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Entrepreneurship & Innovation

with subject:

(A) Book Review: "The Strategy Paradox"
(B) Case Evaluation: "Hotmail: Delivering e-mail to the world"

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ABSTRACT

This report is separated in two parts.

The first is dedicated to a book review, namely ***"The Strategy Paradox: why committing to success leads to failure" by Mr. Michael Raynor,*** which is a radical approach on how a company can embrace uncertainty. Its reading gave us the stimulus to recall a number of principles and techniques used in the modern management. We compare and learn from a given number of cases, which had a common parameter: ***the strategic planning, its orientation*** and finally the introduction of a number of tools, which entrepreneurs can use in order to be prepared for the future.

The second part is a case analysis that refers to entrepreneurship. We analyse the case study of Hotmail trying to understand and utilize a number of findings that are closely related to the principles of innovation within entrepreneurship.

Both findings were impressive and useful for further reference.

SUMMARY

Purpose – In the first part of the report *(book review)*, we are trying to clearly understand and extract all useful meanings that author *(Mr. Michael Raynor)* includes in his book (main idea, purpose, strengths & weaknesses). In continuous, through comparisons, evaluation and critical thinking, we pursue to incorporate these ideas, the tools and the philosophy illustrated, as our findings for future implementation. In the second part, through a case analysis we develop a number of issues related to entrepreneurship. We review

Design/Methodology/Approach – The report is consisted of two parts. Both parts are based on a query-approach analysis. Thus, their development is articulated around a number of issues related to the nature of the given questions. In order to accomplish the requested research a number of academic resources were used such as technical reports, journals and books.

Findings – Uncertainty is not our enemy but a strategic component of the global environment. Instead of trying to predict and fight it, it is better to embrace and understand it. There are principles and tools that can help us to achieve this. We are living in an inescapable world of trade-offs so as a result it is a necessity to think differently. We must learn to face the unexpected future because future favors the prepared minds.

Entrepreneurship is the ability to transform an invention to a viable business. This transformation needs continuous effort and real knowledge for the firm, to create growth and maintain its sustainability. Recognizing opportunities, selecting business models, preparing business plans, collaborating and finally getting funds are some of the crucial stages that take part in this transformation. Innovation is present everywhere and it is necessary to be combined with the entrepreneurial spirit.

Research limitations/implications – All material processed are derivatives and conclusions of research made by various groups of authors/scientists on this issue. We have tried to include material that has approached the issue in different ways in order to cover the subject in a broaden manner.

Practical Implications – This report is aim to help, on the one side, the researchers to find some structured and compressed knowledge on the abovementioned issues, whiles on the other side, the entrepreneurs to incorporate a different approach in uncertainty and the meaning of launching a new venture.

Originality/Value – This report was prepared as the second paper to submit for the MSc in Technology, Innovation and Entrepreneurship course (University of Sheffield – CITY Liberal Studies). The relevant module for which is submitted is the ***"Entrepreneurship & Innovation"***, with module director Dr. Panayiotis Ketikidis.

Keywords – Strategic planning, forecasting, strategic uncertainty, strategic flexibility, commitment, adaptability, forecasting, entrepreneurship, passion, commitment strategic partnerships, venture capital, financing.

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A. The Strategy Paradox – Book contents representation
B. The Strategy Paradox – A model as we perceive it
C. The Strategy Paradox – Structured illustration of the most important parts of the book (for the reader to remember)

INTRODUCTION

The first part of this report is dedicated to a book review. The ***"Strategy Paradox"*** of Mr Michael Raynor, is an important book, worth to read, which introduces an innovative approach regarding strategic planning. The author in his book points out that ***"strategies with the greatest possibility of success also have the greatest possibility of failure".*** [1] This is what he calls ***"the strategy paradox".***

Companies, which are pursuing high returns, undertake in consequence a high risk, which implies ***high exposure in the area of uncertainty***. Most companies rather prefer to stay in the middle (mediocre) trying to avoid this exposure. In fact, they prefer to gain less for nothing.

Therefore, companies that avoid strategic risk may survive, but do not prosper.

In the second part, ***we are reviewing the case of Hotmail***. Trying to answer in a number of queries, relevant to its launch, financing and the incorporation in a partnership network, we have made a research in a number of resources to investigate a series of issues. These are, the nature of ***business partnerships***, the launching of a start-up firm – ideas and opportunities – ***the entrepreneurial spirit***, funding issues, a business plan and its importance, the benefits of a having a clear business model.

Both parts help us to catch a clear view, of the importance of having a continuous innovative approach in any entrepreneurial effort. In addition, we have realized that it is crucial to learn to think in a different perspective. ***Think big – think globally – think different***. A number of essential meanings were further researched and developed, close related to the abovementioned issues.

Finally, we conclude that it is necessary to incorporate and embrace these findings in our future entrepreneurial standing.

PART A: Book Review

Michael Raynor,

"The Strategy Paradox: Why committing to success leads to failure [and what to do about it]",

Doubleway Broadway Publishing Group, 2007

CHAPTER 1 – Book Analysis

The traditional function of strategic planning which follows a specific procedure so far, is proved inadequate in order to face the necessities of our era. According to the philosophy of the author, ***this function needs to be re-invented,*** if the company would like to be more flexible and effective.

Strategic planning includes two basic components: ***forecasting and commitment***.
Although forecasting is a cornerstone of the strategic planning, it is impossible to forecast as accurately, as it is required. ***Forecasting*** incorporates ***prediction***, but prediction ignores ***uncertainty***. In addition, assumptions and extrapolations – *parameters where usually depends a strategic plan* - are only a description of the future, as we perceive it, based in the present circumstances. Nobody can foretell the future, as this is ***"a possibility space"*** *(according to Mr Raynor),* where all possible outcomes may appear. One basic component of the "possibility space" is the ***ubiquity of randomness***. Therefore, in result a range of outcomes may happen.

Uncertainty defines the strategic and operational environment today. We cannot tell where the next threats will come from, and when they will materialize. [2]

The orientation of a company to the ***strategic success*** may sound an excellent target, but hides possible obstacles, difficult to overcome when they appear. This happens as ***most strategies are built on specific beliefs about the future***. They are called ***expectations***, but should the future not turned out as expected, it is impossible for the company to adapt.

Excellent strategies can fail simply because the conditions, in which they are built on, never happen.

The author in this book is presenting a number of real cases, where the common conclusion is that ***the ingredients of success are the same as in failure***. In fact, the prerequisites of success are often the antecedents of failure. It sounds also as a paradox, but based in a number of surveys, he has concluded that the best performing companies have much more in common with the failed ones, than with the mediocre. The only real difference between them is ***"luck",*** where luck signifies all the series of events that may go right or wrong, in a way that the company could catch or not its targets.

