its formula of success. This would help us unearth and understand the pre-conditions, if any, for subsequent success.

On the one hand, conducting entrepreneurial experiment is an expensive endeavor, and could bring risks to whoever is committed to this exercise. On the other hand, without direct involvement, research yield might only stay skin deep. To overcome the accessibility problem, the researcher decided to enter into ventures himself. Essentially this means that there is a social scientist willing take on the role of an entrepreneur, through such involvement to see what entrepreneurial work is really like, from the inside out, rather than from the outside in. He is switching from being an observer to being a participant.

Prior to this, the researcher has invested and co-founded an information technology business in Hong Kong. Over the years, it has evolved into a stable core business. It now comes to a stage when it could be restructured to become a holding company, in preparation for experimentation with new business formation around the core.

That is the background to a series of venture experiments. Two of these experiments will be reported here.

Entrepreneurial Experiment One

The first experiment has involved a formation of a business related to the IT base. One of the projects which the mother company is engaged in has entailed an outsourcing arrangement with a Guangzhou data entry operation. The original data were scanned and shipped from Hong Kong via Internet to GZ for processing, the output was then returned to Hong Kong via the same electronic channel. It was then realized that if this could be done between Hong Kong and GZ, then theoretically this could be done between US and China. A business concept was thus born, to capitalize on the wage differential between the United States and China. The coming together of two groups of entrepreneurs, one from the US and the other from HK (the original founders of the holding company) resulted in a fifty-fifty joint venture.

There is to be a separation of duties between the two teams, one is to do with the securing of outsourcing contracts from United States companies, and the other is responsible for the production and delivery part of the contracts in China.

The original production site has already been set up through outsourcing in GZ, providing service to Hong Kong. So what is required is a matter of gearing this facility up so that it could provide service in English and directing the service to the US market. Formerly it is providing service in Chinese. The operation was already quite sizable and has stable contracts from Hong Kong that will sustain a core of staff for the coming few years.

Running into problem and the search for solutions

While the China side is running in a stable path because of the Hong Kong contracts, the US side soon had their hope of securing contracts frustrated. There were a lot of set backs. One by one, those potential clients as listed in the original business plan projection had politely declined our offers. There were

occasional interest shown, as indicated by the number of pilot and one-off projects, but most had not materialized into sizable contracts.

There was a frenetic rush to find solutions. Change of targeted industry was one. Change of targeted geographical territories was another. Growing into new business networks was the third. We began to eliminate more and more possibilities for lack of breakthrough through trial and error, until we come to realize that it might be our lack of marketing and sales competencies that could be the source of the problem. We began to engage marketing expert in the US to advice on go-to-market strategies. Then we began to experiment with employing professional salesmen in US one after another.

One pivotal turning point happened when the researcher went to see the top management of a leading company in Dallas, and along with my partners, explained the huge benefits of outsourcing to China. Within a week we heard from that company that they will be giving us a contract. If we were able to secure that contract, this will require us to scale up our operation in China ten times over within three years. The whole team was elated and the researcher returned to China to make preparation for the expanding volume of work.

We eventually failed to secure that contract. We began to realize that for a complex sales situation, just employing one or two sales professional would not be enough to cover the vast decision making trees participating as a matter of routine. The whole entrepreneurial team would need to be engaged in the transactional act as well.

We decided to battle on in spite of this huge set back.

The discovery of a theoretically uncharted space

While all the above were going on, just as everyone in the team did, the researcher on this end was desperately trying to make sense of this impasse. Being an academic by training, one of the actions taken was to see if the academic literature has anything to say about this phenomenon. It was at this juncture that the barren knowledge landscape on the relationship between entrepreneurship and transactional performance was first coming into view.

This poverty of academic interest in the transaction arena is surprisingly pervasive, and this is the case across the fields of strategy, management, organization, entrepreneurship and even within marketing. This is strange, when one of their sister disciplines, economics, has completely constructed the core of the discipline around supply and demand (mainstream economics) and around transactional cost (institutional economics).

“In virtually all discussions (), the sale process is the missing piece of the puzzle. Whether you’re looking at Business Week or an in-flight magazine or the latest report form the Harvard Business School, the world of sales and sellers is conspicuous by its absence. It is strange but true. Even though every business would stop dead in its tracks without the sale revenue, the sales process is never discussed in the same breath—or, for that matter, in the same room—as the “strategic” contributions of senior management” (Sanchez et al. 1997, 5)

“In the business literature, on the corporate organization chart, and in the traditional mind-set of most senior managers, sales and management are viewed as separate entities, and there’s little question about which is more important. “ Serious” decisions are made by senior management. The sales force might pump the gas, but it can’t drive the car” (ibid, 6)

This lack of managerial attention might have also affected our academic focus in subtle ways. As a result founder entrepreneurs are suffering from the poverty of understanding of what it is and how it is done, and what kind of innovation potentials exist within that space. There is a complete lack of documentation on the inner secrets of how to bring about transactional breakthroughs imaginatively.

The lack of systematic knowledge and theories on transaction

The underestimation of the importance of transactional knowledge, competencies and imagination to entrepreneurial success is producing repercussions in the educational and training arena. This attitude has resulted in a complete lack of theory. In a typical MBA program, the topic of sales are usually relegated to a minor section within marketing, and one would be lucky to find a few passing remarks about sales management. In executive seminars, the issue of buying and selling is usually covered by the sharing of experience with veteran sales professionals, and their experience rarely got distilled into theories by academics. Academics tends to see sales activity as something that exist beneath the managerial level, something far removed from the strategy making role of directors, something that could be considered solved by the time the executive audience comes for professional upgrading.

Why this lack is particularly serious for the entrepreneurial venture

But transaction is something that makes or breaks a company. The continuing under development of knowledge, competencies and theories can be costly. For an entrepreneurial venture, nothing happens unless one can make a sale. And suffering from the liability of newness, having to make a deal without a brand, without track record, without client reference, without industry reputation could be a daunting challenge. The future of market economies is based on new venture success, and we just throw these adventurers into the water to see if they could swim.

Transactional success is the entry ticket to the market. It is the act of earning the birth-right for the venture.

What kind of theory do founder entrepreneurs want?

The theoretical payoffs for sustained effort in entrepreneurial research could be substantial.

