

The Wharton School of the University of Pennsylvania
2019

MGMT 816: Building Human Assets in Entrepreneurial Ventures

Professor Peter Cappelli
Office: 2025 SH/DH
215.898.2722
Cappelli@wharton.upenn.edu

Class meets Monday 3:00-6:00 PM Huntsman

Course Overview and Objectives

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

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

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

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

Objectives:

At course completion, we should have:

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

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

Class Format and Preparation

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

Course Materials

Required: *The Founder's Dilemmas: Anticipating and Avoiding the Pitfalls that can Sink a Startup*. Available at the Penn bookstore.

All other readings will be available in study.net accessible via our Canvas course site. They include cases and materials to support the concepts in the class discussion. There will also be handouts distributed throughout the class.

Optional Materials:

If you are interested in pursuing concepts related to the course, the following sources may be of interest.

- 1) Constance E. Bagley and Craig E. Dauchy, *The Entrepreneur's Guide to Business Law*. West Educational Publishing, 1998.
- 2) The Kauffman Foundation www.kauffman.org has a wealth of publications about entrepreneurship and management.

Grading and Evaluation:

Class Participation (30%)

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

skills); 4) a critique involving outside evidence or logic; and/or 5) a citation of relevant current events or personal experience to the discussion that moves the discussion forward.

Final Quiz on the Readings (20%)

This is a simple quiz, short-answer, multiple choice, designed to see who has done the readings. The quiz will be our final class day, **March 4th**.

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

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

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

Some suggested approaches:

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

Deliverables for the Final Project:

Outline (10%): Each team should post on Canvas a 1-2 page outline of their project. The outline should (1) briefly describe the company or organization of analysis, (2) briefly describe the approach to the final paper, and (3) identify the key concepts that will be applied to the company or organization of interest. This is due **FEBRUARY 22nd**.

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

- Interpretation. In the practices, events, or outcomes under study, demonstrate an understanding of what is important, why it is important, and how the organization arrived at the current situation. Appropriately apply class concepts to the phenomena under study.
- Specificity. In your analysis and recommendations, be very specific about what actions a manager should implement. Justify and defend your recommendations.
- Execution. Given the current state of the organization (their resources, culture, politics, etc.) defend the ability to execute your suggestions. Identify potential issues with your recommendations.
- Originality. Be creative with your analysis and recommendations. Identify potentially unexpected ways to implement your suggestions, and potentially unexpected consequences of implementing the suggestions.

This assignment may be completed individually or in small groups (2-3 members). If you have questions about the feasibility of your project, please check with me in advance.

The most common mistake with this project is assuming we have access to a company and then finding out at the last minute that it is not there. This is due just after our last day of class, **March 6th**.

Initial Goal Statement and Background

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

Readings and Weekly Plan:

1st class – WEDNESDAY January 16th: (we revert to Monday after MLK day) *Guest Presenter: Karen Chang: Head of Talent LPP Partners*

Introduction: So you want to start a company?

2nd class – Monday January 28th

Finding and Acquiring Talent: *Guest Presenter: Neel Bhatia, Managing Partner, Greentree*

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

assess the quality of talent when looking to do a valuation of a firm – who is important to keep, who should we let go?

Case: Mark Pitts – Linda A. Cyr; Michael J. Roberts **Product #:** 801414-HCB-ENG
Making the hiring decision.

Study Questions:

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

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

Michael Roach and Henry Sauermann. 2015. Founder or Joiner? The Role of Preferences and Context in Shaping Different Entrepreneurial Interests. *Management Science*.

Founder's Dilemma: Chapter 4 – Relationship Dilemmas – Flocking Together and Playing with Fire. Chapter Eight - Hiring Dilemmas- The Right Hires at the Right Time.

Peter Cappelli, “A Market-Driven Approach to Retaining Talent,” *Harvard Business Review*, January-February 2000, pp. 103-111.

Lying On Resumes Podcast: <https://businessradio.wharton.upenn.edu/bestof/in-the-workplace/?h=a3o2a>.

3rd Class – Monday February 4th Compensating/Rewarding the Players

Guest Presenter: Jon Weinstein, Managing Partner, Pay Governance (Wharton MBA)

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

Case: Stock Options at Virtua.Net. Harvard Business Publishing.

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

Ramana Nanda, Robert White, and Stephanie Puzio. 2015. Equity Compensation in Start-up Ventures. *Harvard Business School Publishing*, 9-815-074.