Although many surveys have been done over a number of succeeding companies, and various models on "how to succeed" were introduced, few have focused on failed ones. Most of the times this happened as it were difficult to find available data for them. ***However, this is a challenge***. It is necessary to investigate on why "someone fails" rather than on why "he succeeds". This in-depth analysis may protect us while in parallel enriching our perception's criteria and give a more broaden approach.

Regarding the second component of strategic planning, ***commitment***, it is mentioned that a successful strategy allows an organization to create and capture value. A strategy by default requires significant commitments, which are the ***strategic commitments***.

Commitments are powerful determinants of success, because they make the strategy difficult to be imitated by the competitors. In this way, the company acquires hard-to-copy, hard-to-reverse configurations of resources. Commitment that changes is not a commitment and it is declared in the book that strong commitments take time to bear fruits, so they ***do need time*** to come true. However, commitments are not enough by themselves. They may end to failure, if the strategy proved to be wrong. In addition, they cannot be adapted should predictions prove incorrect. Companies that are pursuing the most commitment-based strategies may have highest returns, but also may suffer from catastrophe.

The strategy paradox is a consequence of the need to commit to a strategy despite the deep uncertainty about which strategy to choose. This is the ***strategic uncertainty***. Uncertainty is not an afterthought. It has to be placed ***at the top of the decision making process***, by the highest managerial levels of the company.

The strategy paradox arises from the collision of commitment and uncertainty. The aim should be to relate and manage those two, as successfully as possible. There is a need to make strategic commitments in the face of strategic uncertainty.

The strategy paradox is a structural problem. It is an inevitable consequence of the benefits of making the right commitments with the impossibility of knowing if these are the right ones.

In addition, adaptability cannot resolve the strategy paradox. To resolve this, a new way of thinking and approach is required. ***Resolving the strategy paradox*** means wrestling more effectively with the inescapable reality of unpredictable and potentially radically changing future.

Adaptability is far less useful than we might like. Actually, it has limits. The bottom line is to realize ***that adaptability is viable only when the pace of company's change matches the pace of the environmental change***. In the situation that this change moves faster or slower, *where no match exists*, ***adaptability is not sufficient***. As mentioned above, companies cannot adapt their commitments should the strategy turn out to be wrong. Something to focus on is that, most competitive environments are characterized ***by multiple rates of change,*** creating the impossible obligation for companies, to need to change at different rates at the same time.

Forecasting as previously mentioned, has its limits as well. Past performance is not necessarily an indicative of the future events. One more parameter is ***randomness***. The lack of order in combination with the free will, generates different actions and responses as they follow diversified rules. Anyone who tries to predict in a long-term basis is wasting his time. In addition, it is impossible to use forecasting in order to substitute the limits of adaptability.

So far, we conclude that two major functions should be focused. ***The management of commitments and the management of uncertainty***. These should be two different things, which will be delegated in different groups of people, within the company. It seems that these two, appear to be the key elements for the company ***to learn to face the unexpected future***.

The effort to manage the strategic uncertainty has a critical importance for the company, as it establishes the base to differentiate its value. It forces the company to find ways for mitigating risk, without compromising performance. To understand the meaning of mitigating risk, first needs to clarify the equation between risk and return.

Adopting the traditional hierarchical model in management, where the upper level management always plans for the company's future and the middle and lower levels with more operational and functional tasks, we can easily understand how this delegation could take place.

Some people in the organization should have the responsibility of mitigating risk, while others to provide exposure to promising opportunities for the company. ***Senior management should focus its efforts to manage uncertainty***, as they are responsible for longer time horizons. In the book, we often find the use of the term ***"corporate office",*** meaning the top-level management of the company implying the CEO and the senior management. There is a referral also in the shareholders and their expectations from the managers.

Lower levels should focus on delivering on the commitments already in place, as they are responsible for shorter periods. Time is the fragment. Time is the resource. Time is the parameter, which divides the management of uncertainty from the management of commitments. ***Upper level people go for uncertainty while lower level for commitments***. To face uncertainty, a CEO should occupy in building strategic options rather than making strategic choices.

In other scientific approaches, it is underlined ***the need*** for separating the longer-term robust strategies, from the shorter-term corporate strategy. It is wise for the organizations that make their long-range planning, to adopt the use of simple scenario techniques to explore their possible future and then develop suitable robust strategies to address these outcomes. [3]

Somehow at this point is introduced the meaning of ***"requisite uncertainty".***
Requisite uncertainty provides the foundation for separating the management of uncertainty from the management of commitment. ***Each level of the hierarchy is defined by its relationship to managing strategic uncertainty***.

The degree of connection between:

- the hierarchical level,
- the time horizon and
- the degree of strategic uncertainty,

is the base upon managing uncertainty is delegated.

The principle of the ***"requisite uncertainty"*** helps top management to identify the parameter of uncertainty as a necessity for the strategic planning and therefore incorporate its management in the overall philosophy. The next step is a big challenge, as this mentality obligates the company to change its organizational design, in order to allocate responsibilities, according to the degree of relation due to uncertainty.

This model of management adopts the principle of requisite uncertainty.
Through this principle, it is clear that a well-functioning hierarchy of a company is differentiated by the degree of strategic uncertainty that is addressed to.

The book suggests that a company should learn to face the unexpected, with the use of a number of tools provided. These tools will give the ***strategic flexibility***. Strategic flexibility is the ability to implement the kinds of strategies that can deliver outstanding results, while minimizing the company's exposure to the vagaries of fate.

A traditional definition of strategic flexibility would say that it is the ability of firms to respond and successively adapt to environmental changes. [4] [5]
We conclude that the author really things differently and gives a fairly wider meaning to strategic flexibility as described below.

Strategic flexibility is the corporate framework, for managing strategic uncertainty through the creation of strategic options. The author, adopts the traditional definition, but goes further adding another dimension. We clearly realize that this is the major weapon to face uncertainty and protect the company from ***"bad luck",*** or otherwise, all those uncontrollable events that may appear in random order. In addition, without strategic flexibility the company cannot create superior value and sustainable competitive advantage. [6]

In a dynamic business environment, the most successful companies in terms of profitability and growth are the ones with the highest dynamic capabilities. Among them is the strategic flexibility. ***It is the toolkit to cope with uncertainty.***

A genuinely flexible strategy has two primary ingredients: ***scenarios and real options***. Scenarios allow the company to take seriously the uncertainty of the future, while real options make it possible to act in a manner calibrated to that uncertainty. To grow strategic options, it is needed to create scenarios. Scenarios should be used as input in the strategic planning process. This is the scenario-based planning, which is the responsibility of the senior management, whom time horizons are long enough to contemplate strategic change.

In fact, there are limits of what can happen in a time horizon that is under consideration each time. The proverb that "anything could happen" is not true according to Mr Raynor. There ***are*** limits and the scenario building is a tool for determining which these limits ***are***.

At the corporate level, the challenge is to build an optimal strategy for each of the possible outcomes. To analyze these strategies, it is necessary to determine the core and contingent elements of the company.