We learnt from the findings of the Nature of Entrepreneurial Work program that there are definite ways for entrepreneur to make impact to the world as well as to make impact to the firm. We understand that to obtain superior rewards it requires the actor to be in tune with the underlying logics in the system, a distinctive entrepreneurial universe. The opportunity to magnify the impact of one’s talent

through mechanisms does exist, because there are mechanisms for multiplication inherent within the market system, and are open to those who could decipher the rules. These vehicles for multiplication come in various forms. An entrepreneur could exercise pervasive impact through innovations in product (as Steve Jobs), in process (as Henry Ford), in sourcing (as Mikimoto) and in distribution (as Richard Sears), through leveraging market forces (as Warren Buffet), through exploiting state-market difference (as Soros), through political relations (as Schindler), through resource re-configuration and re-deployment (as Iacocca). Each of these vehicles, when married to the right contextual shifts, produces quantum jump in performance. When these separate types are put together, a view emerges in which the actors, the multiplication mechanisms, the interpretative orientations, the profit logics, the contextual shifts, the causalities are all inter-linked functionally to form a coherent, self-organizing, and recurring universe. (Tam, 2002)

With this background it would be possible for us to advance a view of participant reconstruction, a view which resonant with the calling for micro-foundations, actor dependent causalities and macro-structure. Commenting on the failure of the dominant literature to incorporate the role of the actor, and how the actor could impact on the larger entities, a few fellow academics have expressed grave concerns about the practical relevance of such form of theory building:

“We are worried that the absence of micro-foundations in the capabilities view (the dominant view in strategic management) may contribute to the disappearing mandate for strategic management. In other words, the possibility of strategic action might become obscured by a firm emphasis on firm level constructs, such as routines and capabilities. It would often seem critical to management scholars as well as strategic managers to understand and to be able to impute actions to individuals, rather than to collective variables. And if indeed routines and capabilities are meaningful variables, both management scholars and strategic managers should take an interest in the micro-mechanisms through which they assert their influence on firm performance. Performance improvement might come about not by selecting new routines and capabilities, but also through changing and influencing the micro-mechanisms through which routine work their influence on performance” (Abell et.al, 2007)

The academic mandate in the eyes of the founder entrepreneurs could be regained. In this connection, we see the study of founder entrepreneurs as providing a natural fit for this advocated line of research pursuit. The nature of founder-entrepreneur’s work demands theoretic insights that bridge the micro with the macro, insight that could inform actors on how to interpret and intervene to bring about venture survival and performance.

- a) Founder entrepreneurs, as micro-actors, are being asked to create macro-structures from ground zero. They need to be the originator of routines and capabilities, among other things.
- b) Founder entrepreneurs, as micro-actors, need to be armed with knowledge of actor-dependent causalities, so that the job of firm creation could begin with conscious understanding. Given the open-ended nature of firm creation, blind search could be very costly.
- c) For founder entrepreneurs, performance separates life from death. It is important that they be well informed on the underlying causalities which could bring about the right kind of performance.

With the current state of literature at hand, we do not know enough about the roles of the founder entrepreneurs. Within the entrepreneurial studies literature, there have been a lot of studies on the personalities, rather than the work roles, of the entrepreneurs. We do not know what special competencies, if any, are needed to fulfill the requirement of this daunting jobs of bringing a firm from concept to life, what sort of causalities one could leverage on to ensure the survival of the firms, and what kind of knowledge would be most useful to the task at hand. Yet this sort of understanding is mission critical.

What should we be looking for?

We learn from the first phase of our research program that it is possible to systematically understand entrepreneurial roles, which could be typologically segregated. We also understand that these roles are stable, recurring and orderly because entrepreneurial performance is tied to market mechanisms. There are only limited ways that the market mechanism could rewards the entrepreneurs.

Once we know that entrepreneurial role systems are recurrent and stable, it would be meaningful for us to move on to the next stage of refined understanding. We could start learning how as actors they could influence the development of the firm. A firm is a socially constructed entity and as leading actors founder entrepreneurs need to know what need to be constructed and how to influence that construction in order that a venture could earn its entry ticket. .

We understand that entrepreneurial interventions are triggered by how the realities are interpreted. And these interpretative schemes are typologically bounded. Different types of entrepreneur's functions within different types of realities. Within each type of reality, founders are responsible for the generation of the interpretative schemes, to ensure a unique approach to the reality for advantage. A market forces player would need to devise an interpretative scheme so that one could following the movement of the market, make sense of it in ways so that one could exploit the situation to advantage. Thus the competence to construct a unique interpretive paradigm would be instrumental to the fulfillment of entrepreneurial role (for example, Warren Buffet and Templeton). On the other hand, a product innovator would need to evolve its own ways of interpreting the changing modes and aspirations of customers, so that products that satisfy those could be designed in accordance with such reading (for example, Steve Jobs and Ralph Lauren). It would be great if the academic world could help them do so.

To regain the academic mandate, we also need to help founder entrepreneurs build theories that would enable them to perform in interactive contexts. In other words, we need to be in search of a type of knowledge which could explain and predict interactive causalities. Consider how we could help an entrepreneur tango with his or her competitors. Consider how we could help an entrepreneur negotiate for contracts. Game theory, negotiation theory would be example that fit into this description.

While we cannot predict in advance the specific *ecology* this kind of knowledge will be put to use, we could predict the *form* that will be. Entrepreneurs as actor need to become the causal mechanisms of firm's performance.. In this regard, we are in agreement with the micro-foundation persuasion.

The research design

While the sample base for the first phase of our research was extensive, encompassing ten industries over ten years, and hundreds of representative cases, the experimental phase will not have this luxury. What we are trying to do is to make this an exploratory, hypotheses generation exercise, in the spirit of Barry and Glazer, with regard to the discovery of grounded theory.

The background is that all these experiments are stemming from the same holding company, which concentrates on large scale systems integration work. The business has been in existence for over sixteen years and has earned a strong reputation and track record with government, finance, banking, insurance, education and logistic clients. Most of these clients are either institutions serving a global city, regional firms becoming global firm, or global firms entering China.

All the experimental ventures are related in one way or the other to information technology and its diverse application areas. The information technology industry is in a very advantageous position because it is penetrating into all aspects of institutions, industries, functions and levels. As such there is no shortage of new venture opportunities around the core.

With this as background, all new ventures therefore are controlled experiments in a certain sense. They are all stemming from the same industry, using the same base technology, invested with the same over-seeing management from the same holding company, working in the same region, into markets with the application of IT, and all with the participation of the researcher as one of the founders in both the holding and the new ventures.

With these levels of control in place, it would enable the researcher to use the constant comparative method, for hypotheses generation purpose. The in-depth involvement of researcher in this arrangement would allow him to find way to map micro-action, trace actor-dependent causalities and hypothesis on how action, interpretation and interaction could be linked to macro-structures and performance.

Entering an uncharted territory

With the above as the theory building ideal, and the matching research design in place, the researcher-entrepreneur will try to undertake two tasks in parallel. Most of the decisions and communication exchange are stored in files and emails, leaving traces of evidence for subsequent analysis and comparative insight generation. He can, also switch into a phenomenological mode of operation, suspending his judgment as much as possible when he entered into the exploratory act. As the Zen master once said, you have to empty your cup before we could fill it up again with fresh insight.