Founder's Dilemma: Chapter 6 – Equity Splits and Cash Compensation

“Should You Ask About Pay History?” Podcast:

<https://businessradio.wharton.upenn.edu/bestof/in-the-workplace/?h=jrpvL>

4th Class – Monday February 11th Scaling and Shaping the Structure of the Organization

Guest Presenter Sandy Ogg, Operating Partner Blackstone and founder of CEO Works

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

Case: How VanceInfo Grows Big Fast. Stanford HR Cases.

Study questions:

1. What wrinkles does the Chinese context bring to this case?
2. What are the pluses and minuses of doing an acquisition as opposed to the practices that VanceInfo used to get bigger

Readings: “How Entrepreneurs Craft Strategies that Work.”

“Organization Structure and Management Systems,” (chapter 6) in *Contemporary Strategy Analysis*, 5th Edition by Robert M. Grant. 2005. Blackwell Publishing.

Baron, James N., Hannan, M. T., & Burton, D. M. (2001). Labor Pains: Change in Organizational Models and Employee Turnover in Young, High Tech Firms. *American Journal of Sociology*, 106(4), 960-1012.

“Expertise in scaling up is the visible secret of Silicon Valley,” *Financial Times* September 2015.

Founder's Dilemma: Chapter 10 - Failure, Success, and Founder-CEO Succession

5th Class – Monday February 18th Designing and structuring the organization.

Guest Presenter: Daniel O'Meara, Partner, Ogletree, Deacon (Wharton MBA '89). Dan will outline non-compete agreements, employment contracts, and other legal issues facing start-ups.

Culture is important in all organizations, and the most important moments for shaping organizational culture are right at the beginning. For better or worse, the initial decisions

made by founders play a crucial role in determining what the culture will be, whether it will serve the needs of the organization and help it thrive or lead to dysfunctional behavior. What are those initial decisions, and how do they play out to form culture in start-ups?

Case: Mayonnaise Disrupted: How Did Josh Tetrick’s Company Become a Silicon Valley Darling, and What Exactly is He Selling? *The Atlantic Magazine*, November 2017.

Study Questions:

1. Are there any downsides to what Tetrick is doing?
2. What will this company look like in 5 years?

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

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

“The Downsides of Mandatory Fun” Podcast:

<https://businessradio.wharton.upenn.edu/bestof/in-the-workplace/?h=r7zAr>

6th Class Monday February 25th So You Want to Be Acquired? Managing Acquisitions and Mergers

Reception with board members from Wharton Center for Human Resources, all of whom lead (and many founded) entrepreneurial companies in the human capital industry. Reception is at 4:30.

The goal for many entrepreneurs is to be acquired, for others in order to get big enough to survive, they need to acquire another company. How can we prepare for that possibility? If it happens, how do we manage it?

Powergraphics – an exercise. Program on Negotiations, Harvard Law School.

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

Cisco Systems: Acquiring and Retaining Talent in Hypercompetitive Markets, from Charles A. O’Reilly III and Jeffrey Pfeffer, *Hidden Value: How Great Companies*

Achieve Extraordinary Results with Ordinary People, Harvard Business School Press, 2000, pp. 49-74.

Joe Bower, “Not all M&As are Alike – And That Matters”, HBR March 2001.

“A Standout Year for Deals, in Volume and Complexity.” NYTimes Jan 3rd 2016.
<http://www.nytimes.com/2016/01/04/business/dealbook/a-standout-year-for-deals-in-volume-and-complexity.html?emc=eta1>

----- March 4th is Spring Break ----

7th Class Monday March 11th What Can You Outsource?

Guest Presenter, Nathan Christensen, CEO, Mammoth HR

An option for many organizations is to outsource some of their operations. That is especially appealing for small companies that lack the scale and resources to master functions that are not their core business. Increasingly, these companies look to vendors to take over human resource tasks. What are the issues in thinking through whether that makes sense, and, if so, how can we do it thoughtfully?

Case: Yes Bank. ICMR Center for Management Research, Hyderabad.

Peter Cappelli, “HR Sourcing Decisions and Risk Management.” *Organizational Dynamics*, 2011 Vol. 40, 310-316

Paul Adler, “Making the HR Outsourcing Decision.” MIT Sloan Management Review, 2003, Vol.45 No.3. 53-60.

A Summing Up – Founder’s Dilemma: Chapter Seven- The Three Rs System – Alignment and Equilibrium.