Scenarios serve to crystallize and preserve disagreement among the corporate office's team members about the future. This diversity of opinions, fosters an environment where different scenarios with different descriptions and different futures are cultivated. As a result, the company has a portfolio with a range of plausible future conditions, within which possibly, the company might have to operate. Disagreement is not operating versus consensus, as at this phase, ***disagreement raises fundamentally strategic questions***.

In the book is introduced the Holveck's framework for the strategic flexibility which has four phases. [7]

Anticipate:

- not just predict but work on every possible scenario,
- identify drivers of change,
- define the range of possible futures,
- determine which are plausible

Formulate:

- develop an optimal strategy for each scenario,
- compare optimal strategies to define core and contingent elements

Accumulate:

- core and contingent elements,
- commit to the core elements,
- take options on the contingent elements

Operate:

- monitor the environment,
- determine which optimal strategy is most appropriate,
- exercise relevant options, combine with core elements

Senior management should try to make simulations of possible future outcomes and design relevant alternative strategic plans (create options). Each level of the hierarchy should contribute from its own level, while the great challenge at this point is ***how to ensure that each level makes the relevant contribution to every other in the company.***

We are living in an inescapable world of trade-offs.

We consider the title of the book a good one, as it implies the radical approach of the author to ***the issue of embracing uncertainty and put it in the core strategy of the company***. Alternatively, we will propose another title based on what we have understood so far, which is the following:

"Managing requisite uncertainty: the trade-off between the present and the future"

(question 1)

CHAPTER 2 – Further understandings & outcomes

The purpose of this book is to fuel the hope that although the future is uncertain, our fate does no have to be. By reading it, we are exploring the differences between a strategy on hubris and a strategy on humility, while in the end the conclusion is that a strategy based on humility is a better and nobler way to think about the future of a company. A strategy totally devoted to success may lead to failure, if the parameter of uncertainty is overlooked. Strategy and futurity are inextricably bound together. Therefore, in result, the challenge is of thinking clearly about a future we cannot see.

The book suggests that instead of committing in one win-loose strategy, it is better working more by handling a portfolio of strategic options. Nobody can predict the future but instead may work on possible scenarios to create strategic options. ***Uncertainty needs to be embraced.*** Fortune favors the prepared minds.

(question 2)

This book is addressed to the managers of all levels within a company. As described in the above pages, all levels need to contribute and participate in this philosophy. A small emphasis is given to the upper level management though, as these are the people who will decide to incorporate or not the principle of requisite uncertainty and the toolkit of strategic flexibility in the company's strategic planning.

(question 3)

A number of cases were presented, Sony-Matsushita-Microsoft-J&J, where analysed the success or fail in a number of products. Although this analysis sometimes was too deep as much space of the book devoted to this, technical details and differences in strategic approaches each time defined the result.

We have learnt never to underestimate the future outcome. It is an area where we have to study more, in order to be prepared. As there are limits in adaptability and forecasting for a company, in the same way, there are limits on what could happen in the future. The issue is to learn to face the uncertainty by embracing it, through a number of principles and the use of required toolkits. A change of philosophy is requested.

(question 4)

If we could mention a number of new words that we have learnt from this book, these will be the following:

► **Strategy paradox:** strategies with the greatest possibility of success have the greatest possibility of failure.

► **Strategic uncertainty:** the need to commit to a strategy despite the fact that we do not really know which strategy to follow.

► **Strategic flexibility:** means the ability to change strategy according to a portfolio of alternative strategies that create real options for the company.

► **Strategic commitments:** a strategy to be implemented with possible success needs commitments, these are called strategic commitments.

► **Possibility space:** this contains the probability of any given event to happen at any given point in the future, which means all possible outcomes.

► **Ubiquity of randomness:** events are subject to inevitable randomness (randomness means lack of order or pattern).

► **Requisite uncertainty:** according to the author, to survive, a company must differentiate the management of uncertainty from the management of commitment. Requisite uncertainty is the framework-the principle, which will help the company to obtain this.

In fact, these words are not entirely new, though the approach and the relation between them lead us to the fact of accepting them as new ones.

(question 5)

To avoid standing in the middle (mediocre), it is essential to learn walking in the edge. Exposure to high risks means high returns and high rate of failure. If we do not accept failure, we will not learn how to innovate. Failure is not a fear but a challenge. Companies need to change constantly on every aspect of their activities. This is a common approach analysed also in the unit's lecture as well as at the book, where a change in the perception of how a strategic planning should developed, is introduced. In addition, modern entrepreneurship and intrapreneurship incorporate the task to learn facing uncertainty (strategic uncertainty), while in parallel try to find ways to handle it (requisite uncertainty – strategic flexibility). What the author is suggesting here is that for a company to gain growth and prosperity needs to embrace uncertainty and adopt it as a part of its living process. Innovation targets to company's growth. Innovation and entrepreneurship opens windows of opportunities, which are necessary especially when a company is obliged to re-invent its strategic planning. No need to mention that innovation as a philosophy may unfold in all hierarchical levels and create the conditions for a company to manage both uncertainty and commitments. Creativity and ideas generation, may be proved valuable assets, for a company that needs to adjust its pace of change with the environmental changes. Brainstorming and focus groups, are important components for the upper level management (*the corporate office*), whose responsibility is to create options, prepare the environment and mitigate risk through scenario-based strategies. Minimizing the exposure of the company to "bad luck" means, a flexible organizational culture, acquisition and adoption of technological advancements, innovative spirits, open minds and willingness for taking risk.

So far, we assume that a number of links have already been mentioned between the unit and the book.

(question 6)

It is interesting that the author succeeds in giving a full-blooded description of his thoughts from the beginning of the book. Starting from the traditional philosophy of how the strategic planning is currently designed, he unfolds his thoughts through critical thinking, comparisons and reviews based in cases and previous findings of other scientists. He indicates the strategy paradox because of the need to commit in the face of unavoidable uncertainty. A number of alternatives are examined, while the conclusion is the necessity for separation between the management of commitment and the management of uncertainty. These two factors have to be focused in order for a company to learn to face the unexpected. Requisite uncertainty, is the new principle introduced and the critically important tool for applying it, is the strategic flexibility. Top management should occupy with the management of uncertainty, while operating managers should focus on delivering on commitments.

(question 7)

While strategy requires commitment, much about the future is simply unknowable. So far, strategic planning is mostly based on predictions. Whole strategies of companies are based on assumptions and forecasts demanding high commitments, dedication and consensus by the people. But what happens when the strategy turn out to be the wrong one. In this book, the author introduces the balance between commitment and flexibility in a world of increasing uncertainty. By widening our focus from simply the pursuit of success to include the ever-present uncertainty, we will achieve the growth and sustainability of the company. Obtaining greatness, means accepting some failure. Pursuing high return, means exposure to high risk. The "strategy paradox" is a guide for managing risk.