Learning to be humble in face of the transactional challenge

Repeated failures at cracking the secret codes of transactional success, by a group of very intelligent founders (some of them have achieved international repute) had led all of us into a new kind of hum-

bleness with regard to this particular profession. This experience had completely taken away whatever arrogance we might have with regard to the transactional vocation. Commenting on the management's lack of regards for the sales function, Sanchez et.al, specialists of the sales processes, have this to say:

“The people who generate the revenue are often treated like Forrest Gumps. At best, their essential work is taken for granted. At worst, senior managers view it as a necessary evil” (ibid, 6)

They also quoted the work of Robert Atkins, a partner with Mercer Management Consulting, published in Business Week, as testimony: “I don't know a lot of CEO's who are paying *any* attention to their sales channels. (ibid, 6)

They also tried to explain why this is so:

“As dangerously counterproductive as this situation is, there are logical, or at least traditional, reasons why it exists. One is the view of the sales rep as a slick-talking con artist—the kind of character who peddles refrigerators to Eskimos. Another is the image of the rep as a shuffling Willy Loman—somebody whose main ambition is to be “well-liked” and who is rightly seen as a loser. Underlying these stereotypes is a corporate peculiarity: the fact that, with a few notable exceptions (IBM's Thomas Watson comes to mind), CEOs and other senior managers have never done any selling themselves. Their careers started in operations and finance, and they have never been educated about what a salespeople do” (ibid, 6)

Working with sales people, and venturing into taking up some sales functions by the founding teams themselves, had taught all of us, how hard it could be. The empathy was particularly strong with regard to how they need to handle rejections day in day out and still need to charge ahead with a smiling face. It is a tough act learning how to reinvigorate oneself defeats after defeats.

The Puzzle

But still the puzzle remained. After a few years banging our heads against the proverbial wall, we were still going no where. What does it take to close a complex deal? To us, and to the sales people that we have engaged to enter into the US market, there was an unfathomable mystery with regards to the other side of the exchange equation. There were no perspectives and paradigms which could be good enough to guide us to deal-making, to understand what potential clients really wanted and what was needed to close a deal.

Meanwhile the resources for the venture were being drained away by the blind search.

It was amid this crisis that a series of surprising discoveries begun to come to the fore.

Series of surprising discoveries: transactional core breakthrough, transactional context re-structuring and transactional context leveraging

The turning point came, after a few years of struggle in securing contract from US without success, in the form of an accidental encounter with a sales master in Hong Kong. This encounter, along with the series of interviews and observations with other masters that follows, had completely reversed the re-

searcher's understanding of the transactional universe. Eventually a new perspective for understanding the role of founder entrepreneurs in the transactional space emerged. This new perspective will have multiple building blocks. The most fundamental part is: what does it take so that entrepreneur could make transaction possible? There in we find the unique **recipe of conversion** as a product of founder's search and deliberation. Then we find that on that basis of having achieved breakthroughs again and again, the entrepreneur will usually grow in confidence and gain a sense of mastery. Over time some will move on and take up the challenge of re-structuring the context of transaction. This is a big step up because with this new framework thus co-constructed, large volume and continuous flow of contracts could be processed. Therein we see the creation of **conversion mechanisms**. This framework by itself might not be sufficient enough for the entrepreneur to bring in the level of certainty that would be required to push the enterprise into a firm foundation. The next step up we see the founder entrepreneurs undertaking something more abstract in nature. This is to do with the uncovering of contextual shift, the mental tracing of the **demand formation mechanisms**, thereby finding ways to leverage the forces in the situation. Contextual shift will push the multitude of customers into the pipelines of the firm's conversion framework.

Levels of transactional performance

This series of discoveries would not be possible without first encountering a sales master. After having met with so many sales in US, and having formed a view of what sales is about, I have come to assume that complex sales must be met with a lot of hurdles, and that sales cycles must be long, and the reject rate must be around 80 to 90 percent. This sales master appeared against this background, and presented an immediate contrast.

Observing how this sales master arrives at a deal is analogous to seeing how a chess master makes his moves. My first observation of him has lasted for hours, which included his explanation on how he would exhaustively prepare for the kill. After the deal has been struck, he would also explain how he did it, and why he did what during. This goes on for a few times until I got the sense of the pattern involved. The central thrust is simple. He does not sell. He would thoroughly research the possible positions of the counter part, and thought through the options of the counter-part well before the meeting. For each options he would find ways to structure a win-win structure so that the counterpart would find each irresistible. The ways he could always find a way to work out win-win structure is eye-opening, reflecting abundant resourcefulness. Should he not be able to find these structures, he would decline entering into a deal making situation. In other words, he would try to conceptually win the battle before he starts the war. During the interaction, his mind could always work out a few steps ahead of the counterpart, which give him ample time to cover contingencies and maintain control over the unfolding conversations.

His performance is stellar. His success rate is the reverse of the norm, 80 to 90%.

His presence suggests that there is an alternative way of approaching the transactional situation, a complete reversal of the way of the low performing sales. He has evolved his own perspectives to

make sense of his counterparts, who could come in different shapes and sizes. He has evolved schema of interactions which he could liberally deploy in different scenarios. He could thus anticipate the sales processes and work out scripts of standard response, saving energy for contingencies. He would have many win-win solutions stored in his mind so that he could mix and match, modify to fit, or redesign spontaneously around basic blueprints.

The existence of this alternative means that transactional situation is open to multiple interpretations, thus making it possible for actor to exercise influence over the course of development and perhaps control the outcome.

This encounter has ignited my curiosity and encouraged me to hunt for newer approaches to enhance sales performance.

And there are. As more and more cases began to come in, they seem to fall into distinct categories.

As far as the sample allows us to generalize, there are five levels of transactional performance we could discern.

Level One refers to those founders who do not have interest in sales, those who have been mindful about the sales situations they went through, and those who have not developed the requisite sensitivity to the intrigue of sale. Sale is someone else's business. I belong to this type before I put myself through entrepreneurial experiments.

Level Two refers to those founders who could not conclude deals no matter how hard they try. They might want to learn about sales but do not know how or from whom. They have not encountered sales masters, nor have they been inspired by the possibilities these master could open. They have not been able to appreciate the meaningfulness and challenge of sale. Sale is a necessary evil. Sale is a duty, and is a hurdle to be overcome so that you could then move on to the real thing. Sale performance is a chancy affair.