(question 8)

It is true that by the end of reading, one main idea is alive. ***Uncertainty is not our enemy but a challenge, which we have to learn how to embrace it. By incorporating uncertainty in the company's strategic planning, we achieve to prepare it for the future.***

(question 9)

As previously underlined, this book develops a new philosophy and approach of how to interact with uncertainty and how to face it. In appendix B we present a model of the strategy paradox as we perceive it, considering that an one-page illustration of the most important elements of this philosophy are easier to kept in mind and learn.

(question 10)

In our effort to transfer the whole concept of the book 200 years earlier, which means during the 18^{th} century, we are trying to simulate a number of bone-meanings and their possible differentiation now and then. The idea of planning is the same. Future action plans and their design in the present circumstances remain in the same philosophy. Uncertainty was always the unknown parameter and pursuing ways to overcome it a necessity. Therefore, the backbone (first five chapters) of the book is the same for both eras. The differentiation starts from the methods we can use to incorporate uncertainty in the core strategy of a company. Nowadays, the available tools with the presence of technology are much more innovative and effective. Strategic flexibility and the framework to deal with the management of uncertainty and management of commitments, can find significant technical support.

Probably the changes would be in the set of tools that we would propose if we had lived on that period. More or less in the same manner, we concluded in the previous technical report that have been submitted for the module of "Knowledge Society & ICT Policy", where the subject was related to the Communities of Practice. The idea of using Communities of practice as a tool in the companies was the same throughout the years. The changes that took place were mostly related to the incremental availability of a number of technological advancements during the years.

(question 11)

The book starts with the conclusion that strategies with the greatest possibility of success have the greatest possibility of failure. This is the strategy paradox. In the first chapter of the book it is covered the meaning of what is the strategy paradox (*What Strategy Paradox?*), who is responsible to face it and when this may take place. In the next chapters 2, 3, 4 and 5 a number of parameters are presented strictly connected with the why this happen (*The Best-Laid Plans, Who dares wins or loses, The limits of adaptability, The limits of forecasting*). Next chapters, until the end of the book (chapters 6-11) are addressed on how to resolve the strategy paradox effectively and what to do in order to incorporate its philosophy within the company's strategic planning.

In the appendix of this report, there is a representation of the book's contents for the clear understanding of how the book is organized. (Appendix A).

Regarding the 4W's and the one H, we adopt a more in-book approach and try to match these questions with the main idea of it. Not to forget that the cause is ***uncertainty***.

- **Who,** is responsible to face the strategy paradox
- **What,** is the strategy paradox?
- **When,** this take place
- **Why,** strategy paradox happens
- **How,** to resolve the strategy paradox

(question 12)

Great strategy requires having a bold vision of the future. However, the future is uncertain and cannot be predicted. Therefore, a great strategy may fail. For this reason, uncertainty has to be incorporated at the core of the strategy. The smart way to prepare for an uncertain future is to develop a portfolio of strategic options. Core competences of the company have to be used as a platform. The highest managerial levels should occupy with creating options rather than making commitments. Full commitment to the execution of a specific strategy, should occur at the functional level.

(question 13)

The book is separated in two parts. In the first one (the first five chapters) the author presents the philosophy of the strategy paradox, giving and analyzing a number of cases. A number of reasons are discussed and ***uncertainty*** resides in the center of this analysis. In the second part, which in our opinion is the most exiting and interesting part of the book (the rest six chapters), the author develops his proposal on how to embrace uncertainty and place it in the center of a company's strategy. Suggestions are real, based on facts and experiences while additional meanings of current management are used to combine his thoughts with the scientific aspect of resolving the strategy paradox.

(question 14)

PART B: Case Evaluation

Hotmail: Delivering e-mail to the world

CHAPTER 3 – Case analysis and outcomes

3.1 How did Hotmail come to develop its unique business idea? What light does this throw on the process of detecting an opportunity for a new business venture?

Both Hotmail founders (Mr Sabeer Bhatia and Mr Jack Smith), were involved in the new technology era, as they worked for Apple and later on in other Silicon Valley companies. ***The early 90s was a milestone for the companies involved with the new technologies.*** The years followed were characterized by the digital freedom and the continuous technological advancements, open to the public.

As the business environment was changing, new opportunities were born for those who had the foreseeing to grab and turn them into ventures. A number of start-up companies had already begun to open the road showing the path for adopting new perspectives. Bhatia was inspired by the "Silicon Valley dream" and he was sure that ***his ideas*** had the characteristics of ***being an opportunity*** to launch a firm.

In addition, he demonstrated ***a strong entrepreneurial spirit***, since he was passionate of pursuing opportunities in the specific industry. On the one side he was frustrated with his current job, while on the other side, he was energetic, self-confident and most of all persuasive, as he finally managed to persuade his colleague Jack Smith to accept his idea of launching together the start-up firm.

Therefore, at the beginning there was a common motive. They both wanted ***to pursue their own ideas***. In general, to become an entrepreneur <u>three primary reasons</u> are responsible: (a) to be your own boss, (b) to pursue your own ideas and (c) to realize financial awards. [8]

All of the above count here, but mostly the second one. At this case, the founders would like to build something more important and that was the big challenge for them. ***Passion and commitment*** were identified in their extraordinary behavior, as they kept on working with full dedication, no matter the obstacles. We have concluded that their wish was to create ***an entrepreneurial start up firm*** rather than a salary-substitute or a lifestyle. ***They wanted to create value and then disseminate this value to their potential customers.***

They did not quit their regular jobs, but instead preferred to work in parallel. An entrepreneur is usually ***a moderate risk taker***, thus he chooses to act under specific constraints, which guarantees a sort of security. However, working under constraints implying new ways of thinking and innovative approaches.

The primary idea was to create a database for storing personal information over the internet. They named this product Javasoft. Not as innovative, as it was beard out in the end.
Next, they started to look for funding. In order to pursue for financing, the entrepreneur must have in mind ***a number of criteria that usually the investors are asking***.

- ✓ Experience in the area of the proposed business
- ✓ Skills and abilities that will help the business
- ✓ A solid reputation
- ✓ A record of accomplishment of success
- ✓ Passion about the idea

Their primary presentations to the potential investors failed, as they received more than 20 rejections. All failures pointed two elements: (a) the idea seemed to lack distinctiveness and (b) both the founders had lack of experience.

There is a difference between an opportunity and an idea. Simply generating ideas is not adequate, since this is not combined with recognizing opportunities. ***An idea may not meet the criteria of an opportunity.*** Therefore, there are three ways to identify an opportunity: [9]

- **By observing trends**
- **By solving a problem**
- **By finding a gap in the marketplace**

By observing trends, it is possible to identify business opportunities. Forces that affect the trends are the economic factors, social factors, technological advances, political action and regulatory statuses. At this case, we have recognized crucial changes in some of these areas, which meant ***a formation of new environment***. In 1995, the financial situation in US became better after an economic recession. Since 1994, the full privatization of NSF (National Science Infrastructure) network opened the new medium of internet for commercial activity. It is important to remember that during the past years, the use of technology and the network - later known as internet - was a prominent area only for the army, the governmental services and slightly for the academic community. As a result, this public-oriented change caused the birth of a number of Silicon Valley companies, which were introducing highly improved technological products. The proliferation of computers and the globalization of industries created a new framework for people. Therefore, ***almost all forces had cooperated to guide the society to a technology-driven future***.

As mentioned earlier, the founders had decided to introduce a web-based database software but this idea did not work out. They return but they did not retreat. They were self-confident with tolerance in ambiguity and optimistic disposition. They agreed that, to continue working for improving their idea, was the right think. Therefore, next step was to improve their idea and their business plan and afterwards continue searching for potential investors. ***An opportunity must be attractive, durable, timely and anchored in a product, service or business that creates or ads value for its customer.*** [10]

They continued their regular jobs and started to exchange plans and ideas for improvement through their business e-mail addresses. This was too risky. They were already employed and as regular employees, they were afraid of possible monitoring from the company. Therefore, they decided to use their personal AOL e-mails. They had bad luck though, as the company put a firewall system in its IT structure so no other e-mails could be used, except their business one. ***That was a real problem at a very significant timing for them***.

While facing technical obstacles in their simple demand for internal personal communication, this was the spotlight for a different product. ***Through their "solving a problem" mentality***, and having an adequate knowledge background, they decided to grab the idea and turn it into business opportunity. Every problem is a brilliantly disguised opportunity.

Jack Smith tried to combine their database software with the HTML technology, which was known and recently introduced. ***A serendipitous discovery is a chance discovery made by someone with a prepared mind.***

They had concluded that their new service should be a web-based email. Having the knowledge, they realized that could easily adapt their Javasoft database to store and display e-mail messages, as HTML documents, via regular internet browsers. Furthermore, there was no real competition at such service, so there was definitely ***a gap in the marketplace***.

Both their personal characteristics in combination with the environmental trends drove them to the opportunity recognition. They continued to search for investors but now they had in mind ***the protection of their idea*** from being stolen. Therefore, they decided to follow a scenario of investigating more closely their potential investors. The process of due diligence usually is operating both wards. Not only the investors but the potential firm as well, may scrutinize a number of replies that will receive from its potential investors, before accepting the funds.

In a continuous changing environment, the two entrepreneurs kept pursuing their ideas with **passion**, **commitment and strong entrepreneurial spirit**; they had identified an opportunity and turned it into a viable business. **By observing and solving**, they managed to turn their first moderate idea into a most-promising opportunity. As a result, they were rewarded in their effort **to innovate** by introducing a new service in the technology industry.

3.2 What resource constraints were faced by Hotmail and how did the entrepreneurs overcome them?

The ***"burn rate"*** is the rate at which a company is spending its capital, until it reaches profitability. At this case, the firm burned through its available funding a little after its start-up, but before the launch of its service and the emerging of profitability. As a result, there were not many opportunities but to ask for additional financing from its investors.

The founders decided to keep their financial status as it was in order not to diminish their share in the agreement with their investors. Instead, they ***preferred to bootstrap***, which means they tried to find creative ways to self-finance the project. Usually at this stage, entrepreneurs had to ***recruit their abilities in creativity, ingenuity, thriftiness, cost cutting***

and any mean necessary to ensure the viability of their project. In this case, founders succeeded in persuading their staff (fifteen employees approximately) to continue working only for stock options. Through this cost-cutting action, they achieved the continuous operation of Hotmail without additional cash for several weeks. Both founders were persistent in succeeding in their targets so a highly innovative approach was adopted to overcome the barriers.

3.3 What led to the adoption of viral marketing? Were there any dangers associated with this decision? If so, could anything have been done to reduce these?

The luck of funds affected not only the preparatory period of the firm's launch, but also its advertising plan. Usually it is impossible to start a company without a budget to use for any kind of advertisement. The founders had to bootstrap also at this case. Somehow, an investment in marketing tools had to be done but no additional funds existed. At this point, ***the venture capital firm helped them essentially*** to overcome this obstacle. The suggestion was to add in the bottom line of each e-mail a single line where to invite any interested people to sign in Hotmail to acquire a free e-mail account.

Truly that was a bold action especially in the period introduced. There was much of skepticism among the founders. Actually, they were reluctant even to think about this option. Further consideration and discussion with the venture capitalists persuade them that this would be nothing different from a simple banner ad. It was possible for them to face legal problems, which had happened at similar cases, as the idea of spam advertisement did not fit with the internet culture at that time.

Luck of funding directed them to viral marketing. They decided to make some technical changes in the original idea in a way that possibly could not bother their users. This change proved to be crucial in the end. That was an innovative idea, which was copied by many companies in later years.

They took the risk and got their return. Immediate users base growth. In addition, they had a steady increase through time in user numbers, proving that Hotmail would have a continuous development. High risk means high exposure but this can bring high returns.

They could not do anything else than undertaking a risk which could lead them either to failure or success.

3.4 How was Hotmail supported and constrained by the network in which it was embedded?

One way for financing a start-up firm is through equity funding. Under this occasion ***founders accept to give part of their ownership interest to the investor and eventually this means part of the control.*** Hotmail preferred to receive its financing through a venture capital firm. ***Venture capital is money that usually invested in start-up companies***. The venture capitalists know that their investments are of high risk, so they try to keep their portfolio of companies equilibrated.

Usually due to nature of their job, they are well-connected with the market; they know the business world and thus can support a new firm ***with much more than funding.*** They maintain a portfolio of potential customers, they know companies that can help or bring together to achieve a target, they have governmental links as well as a significant social capital which, if stimulated correctly may result in potential growth and profits.

Surveys of both venture capitalists and entrepreneurs consistently indicate that venture capitalists are seen as most important, in innovative early stage ventures, when the entrepreneurs have limited experience and when venture capitalists usually hold a relatively large equity share. [11]
For a start-up company all these components are extremely necessary. In this case, the venture capital firm “Draper Fisher Jurventson” had all the abovementioned characteristics and furthermore, its managers were already familiar with the internet-based start-up firms.

In addition, there is another component, which is developed through daily process and follows a number of practices. This is the ***entrepreneurial learning*** and refers to modes of learning based in reflection and action. There are two modes the hypothesis-testing and the hermeneutic, where in the first the learning process starts with reflection which leads to action, while in the second, action often precedes learning and reflection. [12]

The role of venture capitalists includes transfer of foresight knowledge, elicitation of understanding and a contribution to create a platform for future learning activities. As a result, venture capitalists add value to the firm and their actions are considered of key importance.

Hotmail gained a lot, from the experience of the venture capital firm, accepted serious help in a number of obstacles during its growth and got advantage of the strategic alliance established with Four11 by using its clients' network. Nevertheless, as discussed earlier, the nature of funding sometimes defines the future of a firm. Strategic alliances are not charitable organisations. They are arrangements between commercial organisations with a view to gain. [13]

The venture capital firm had always ***an exit strategy***, which should be rewarded. In any case investors had always an exit strategy in their plans, and this is a milestone in their initial willingness when funding a start-up company. At that case, this would mean the possibility of selling Hotmail in the near future to a bigger potential competitor.