Level Three refers to those founders who could see the meaningfulness of transaction, challenged by it, and is excited by the kill. They have developed repertoire of scripts and standardized responses to map to multiple sale situations. They could also improvise on the spot. They are passionate about the art of making deals and could read the counterpart like a book. They know how to bring deals to closure in spite of odds and perform well across a variety of customer types. They come to realize a unique approach to go beyond the hurdles and bring both parties to a deal. And the basic core of this conversion has a common form. It lies somewhere in the successful search, conception and construction of a win-win structure.

Level Four refer to those founders who not only could excel in deal making. They could migrate to the entrepreneurial level and is capable of conceiving and constructing multiple and overlapping macro-structures. At the core it is an ability to dynamically construct symbiotic relationships across multiple participants in the external context and integrating them together to form durable structures, thereby forming value creation and value exchange flows. Whereas level three is more concerned with concluding single transactional deals one by one, level four is concerned with the clustering of contextual units into grand structures so that large volume of deals could flow through. Because of this,

the difference in the level of performance between level four and three could be quantum. We will label this kind of work as **context re-structuring**, and illustration of how this works will follow.

Level Five refer to those who not only excel in deal making and those who could construct multiple symbiotic structures. It refers to those who had developed unique perspectives to decipher contextual shifts and could find ingenious ways to leverage those shifts to couple with the macro-structures to bring in permanence, stability and growth. Again the performance difference between level five and level four is quantum, because of the rare competence to inter-relate the deal-processing mechanism to a massive demand pipeline. We will label this kind of work as **contextual shifts leveraging**, and illustration of how this work will follow.

What separate transactional failure from transactional success: finding a unique recipe pertaining to the specific type of transactional interface

The turn of fate for an entrepreneurial venture from failure to survival is finally becoming clear: the founder has to be in search of a unique win-win structure which could become the key to unlock the firm or industry specific transactional impasse. What separates the unsuccessful from successful sale lies in finding a unique way which might work the magic to overcome the specific kind of apathy, doubts, hesitations, anxieties, or whatever reasons which stop the potential exchange partner from crossing the line.

The transactional impasse that we have encountered in our first entrepreneurial experiment is not unique. Consider the case of Larry Ellison, the founder of Oracle. When the relational data-base product was first present to the potential customers, it was considered a laughing stock and no body believed it could work. It was considered too much of a toy and could never become a work-horse in the enterprise computing universe. It had taken Oracle ten years of hard work and Larry's Ellison considerable ingenuity to overcome this anxiety and doubt. (Symonds and Ellison, 2003)

The success in finding a win-win structure could be conceived as the pivotal, conversion trigger-event. How to ensure that the two parties could arrive at a win-win structure is something that is going to demand huge ingenuity and possibly conceptual jumps. This is analogous to that of a task master who needs to work with the material for a long time so that he/she could discover a special way to converting the materials into product. Beyond that point, a piece of stone will no longer remain a piece of stone for long, when it reaches the hands of Michelangelo. A hamburger is more than a hamburger when it reaches the eyes of Ray Kroc. Artistic mastery and transactional mastery are analogous. Crossing that bar is what marks the novice from the master.

The following case might reveal the same difference between what separated the McDonald brothers from Ray Kroc. The case is to do with one of the founders of a global courier company.

What does a courier company sells? The answer is that this is a glorified mail room outsourcing business. It involves helping companies to dispatch mails in a more efficient manner so that one could save on mail room cost. This way of conceiving the nature of this business would not be able to explain the phenomenal growth of the industry and would not be able to explain the differentiation of

courier companies. For after all, how could you differentiate on the basis of having the messengers running between a company and the post-office?

This founder, who has a biology background, got a job in a factory in Hong Kong which required him to frequent the airport for the export of cargo. There he began to be intrigued by the inner working of the cargo and logistic world. His biological back-ground probably enabled him to construct his understanding of the logistic world in terms of ecological cycles. His entry into the courier world was by invitation of three original founders in the United States. These original founders were trying to expand their business to Hong Kong from the original base in California.

He agreed to join them and started off with a modest base. He tried at first to build up his pool of contracts by providing courier service to those American banks with presence in Hong Kong, thereby capitalizing on the geographic link between Hong Kong and United State for document flow management. Progress was relatively slow.

His real breakthrough had come from a new realization. He saw a new way of constructing a win-win structure at the cross-section between factory operations and banking service. He came to learn that specific to factories in Hong Kong, mostly export oriented, were in need of three sets of capital to operate. The first set was to be invested into fixed assets, including the factory premises, the machines and the like. The second set was to be put into the employment, the raw materials, in the form of circulating capital. Then there is a third set. Because output were for export, the payment cycle could not be concluded without having to go through lengthy cycles. A typical cycle would incorporate time for shipment, custom clearance, ground distribution, warehouse acceptance, and shelving into stores. The same applies to the documents that accompany the goods, having to pass the hands of forwarders, shippers, customs, ground handlers, clients, bankers. Only after all these cleared and verified will the exporters have their money back. Thus the third set could easily tie up more capital than the first two because most of the time the goods are either floating on the sea and in transit, and the document could be held up in the red tapes.

Here in lies the need for a solution: if the documentation could be speeded up, from months to days, then the amount of capital required for the third purpose could drastically shrink.

This discovery fundamentally altered the fate of the courier enterprise in question.

So while the amateurs were selling cost saving for the mailroom, which was modest; he began selling the solution for using courier service to dramatically restructure the financial situation in factories.

The gains are huge for both parties of the exchange. Less financial tied up, faster recycling of capital, huge saving in interest, more business with less money, opportunities enlargement for the factories. For the courier company: exclusive access to the top echelon of factory management for a messenger service, locking factories into long term secured contracts, becoming an integral and critical part of the exporters business cycles, growing dependencies of the factories on the exporters' business as they grow, and the externalities benefit deriving from securing contracts from the entire value chain, once a player in the document flow process has granted entry.

Therein we see the power of the conceptual jump in changing the fate of an enterprise.

The symbiotic opportunity so discovered, conceived, and converted into a win-win structure is, at its core, an entrepreneurial function. This is but one illustration of the kind of transactional imagination that needed to be in place in order that the transactional impasse so typical of new founded enterprises could be overcome.

The contract is the product of entrepreneurial ingenuity. The process of arriving at the contract deserves serious entrepreneurial studies. It is particularly critical for entrepreneurial scholar to grasp at the challenge of achieving sale at the founding stage. Because by the time a whole batch of sales professionals are being dispatched on the road to make the kill, they will be following the founder's innovated recipe. Studying transactional behavior at this stage, as fait accompli, we will only get at something that has already been converted into routines and mostly been taken for granted. The working of the micro-foundations and causalities could no longer be grasped at this stage. That is why most of the popular books on sale are for the sales professionals working within a taken-for-granted framework, and provide limited clues to the entrepreneurial challenge of how to construct the framework for the sales professional in the first place. Inventing the phone is very different from using the phone.