When you have such a constraint, there is no space for more radical innovative actions. For example, it could be a possible scenario to ally Hotmail with a company from a different industry cluster, making a powerful innovative network, dependent on new combinations of knowledge. The choice of a partner is an important factor affecting alliance performance and firms' future. Instead, a more narrow alliance proposed, based only in the common nature of firms aiming in mutually expanding their customers' databases.

Hotmail stayed locked into a frame defined by its venture capital firm and its alliance. It should have gone for the exploration of its competencies. This could direct the company to harvest ideas and expertise from a wide array of sources. From the case, showed that both founders and employees were high qualified, innovative and willing to take the risk.

No company is smart enough to know what to do with every opportunity it finds, and no company has enough resources to pursue all opportunities it might execute. [14]

In the case of Hotmail and Four11, we know that the alliance was encouraged by their common venture capitalist. Based only in some of their common elements, both firms agreed to proceed, ***recognising that the alliance could support their pursuance for sustainability and growth***. By evaluating what happened in the end, both start-ups were sold with high profits to Microsoft and Yahoo, rewarding first the initial investment of the venture capital firm and then the founders of Hotmail and Four11. At this stage, it is not clear if the exit strategy of the venture capital firm was fully adopted by the founders of Hotmail. We know that Mr Bhatia demonstrated for once more strong negotiation skills to raise the price. If this was, what they really wanted, the network where Hotmail was embedded, operated successfully with high rewards in the end. If not, as mentioned above, Hotmail got stacked in a relationship that probably restrained its potentials for further growth and domination of the e-mail industry services.

The worst-case scenario should be that, as Hotmail had a value, and the venture capitalists identified this at the very early stage, this was used by them to improve the value of Four11. In the end, having two valuable assets in their portfolio instead of one, would enormously increase the potential of getting high returns in its investment.

3.5 Most specifically, comment on the advantages and disadvantages of strategic partnerships in the light of Hotmail's experience with Four11.

Hotmail and Four11 had made a strategic alliance, which is one of the most common types of business partnerships. ***A strategic alliance is a kind of arrangement that establishes an exchange relationship but has no joint ownership involved***. It exists for a number of reasons: ►*to share risk* (reaching economies of scale and scope could be faster than doing it alone), ►*to gain access to resources* (exchange/transfer technology), ►*to grow* and ►*to gain a long-term strategic advantage* (to learn or to shape competition).

Global competition and continuous technological changes dictates a relevant re-structuring across companies. The idea of a firm, collaborating with one or multiple other firms, proved to be a very useful tool. Starting in the early 90s, especially in the technology-oriented start up firms, companies incorporated this idea into their strategies and participated in organisational networks.

There were a number of surveys on that period about hi-tech start-up firms, which concluded that most of the partnerships ***were forced*** in order for the participated firms to develop and survive. Therefore, some of them succeeded but others failed due to strategic misfit or due to badly implementation. Simply they were made for the wrong reasons. [15]

Possibly the strategic alliance established in this case had no the full characteristics of a necessary one, at least by the data given and the main reason mentioned. A strategic alliance ***should foresee in much more advantages than the one of penetrating in the other's market***.

The establishment of strategic alliances gives a number of advantages to the concerned firms, which are:

- to lower overhead costs
- to obtain new technologies
- to increase responsiveness to customers
- to enhance quality
- to enter new markets
- to increase their flexibility
- to increase firms' value

As understood, such benefits ***can help them to be more flexible and adaptable to rapidly changing environments***. ***Trust and cooperative learning*** are critical factors that affect the success of a strategic alliance. [16] Intangible assets such as relationships and knowledge should be managed by the alliance with the same care, such with tangible assets. [17]

But as many other tools, establishing a partnership ***demands a number of components that had to be continuously re-examined.*** Issues such as ►*the building of relationships*, ►*mutually-rewarding deals*, ►*compatible values and goals*, ►*appropriate balance of freedom and control*, are important and must be under continuous revision.

Potential partner firms at this stage, had to secure and negotiate their nature of relationship, recognise their independence, be willing to share information, be willing to co-operate, invest in the development of inter-firm capabilities, invest in good-faith and trust, utilise effectively the human resource and be able to successfully compete other network organisations. To discuss upon this, further surveys are necessary to be made by both allies such as, the close proximity of the firms, the similarity of cultures, the relative size and position of the firms (e.g. if they are relatively small or emerging firms), the rapid growth in the industry and the initial timing of the relationship.

Proximity does not necessarily mean that firms have to operate in the same field or industry, but rather that ***their core strategies should have common characteristics and compatible mentalities***. It is necessary prior to any kind of partnership, for each ally to re-examine the strategic rationale of the other and to identify which are the real business needs of establishing this partnership. In addition, a shared vision, a clear communication and collaborative sharing of expertise have to be parts of both firms' core strategies. ***Establishment of alliances may guide to potential benefits but sometimes hide pitfalls.***

To conclude, when investigating a possible strategic alliance <u>three integral components</u> have to be monitored: [18]

1. **Creation of the alliance/strategic issues**
2. **Maintenance of the alliance/relationship issues**
3. **Performance of the alliance/evaluation issues**

Future partners must not overlook, that a strategic alliance dictates creating a truly collaborative working relationship with strong social, economic, service and technical ties. Not to forget that an emphasis should be given in ***constantly look for the value that a partnership creates.***

At this case, the alliance primarily was encouraged by the venture capital firm. This was based mostly in the potential of mutually exchanging their clients' databases and the penetration in each one's market. We conclude that there were no deep thoughts on the establishment of such relationship and the approach was rather surface. The effort to succeed in a social embeddedness on market efficiencies locked the two partners into an unproductive relationship.

3.6 What was the role of the venture capitalist in this case? Were there any asymmetries in the relationship with Hotmail?

As discussed above, the venture capital firm in this case:

(a) Had experience in internet-based start up companies

(b) Had prior investments in similar companies

Recalling some points, a start-up company needs to review a number of things, regarding the selection of its future venture capitalist. <u>Queries to be replied are</u>:

(a) Whether the investors have prior experience in the specific industry

(b) What kind of management is willing to apply, active or passive?

(c) Do the investors seem compatible personalities with the founders of the firm?

(d) Do they have enough resources to support the start-up firm?

(e) Is there a good faith and the potential of mutual trust regarding the financial arrangements or not?

We would say that first; the specific venture capitalists had experience in the industry of technology. From the case, it is clear that they had an active management role. Although in the primary stage of the deal, regarding the funding of the company, it seemed that the venture capitalists had made a retreat in the requirements of Mr Bhatia (he was a strong negotiator), they had in their minds the path they would follow.