The transactional role of this courier service founder, Mr. Po Chung, who is now the retired chairman Asia of DHL at the time of the interview, is analogous to that of the founder of Estee Lauder. She was trying to sell perfume to the American ladies at a time of extreme social conservatism. Immediately after the war, the buying of perfume was a preserve of the boyfriends and husbands, or directly only by those who are engaging in night life. And these boyfriends and husbands were miles apart in guessing at the aromatic aspiration of the opposite sex to be making the right choice. But the social stigma would prevent these ladies to lay their hands on the perfume themselves.

At this transactional impasse, we saw the entry of Estee Lauder. She innovated in a completely new way. She will not be selling *perfume*. She will be selling Youth Dew, as *bath solution* instead. This stroke of genius has enabled the middle class perfume market to be made wide open. This transactional breakthrough is one of the foundation stones for one of the world's largest cosmetic companies. Just as Po Chung would not be selling *messenger* service, he will be selling *capital re-structuring*. That opened a pathway to help the factories, right at the beginning stage of the industrial revolution in Hong Kong. Soon each and every industry—garment, fashion, toys, electronics, electrical, printing and packaging, watches, etc--- that are coming into being would embrace this service, launching the DHL service to new height.

Whereas at level three the founder entrepreneurs are entrusted with the role to search for a key to unlock the market, to invent a conversion methodology to make transaction possible, the kind of work on level four and five will represent entrepreneurial attempts to move the secret recipe onto a massive scale.

Sometime the realization of a recipe to solve the three upper levels challenges could happen at the same time, but this is rare. Here these three levels could be treated as analytically separate so that we could see the underlying logics in its entirety. It is from the discoveries of these upper three levels of

endeavor that we begun to see the link between micro-actor and macro-structures and then onto performance. In the following, we will describe in further details how these are done.

But before we go into the details, we need to continue with asking the central question. How could such a critical role of founder entrepreneurship remain so invisible to the researchers? The first reason: by the time the field researchers arrived at site, by definition the transactional riddle must have been solved, or else there will be no firm to study. As we begin our discovery on the fourth level, we see the second reason. This level of work has escaped the attention of the field researchers within the research sites because the bulk of transactional activities are usually conducted within client sites. This is especially true of the business to business kind of transactional activities, which both of our experiments are engaged in. Because of the criticality of securing contracts to any company, researchers are rarely allowed to participate. And since complex sale easily takes a few months or even years to conclude, accessibility has always been a problem. Thus the transactional front had remained quite hidden to the academic world. Theoretical treatment on a subject without empirical reference is difficult to come by, as a result.

“ Even Michael Hammer and James Champy, who wrote () *Reengineering the Corporation*, reveal the same blind spot as other business gurus when they claim, “ sales is not a process, but a department.” When () asked why he and Champy had included in their book so “few examples of re-engineered sales and marketing processes”. Hammer’s explanation? They “weren’t available... They weren’t ready to be discussed when we wrote the book” (Sanchez, *ibid*, 5)

And it was only through privileged access as a result of participating in entrepreneurial experiments that the inner sanctum of the deal making world could come to be revealed.

What is coming to view is startling, because there are large chunked of edifice constructed *external* to the organization, that are critical to the survival and prosperity of the venture, that has not been accounted for in the dominant literature.

The importance of the transactional phenomenon has been sanctified in the economics literature as the center piece around which theories are constructed. In the strategy, management, organization and entrepreneurship literature, however, this phenomenon has been side-lined, diminished, underappreciated and relegated to an insignificant corner. Our conception of the transactional challenge has been reduced to the act of sale. And sale is defined only in terms of the salesman job. While the popular literature is full of treatments on the art of salesmanship, the academic literature, however, has entirely missed the centrality and criticalness of the interactive relationship between entrepreneurship and the transactional sphere. There is no serious study on how the entrepreneur could or should relate to the transactional challenge.

1) Context re-structuring work

Part of the reason why this kind of entrepreneurial work has remained invisible is that the results of the work, macro-structures, are usually scattered across multiple organizations. Those studying individual

organization might find this of tangential interest, therefore insignificant and inconsequential. The following case will illustrate the point.

There are a few contextual elements scattered all over China. First are a few electronic factories in the coastal provinces. Second is a group of government officials in the interior provinces, thousands of miles away. Third, there is a huge group of young girls and boys working in farming communities under the provincial administration. Fourth is a batch of retired supervisors from electronic factories in the Southern provinces. They are totally un-related to each other and each leads an existence separate from the other. No transaction could possibly exist between them—without intervention.

An entrepreneur comes into the picture.

He discovered that the electronics factories are suffering from huge labor turnover, as the coastal provinces are increasing prosperous and full of alternative employment opportunities. For each worker recruited and trained to be ready for assembly work, the factories would have to spend RMB 5000 as cost.

He also discovered that those government officials are given a policy to find ways to relieve poverty in their remote provinces. Then he learnt that these young boys and girls working in the farms are dying to go to the cities and find work. A factory job could bring in multiple fold of what they could earn from a farm.

Armed with this knowledge, he struck a series of deals with the electronic factories, promising each that he could provide the needed labor for them. They will be recruited, trained and made ready for selection in accordance with their customized needs, for RMB 3000 each. The factories readily agreed.

He then went to the government officials, to propose a poverty reduction solution: He would provide training free of charge for farm boys and girls, and if they are good they will be given jobs in the cities. To join this program, the officials would need to select the best and the brightest from these farms that are available for this purpose. In addition, they need to provide training facilities, perhaps converting some underused government offices for that purpose. These officials were delighted by this god-sent solution. They just ordered some of the government buildings to be allocated for this dedicated use.

The boys and girls are over-whelmed by this arrangement. By nodding their head they earn training opportunities that are free of charge training and the prospect of securing a job in the cities. They will do this with the full support from government, and they will be migrating to a new place of work accompanied by friends.

Those retired electronic workers find their way into becoming the teachers and trainers, a job which use their skills but paid higher.

The entrepreneur has string together a multi-party symbiotic structure, creating value to each and every participating party. His cost of recruitment, training and dispatch is RMB 1000 per worker.

The training company, which the entrepreneur founded, has now successfully trained and dispatched 10,000 youngsters. The target just within this industry is 100, 000. He plans to replicate this arrangement to other industries and other provinces.

That is only one of the many examples that we have been exposed to. There are numerous other ingenious designs of multiple and overlapping win-win-win structures which are being uncovered.