For them, the strategic alliance would increase the value of their investment in Four11, through the mutual engagement with Hotmail. Hotmail had a steady increasing development and could work supportively to Four11, while in opposite, Four11 as it was "a help people to find people" start-up firm could give its database to Hotmail. This move would add to the value chain of both companies. Four11 would send its customers to Hotmail to acquire a free e-mail account and Hotmail would send its customers to register in the vast database of Four11.

At the critical point, where Hotmail had already expanded, there were two options regarding its relationship with Four11. ***Either to merge or to separate***. The definitive decision of Four11 to develop its own e-mail platform, almost was supported by the venture capital firm, which actually would have two promising companies in the technology arena. As said before, the e-mail service idea of Hotmail, was entirely new and the competition non-existant. There was enough space for competitors to get in.

For a venture capitalist, there is always an exit strategy.
It was more than obvious that such start-ups sometime would attract the "big fishes", which would be willing to pay more for decisions they did not take in the past. Needless to say that, companies such as Microsoft had not decided to enter in this service although they had the opportunities, as they viewed it as unproven and risky.

Although quick investments tend to produce more failures, this is not diminishing venture capitalists' returns. It is well known that the property of increasing returns in high-technology industries tends to generate a large first-mover advantage and lead to a winner-take-all situation. Thus, quick investment has a better chance to produce highly successful start-ups. [19]

Two companies could return more money than one.
At the end of 2007, the venture capital firm held a significant portfolio of stakes in both start-ups. Both firms had the 64% of global users in their customers' database. They were the dominants of e-mail services at that time.

When the two start-ups became head-to-head competitors, an internal restructuring made within the venture capital firm. The two venture capitalists separate their duties and agreed to manage one company each. That was necessary to avoid illegal or unethical actions.

This relationship was asymmetric. Hotmail instead of getting full advise and support from its venture capital firm, it had to share it with a competitor. That was simply incompatible and could raise issues of good faith. In other words, there could be problems of asymmetric information. The house style of an investment can influence the performance of both the investor and the investee. In addition, it may define the nature of their relationship. [20]

3.7 What alternative business models might Hotmail have adopted? How would these have affected resource requirements and subsequent learning in the firm?

A business model defines the company's behaviour. It is a plan of how it competes, uses its resources, structures its relationships, interfaces with customers and creates value to sustain profitability. ***For a company to maintain its sustainability, it is necessary to have a clear business model***. Thus, to realise on a daily basis, (a) how the operations of the business as a whole fit together, (b) what is the outcome and if this is feasible, (c) why the people who are participating in this effort are willing to work together and (d) which is the core logic of the firm. A business model has four components: [21]

1. Core strategy
2. Strategic resources
3. Partnership network
4. Customer interface

Following this rule of components, we are trying to match them with the data in the case and investigate whether the business model used was a successful one or there would have been used some alternatives.

Regarding the ***core strategy***, the company had a clear mission statement; to provide "free e-mail to everyone". Thus, easy communication at no cost. Their service would be, to offer to their customers an easy way of sending and receiving personal e-mails via web browsers. By the time they had decided to launch their start up firm, there was no real competition. ***However, their basis of differentiation was to offer this service free and get their income from advertisements placed in their web platform.***

Their ***strategic resources*** were their ***core competencies*** regarding database and e-mail technologies. ***A core competency of a company is something that it can do better than the others.*** It is its competitive advantage. In Hotmail they had made a unique communication platform, valuable for their customers (as they received more for nothing), difficult to imitate for their level of expertise and surely transferable to new opportunities, as they had the capacity to adapt it any time to any requests or demands by their customers. In addition, both founders have proved their technical adequacy when serious technical problems rose during the offer of the service. In addition, while Jack Smith proved to be an excellent engineer with high technical background, Bhatia seemed to have more interpersonal skills as he proved to be a great negotiator with strong characteristics of an entrepreneur.

We consider the founders and their highly qualified staff as the major strategic asset in their business model. ***The combination of the highly qualified staff with the service and its value chain, was really what created value to this company.***

For a new company, it is difficult to start without some kind of business partnership that would help it in some way. In this case, founders with the liaison of their common venture capital firm, decided to develop a different key relationship through a strategic alliance with Four11, an also start up firm with parallel activities with Hotmail in the same industry. Through this alliance, which had some kind of mutual benefits, Hotmail gained access to the Four11's market while the same happened for the opposite side. ***So both benefited from a faster and low-cost market penetration simply by exchanging access to their target markets***.

Perhaps it would be a suggestion to Hotmail not to ally only with Four11, although they had a common investor. As seemed in the end, Four11 became a head-to-head competitor to Hotmail increasing its value from one side, jeopardising and cancelling their cooperation.

This alliance by no means benefited the venture capital firm, especially when decided to implement its exit strategy by selling both companies to bigger customers (Microsoft and Yahoo), but did not necessary helped Hotmail.

The superiority of Hotmail's ***company value*** was used for the shake of increasing income by the venture capital firm. It seemed that Hotmail had a loss of decision autonomy or at least their founders did not implement an effective due diligence to the venture capital firm before accepting the proposed alliance.

On the other side, in case they have chosen to "walk alone" probably they could not take advantage of resources and expertise, which gained from this cooperation and we mean both from Four11 and their venture capitalists.

Usually one-partner alliances incorporate the high risk of dependency, possible loss of proprietary information and rise of problems derived from the meshing of cultures.
At a point we would suggest to Hotmail to differentiate its partnership network by focusing in broaden alliances with multiple benefits.

Regarding the company's ***customer interface***, we could say that it was an asset as they were mostly customer-oriented on every aspect of their daily operation. Their target market were all potential users of internet globally, their fulfilment and support had a high value of dedication to what their users wanted and the whole concept was delivered for free to the users.

3.8 Should Hotmail forge a strategic link with Four11? Why or why not?

As it is said in the stock markets, if you cannot handle your emotions it is better to do another job instead of gambling or investing. [22] For the founders it was rather a pre-mature decision to enter in an alliance even before entering into the market. It was proved that, beyond the fact that Hotmail could take advantage of the Four11's directory nothing else gained by this link, at least for Hotmail.

A strategic link should incorporate multiple reasons to exist and the creation of a more widen and complex framework of factors. The link with Four11 could happen some time after the launch of Hotmail, but it was not wise to be the only one. We realise that this link was more or less a "lock partners" model, where actually Hotmail was blocked from other possibly more useful collaborations. [23]

This single channel collaboration with Four11 possibly brought some advantages but in parallel restricted the potential alliances with others. It seemed that the third reason of establishing this alliance "the VC would benefit indirectly through increasing activity of its investee firms" was the strongest one.