The underlying FORM to these examples is: Mental switching is the pre-requisite for an entrepreneur to move one step up in the ladder, away from isolated deal making. To make that transition from singular deal to structured flow of deals, there is yet to be a new kind of paradigm shift. This paradigm shift needs to result in an overall concept which could embrace and convert dispersed, unrelated contextual elements into resources. These resources are then stringed together to form a symbiotic structure like piecing together Lego blocks. This symbiotic structure is then made to function as a processing mechanism for converting raw contextual elements into ongoing value creation and value exchanges. It is meant to be able to process a flow of deals instead of just a one-off deal. The processes required to pull this off could very messy, involving multiple rounds of negotiation and bargaining, and multiple mixes and matches. We will gloss over these messy steps in this paper.

Conversion could take place on a massive scale

Because our exclusive focus in this research has been on figuring out the nature of entrepreneurial work on the transactional sphere, which is on the *interface* between the firm and its context of exchange, we have so far put aside our focus on the operation core activities. This is where most of the exciting things are being reported to be happening: the locus of innovation and re-invention. Here you have the likes of Menlo Park, a laboratory for experimentations on finding a transformation process to turn these raw materials into a light bulb, and those materials into a micro-chip. We might as well call this as **the transformational space**, in contrast to **the transactional space** this paper is concentrating on. (For the concept of operation core, see Mintzberg (1979)) But even here we are beginning to witness a striking parallel. If we consider the role of the *operating core as a transformational mechanism*, we could consider the role of these *symbiotic structures as conversion mechanisms*. It is about the conversion of contextual elements into resources so that they could create marketable value; it is also about the conversion of doubters into buyers so that transactional value could be realized.

The massification of internal transformation requires the massification of external conversion as a precondition. Through gaining access to these examples, the role of the founder entrepreneur in the transactional sphere has just come to view. When the singular deal structure is reconceived into a mechanism capable processing large scale deal flow, in other words into a mechanism of mass conversion, this is analogous to the re-conceptualization of handicraft operation into an assembly line operation. It is a Henry Ford kind of contribution, albeit that it is happening in the transactional sphere, not in the internal transformational sphere.

Once we move onto the massification level, then the **target** of the transactional operation shift from individual to population, from singular preference to social aspiration. With this we now reach the point where we began to appreciate the need for contextual shift leveraging work. What has the more brilliant entrepreneurs been doing with regards to the other side of the transactional reality? To be able

to make this mental shift is what has enabled Ralph Lauren, formerly a tie salesman, to become the grand master of dream fulfillment.

2) Contextual shifts leveraging work

The first major breakthrough in our exploration has been the discovery of a bewildering variety of conversion mechanisms, conceived and constructed by founder entrepreneurs across industries. But even more surprising new discoveries are waiting for us around the corner. There is yet another level of transactional imaginativeness, which could push performance up another quantum level. To fully appreciate this requires an ability to see the missing piece in the mass conversion mechanism construction.

In our earlier work we have identified the importance of paying attention to the contextual shifts (Tam, S, *ibid*), but we have not seen how contextual shifts could be leveraged operationally. A contextual shift refers to a convergence of discontinuities in the environment which collectively re-conditions the existential circumstances of certain targeted population, thereby invalidating the usefulness and relevance of the current supply conventions. As a result of contextual shift, entire population will have their tested and truth existential based removed, and will be forced to move on in search of new solutions.

Because we had not been able to zoom into the transactional sphere in our first phase of research, the interpretive and interactive interplays with contextual shift in the concrete were not captured. This time we discover that there has to be a conversion process, but on the demand side of the exchange equation. Again this is largely invisible to the non-discerning eyes. And this is usually kept as top business secret. Entrepreneurs would not want to publicize how they “see” their customer except for the part which could be released for public consumption. The unique Customer Picture as a rule is not released to the public because of the need for the firm to differentiate.

Need for contextual insight: the logic

To bring this into the open for the purpose of this research, let us start by retracing the logic. Perhaps with the following illustration, we could have some idea about the kind of challenge these transactional innovators would have to face. The movement of China from a centrally planned economy to that of a market economy is a contextual shift. Prior to that there were the gathering of strong forces which collectively created this discontinuity, and given that these new set of forces will grow in intensity, this trend is predicted to last for a long time. As a result the existential conditions of all Chinese in the Mainland are being fundamentally altered. But how do you convert your observations about the impact of this social reconditioning event, which is creeping out in every seams of the society in varying form, in different intensity, and in endless proliferation of ways into a coherent theme?

For without a coherent image of how these are being converted into concrete demand, your enterprise could not provide a focused, structured and stable supply of solutions through the transactional sphere.

Without such understanding how could you visualize what the emerging transactional reality will likely be, and how would you position your company in advance for a leading position within this emerging reality?

This is a test of interpretative excellence.

In other words, if social reconditioning will dislodge the existing consumers from their comfort zone, into what concrete pockets will they be forced into? Where is the new catchments area, and what should the entrepreneurs be building within that new catchments area so that the full benefits of the contextual forces pushing the potential consumers into new pockets could be leveraged and captured?

The choice of this focal theme could determine whether an enterprise could become a great player or a passenger. There are a lot of passengers, those who had failed to leverage on contextual shifts.

Demand formation chain

The search of contextual insight should ideally end up with a mental product: the demand formation chain. Why do we need that kind of conception?

The economics literature could start its theory construction effort with the concept of demand. The entrepreneurship literature does not have the same luxury. Entrepreneur has to probe much deeper, to conduct an infinite regress into a series of pre-conditions which could give rise to the demand, and in most cases, to participate in the articulation of the vague feelings into concrete expression of demand. The infinite regress will hopefully guide us to the ground of certainty on which great enterprises could be built. This focuses on the other fifty percent of the transactional reality and requires another form of transactional imagination.

Imagine an entrepreneur conducting business in a city facing the sea, on the brink of a continental block completely engulfed in Communist transformation. The city operates on a Capitalistic norm, a colony operating under British influence. This city's livelihood has always been based farming, fishing and on trade, which was interrupted by war in the Pacific. After the war and the beginning of Communist transformation around the city there has been an influx of textile manufacturers, relocating from the Mainland, who brought in industrial production on a scale much larger than the recovering agricultural, fishery and trading sectors. Along with that came a natural extension of the textile foothold, the fashion and garment industry. The industrial sector further gained ground as a plastic flower industry began to take off. You were one of the major plastic flower manufacturers, one of the few who could see the benefit of turning the refugee influx to be factory workers. Business is working very well for you, your factory has been growing by leaps and bounds.

If you were an entrepreneur living through the same set of circumstances, what future do you see?

The entrepreneur in question saw a crisis that was coming and decided to completely withdraw from the plastic flower industry. He sold it out at the peak of the industry, when everybody was still having a rosy dream. He also saw something else emerging on the horizon, and decided to switch into it, full force and full throttle. He saw something that most did not see, despite the fact that most contemporaries are living through the same set of circumstance.

One of the hallmarks of an entrepreneur is that he/she could *see what other people could not see*. But there is no systematic study on what and how these entrepreneurs see, and why seeing what other people could not see are so important. This “seeing” is the foundation of strategy-making and for the entrepreneur in question, strategy switching.

To completely commit entrepreneurial resources to a direction *for decades* would call for the development of ingenious ways to ascertain the future. For without that sense of certainty how could entrepreneurs develop macro-structures? Macro-structure needs to be sustainable, and within the context of exchange, large scale transactional processing must presume large scale demand flow. There has to be a continuous reproduction of demand in order that these could be sustainable. And this reproduction mechanism needs to be discovered. How could one construct a career structure for thousands of employees, and enable each of them to secure a long term future with the organization, without a sense of what the business will be coming from? Creating a career structure for thousands of employee is different from seeking an employment in a company. It is a completely different task.

The entrepreneur in question saw the following:

- a) The influx of refugee was going to continue unabated. This would result in the swelling of the population. This influx was assured because of the ongoing transformational experiments in China. This would bring in an increasing number of workers and business talents from the rest of China. There would be additional inflow of capitalistic talents to this colony, beyond the first batch of textile manufacturers. When the trading heritage, competencies and global network were combined with industrial production competencies, there would be more and more export-oriented industries being born to meet the need for worldwide increase in consumption. The cutting off of China would deprive China from competing with Hong Kong for this growing market. And the fact that Hong Kong had been able to carve out a niche from Japan in the textile and manufacturing field was an indication of the viability of an alternative industry formation model.
- b) These immigrants would need jobs and would need shelter. When the trading competencies and the industrial competencies coupled together with cheap and eager labor, the future expansion of industrial transformation could be assured.
- c) The land was fixed and not expandable. Demand for industrial and residential land would grow in leaps and bounds, dependent on the influx and the success in industrial expansion. Industrial land use pattern was fundamentally different from the trading land use pattern, therefore the existing way of thinking about the land use reality will increasingly be invalidated. The transformation of land use pattern would give rise to new needs for which most existing players would find it difficult to comprehend. The trading operation requires limited space, and warehouse and shipping would need to be modernized. Hence there is a need for a new kind of land use providers.
- d) The existing pattern of residential land use would need to be different as well, thus invalidating the relevance of entrenched players who are content with low rise, small population logic.

e) The unfolding scenario was predicted to be the acute shortage of land and the ever growing need for more space. Space would become the most critical shortfall, and as therefore the most valuable commodity.

He saw a land use revolution about to begin. He decided to abandon plastic flower work and switch to become a real estate player.

Logic distilled from empirical patterns

The above, in it's abstracted form, is not a unique case. In our phase one research, the cases covered ten industries and over 80 in depth samples. When combined with our new round of studies, we are now in a position to revisit our previous case, and fill in the details in between. The logical flow is now clearly discernable:

--Contextual shift is a result of a convergence of discontinuities. It has two parts. On the one hand, one sees the weakening of the forces field which was responsible for the production, reproduction and maintenance of the existing transactional order. On the other hand, we see the gathering strength of the new set of forces. This new set of converging forces--their continuing strength and gathering momentum would need to be carefully ascertained and constantly monitored--will collectively constitute a new force field, and bring about a new transactional reality.

--This contextual shift will cause social re-conditioning via the production of a new force field and the dissipation of the current force-field. What has been taken for granted as matter-of-fact will increasingly be invalidated, events contradictory to the expected and normal will crop up to give signal to the discerning eyes. But the same impact of social re-conditioning might not elicit uniform response. This is because it is bound to be producing impact on a population with vastly different initial conditions, degree of entrenchment, response elasticity, and gain & loss calculus. Thus one could presume that there will be differential pockets of transactional readiness and affordability. Only a minor set will have the right level of purchasing power to form a new demand structure.

--To be able to ascertain the mechanisms responsible for the production and reproduction of the presenting phenomenon would be critical. And there could be multiple mechanisms and cycles in operation. For example, the change from a farming background to an industrial background will significantly raise a population's purchasing power, which brings affordability to the new kind of residential premises too luxurious to dream of before the new force field has come into being. This is one example of the underlying causalities that a founder entrepreneur would have to watch.

Examples of self-reinforcing, mutually feeding chains of causality in the new force field would run something like this:

Influx of refugee → cheap labor → increase industrial competitiveness → more industries could prosper → more industrial land will be needed

Influx of refugee → more social provision needed by government to maintain law and order → government need more financing → increasing dependence on land sale as major source of income → government land price policy locked into this reality and become predictable

Influx of refugee → industrial wage earners outnumber those with fishing and farming background → more purchasing power than previous regime → new kind of housing could be affordable
Influx of refugee → more residential space needed → land scarcity increase → land price increase

The net result of the new force field is the vertical up-shoot of demand and fixed land supply. While the pocket, pace and purchasing power might not be entirely predictable, the level of certainty this analysis could bring about is such that it could assure an entrepreneur to bet on this future

Once the entrepreneur is made assured that these pre-conditions and the reproductive mechanisms are not going away, then this constitute a base on which we could exercise the transactional imagination.

The two sides of the transactional reality could now come together to give a two sided picture. On the one side, the understanding of the demand formation mechanism and reproduction cycles, which is our level five concerns. On the other side, the readiness and ingenuity to construct large scale transactional structures, which is our level four concerns. Inter-relating these two give us a more comprehensive picture: mass transaction requires mass demand as pre-condition.

For the specific entrepreneurs in question, the possibilities for servicing the real estate need with critical shortage in sight now call for another level of ingenuity. His effort has been translated into a multiplex of win-win structures in different extended form. He then inter-related these structures into a holistic cluster to be able to serve the flood of demand, leveraging on his insight. Let us see the range of symbiotic structures which he could consider building up:

- 1) Structure one: from construction to real estate development to interior design & decoration to property management
- 2) Structure two: the land acquisition to land conversion value chains
- 3) Structure three: land financing, construction financing, mortgage financing, to re-mortgage financing provide a foundation for interlinking banks, real estate developer, users, speculators together
- 4) Structure four: Government land sales, tax, stamp duties, land titles administration to be working in harmony with real estate development need.
- 5) Structure Five: Real estate developer and lawyers on the property right side
- 6) Structure Six: Real estate developer and the real estate sales agencies, banks and finance company over the creation of the primary and secondary market.