A strategic alliance may embrace a diversity of components under which the allies could be benefited in any case. A number of them are given below: [24]

- Gaining access to new technologies
- Acquiring means of distribution
- Market seeking
- Learning and internalization of tacit, collective and embedded skills
- Obtaining economies of scale
- Diversifying into new businesses
- Restructuring and improving performance
- Cost sharing and pooling of resources
- Developing products, technologies and resources
- Achieving vertical integration, recreating and extending supply links in order to adjust to environmental changes
- Risk reduction and risk diversification
- Developing technical standards
- Achieving competitive advantage
- Following industry trends
- Complementarity of goods and services to markets

We conclude that Hotmail did not get advantage of the enormous capabilities, opportunities that could derive from possible successful alliances, therefore, did not tap effectively into resources, skills, and knowledge that could benefited it. ***They should link with Four11 but this should not have been their only alliance.***

3.9 Why was Hotmail valued at nearly $400 million when it was sold to Microsoft in December 1997, only two years after foundation?

At the end of 2007, after two successful strategic choices of the founders, ***(a) to introduce and use viral marketing, which directed to immediate growth and (b) to improve their internal technology used to handle the vast amount of emails through a scalability approach,*** Hotmail had a portfolio of 8 million active mailboxes. The most important though was that the company could handle much more users based on their current structuring. That was the spotlight for Microsoft. Although the initial offer of Microsoft was $100 million, after the interference of Bhatia's negotiation skills, this offer raised to approximately $400 million.

The key point was the hidden capacity of Hotmail to manage more users and the intuition of Microsoft that the market had great opportunities for further growth. In addition, this could be used as a ready-made supportive service to the already successful platform of Microsoft's applications.

3.10 What you would do differently (if you were Bhatia and Smith) and why?

It is important to distinct between the different finance providers operating in the market. We will adopt the sayings of European Commission and agree on that, ***"Entrepreneurs must be able to access the right financing, at the right price, at the right place and at the right time to develop their companies and ideas"***. In addition, as we have already identified, an entrepreneur should scrutinise his potential investors before reaching to an agreement. Getting financing is a process that operates both wards for the firm and the potential investor.

We realise that a start-up firm needs different kind of financing in its different life-stages. It is clear that, according to the nature of its financing, a start-up firm will enter into a different network of investors, business angels, venture capitalists, implying different advantages and disadvantages in each of these models. This is one major issue and decision for the entrepreneurs. To investigate which model is the most appropriate for them each time.

On the other hand, it is clear that a business plan is a dual-purpose document. It serves as a "road map" for the inside people of the firm and an introduction of the business opportunity for the outside potential investors. ***It is not a static bible but a dynamically adapted document that drives the firm throughout time.***

Therefore, a clear understanding of the business model and the environment of potential investors should be under further consideration and entrepreneurs are expected to decide the most effective financing model for their ideas.

We suggest that Hotmail's founders should narrow their potential investors list, searching ***preferably to a network of business angels*** rather than venture capitalists, especially during the launching period of their firm. At that stage, they needed mostly ***a seed capital*** rather than a venture capital support. Venture capital firms serve the later phases of wealth creation. [25] ***Different model of financing at different stages seems that it could be a more convenient way, which could guarantee higher returns and satisfaction for both founders.***

From the case reading, it is clear that both Microsoft and Yahoo would like to buy part of the services that the start-ups offered. The venture capital firm instead, saw this willingness as an exit opportunity and tried to push the things in a different path, thus to sell the companies as whole entities.

We suggest that Hotmail instead, should seek partnerships with diversification standards, in order to penetrate in a more innovative way in different markets, strengthening its position and acquiring characteristics of a dominant firm. In addition, we would suggest a scenario-based strategy where it would include the following guidelines: [26]

- To assimilate the competencies of the potential partner
- To think of the partner as today's ally and tomorrow's competitor
- To share power and resources but share information wisely and
- To structure the alliance carefully

We consider that these paths if were adopted, would benefit more Hotmail, would raise its value and would guarantee sustainability of the firm.

CONCLUSIONS

The study of both parts helped us to have a thorough understanding of the nature of entrepreneurship and innovation. They were good examples and initiatives to continue exploiting the “possibility space” regarding the link between these two major components of our changing environment.

This report aims to develop a framework where to survey a number of skills and competencies closely related with the innovative approach and the entrepreneurial process. We feel that it is a milestone in the non-stop process of continuous change, which prerequisites to think different and see every problem as an opportunity for something creative.

In the Appendix C of this report, we demonstrate a one-page structured illustration of the most important points of our book review, done in Part A. We hope that this effort will help the reader to get in a glance all that essential meanings analyzed by Michael Raynor in the “Strategy Paradox”.

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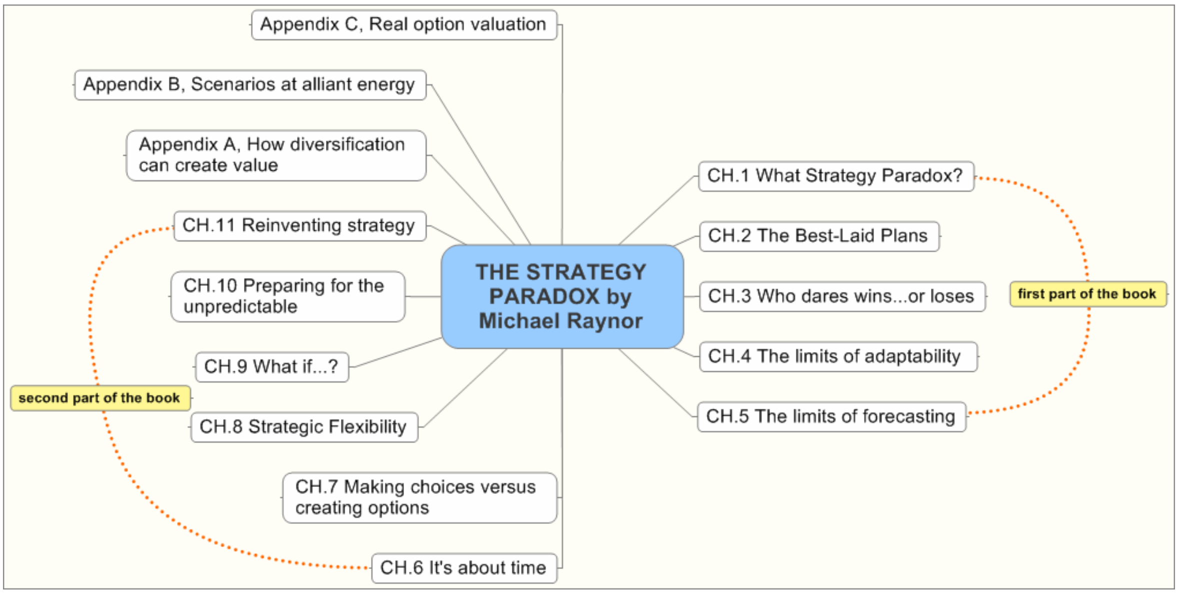
APPENDIX

A. The Strategy Paradox – Book contents representation



B. The Strategy Paradox – A model as we perceive it

C. The Strategy Paradox – Structured illustration of the most important parts of the book (for the reader to remember)