Impact of Transactional Imagination

Combining the context restructuring work with the contextual shift leveraging work has lead this entrepreneurs in question into a leading player in Hong Kong. The powerfulness of playing with our imaginative faculty on both sides of the transactional reality could play off handsomely.

The roles of the founder entrepreneurs in the venture formation process

In this paper we have identified three roles for the founder entrepreneurs within the transactional space

- a) to create the recipe of conversion
- b) to create transactional processing mechanisms
- c) to leverage on the demand formation process

All of the above requires extensive interpretation of and intervention into the external context. Given the limited space of this paper, we have only distilled the basic forms without going into a lot of contents.

Implications for theory:

The nature of the firm: the dual core metaphor

Viewed from the angle of this discovery, our dominant literature in strategy, management, organization and entrepreneurship has missed out on the transactional imperative.

The underlying model of the firm would need to be reconceived.

Our dominant metaphor, which has informed theoretical formulation through the concept of the firm, has been based on that of a single nucleated image.

There are various expressions of that metaphor: There are different ways of seeing the firms, but most are based on an underlying image of a single nucleus: the transformational core.

- a) an input—transformation core —output model
- b) a core and peripheral model (core competencies) (Hamel and Prahalad)
- c) a technical core and the need to protect the stability of the core (Thompson)
- d) the operating core concept as at the base of all organizational forms, which is a synthesis of most of organization literature up to that time (Mintzberg)

Our finding indicates that our dominant metaphor has better be changed, if we want to make our knowledge relevant and useful to entrepreneurs. There are so many entrepreneurs who started the enterprises with a misconception that only one set of core competencies will make it work. There is a huge area of knowledge, competencies, relationships that need to be in place that are missing entirely from the literature. The information technology, for example, is full of entrepreneurs passionate about the promise of technological transformation, but has no clues on how to get those wonderful ideas to the market.

We are proposing that if we want to see to it that a firm could be alive and kicking, it has to have two cores. One core will remain the same: playing the operational role. The other core will have to play the transactional role. To make a distinction between the two cores, we will consider the first one

as being engaged in transformational role. The core process for the second one is the conversion process.

Making the conversion core visible

If we take this dual core metaphor, it would mean what it takes to make the thing could be conceived as entirely different what it takes to sell the things. It requires two kinds of core competencies. It is subjected to two sets of logics. Performance breakthroughs, like those in the transformational side, also require paradigm shifts.

So far our knowledge on the second core is still very sketchy. But the transactional horizon is full of amazing creativity and masterly acts, waiting for us to explore.

The roles of the founder entrepreneurs: dual task model

If we follow the argument above, we need to think about the roles of the founder entrepreneur in new ways. There are now at least two core sets of roles

- a) to ensure transactional success
- b) To ensure transformational success.

What we need to think about is whether the two core sets of role might actually demand different sets of knowledge, competencies and network base. That whether asking the core competence to be from the same person would be too much of a stretch. What we have discovered is the issue of cumulative advantage in the transactional sphere. Our observation of the job of transactional innovator indicates that solution generation resourcefulness is critically dependent on knowledge, competencies and relationships, in particularly those who could produce and reproduce a cumulative and ever-widening network of contacts. Just having knowledge would not bring in a lot of solution resourcefulness. Because the construction of symbiotic structures requires a lot of mixes and matches, you need to have a lot of relationships, or a large pool to draw on for information, ideas, pattern of evolving trends in order than this could be multiple. Pure theoretical knowledge and rapid learning through books will limit the innovative possibility. The analogy with Lego is instructive; you need to have pools of concrete building block in order that you could build out the structures.

New knowledge building tradition needed: The founder, micro-foundations and macro-structures

The founder entrepreneurs are probably among those who are most critically in need of the kind of knowledge which are conceived and formulated on a philosophical foundation which stresses actor-dependent causalities, on micro-foundations and on macro-structures. This kind of knowledge could turn a situation from death to life, from low to spectacular performance. Let us reconsider what

kind of knowledge challenge is being put before us if we want to help founder entrepreneurs do what they have to do? Perhaps the most critical one is for founders to ensure that the new born could earn its birthright. But unlike biological procreation, which is a result of thousands of years of encoded evolutionary knowledge, entrepreneurial creation regularly come into being without all the necessarily ingredients for survival. It is a contrived existence, based on limited understanding, and from what we have discovered, a lot of misconceptions. The statistics of venture procreation is littered with high mortality, as much as ninety percent.

In this research, we have identified how actor could play a part in flipping a situation from failure to conclude deals to creating value through contracts, by finding win-win structures. We have also seen actor could change the transactional reality by re-structuring the contextual elements. And we have seen that spectacular performance could result from interpreting the context in intelligent manner. The theoretical link between actor and macro-structure could be established.

Conclusion: the use of new theory

Entrepreneurial Experiment II

This paper will conclude with a brief report on the second entrepreneurial experiment.

Because the holding firm is already quite well established in the information technology field in Hong Kong, there is no shortage of proposals coming to us for collaborative ventures. But since the failure of the first experiment, we have instituted a new ground rule in our screening for new partnership. This ground-rule is a direct derivative from the theoretical findings we have outlined above. The ground rule is, unless there is a clearly identifiable transactional master in the core team, we would not enter into the venture at all.

The reason for us to insist having this transactional master is because of the phenomenon of cumulative advantage that we have discussed before. We realize that it is not just a matter of pure knowledge application that could make a venture come to life. It is a matter of competence in coming with win-win ideas and solutions that will be critical for ensuring market acceptance. These solutions would need to be implemented externally. Profusion in solution generation would need to be based on a person's familiarity, perceptiveness and ability to tap resources from the pools external to the venture boundary. Both contextual restructuring and contextual force leveraging would need to have extensive network base to produce the Lego effect.

Great masters are very difficult to come by. We had rejected a lot of proposals based on the teaming deficiencies. Without the new learning and ground-rule in place, we might have been tempted to consider quite a few of those proposals in depth. But we now reject most outright once we realize that the hypothetical sales master has been missing.

Eventually we encounter one. This ground rule has helped us considerably. There is not only a sales master, but also a core of veteran sales professionals who will be joining if this venture would be launched.

Soon a new experiment is launched, to capture a particular niche within the Hong Kong information technology industry. The firm has made profit the first year. It has proven itself further in the second year, growing by about one hundred percent when compared. Client base has swollen to make a significant dent into the banking and finance sector. Then we secured entry into another global industry, integrated logistic.

Since the second year, we have been experimenting with context re-structuring work. This has not worked out well, because the core sales team was too busy meeting and exceeding quota.

In this third year, we are putting in dedicated resources so that the context re-structuring work could proceed with focus and vigor. In the coming years we might be able to report on further developments.

The contrast between the first and the second experiment is like night and day.

END

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