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Entrepreneurship

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Assignment Question: ***Entrepreneurial activities are associated with high levels of risk and are prone to failure. How would you ensure that organizations learn from experience of the commonly identified causes of failure in entrepreneurial ventures?***

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I. Abstract

In the Name of Allah, The Most Gracious, The Most Merciful.

"Success is all about going from failure to failure without losing your enthusiasm." (Winston Churchill)

"Many of life's failures are people who did not realize how close they were to success when they gave up." (Thomas Edison)

A key difference between entrepreneurial ventures and established large organizations is the attitude towards failure. Big organizations generally consider failure as undesirable. This leads to inaction to avoid failing. Inaction results in reducing innovation which today is the key to competitive advantage. If there are two lessons organizations need to learn from entrepreneurs; these are taking calculated risks and not being afraid of failure.

In 1997, the U.S. alone had more than 83,000 business failures, owing money to their creditors. Large companies like Kia Motors company in Korea, and L. A. Gear sporting goods manufacturer in the U.S. are failing after dramatic growth (Please see Appendix A for some of the major failing companies in 1997). What lessons do we learn from these? Looking at the Silicon Valley, an entrepreneur's failure is considered a plus and even desirable if it shows there is a learning experience from it that helps the next endeavor. What failure mostly teaches high-fliers is a reality check to take care of issues entrepreneurs do not like to pay attention to that could make or break businesses. Sometimes, it is even recommended that companies dissolve to stop the blood-letting, in spite of an entrepreneur's spirit of never-say-die.

In Silicon Valley, "The ones with better press are getting big bucks, acquired, or venture-capital backing. It bears no relationship to the quality of the product or

the quality of the team," says Sernovitz, president of the Association for Interactive Media. He was commenting about FreeLoader, a company sold after 9 months for $38 million mostly because of advertising and publicity, more than actual products.

In this paper, I will be discussing the lessons organizations learn from the common causes of failure in entrepreneurial ventures, including a personal experience with a firm failure and lessons learned. In Appendix B, I collected a number of quotes by very successful people about failures, the lessons to learn, and moving to success.

I hope you will find this paper as interesting as I found researching and writing about the subject. I was thinking of moving some parts into appendices to shorten the paper; I later decided that it was important to keep these parts in the main chapters of the paper.

Once you read this paper and learned from it, you can find my final MBA dissertation here:

http://www.quality.org/TQM-MSI/Jamal_MBA_Final3.pdf

I ask Allah to make this for a pure cause, and not just to gain a name or respect from others.

II. Example: Fail. Then Go On To Succeed

"It's fine to celebrate success, but it is more important to heed the lessons of failure." (Bill Gates)

There is a common figure quoted that 80% of new businesses fail within 5 years. Mangelsdorf (1993) clarifies that the mistake in these figures is that they rely on a Dun & Bradstreet database that does not track change of ownership. The study put the figure more at 50%. At any rate what is key from such failures are the lessons to learn to avoid them in the future.

2.1 Failures Leading to Success

The most quoted example about failure and learning from it is Thomas Edison's 600 failed attempts to invent the light bulb. He reached the conclusion early on that someone would eventually invent this and he was determined that this someone would be himself. Soichiro Honda said that to him "success can only be achieved through repeated failure and introspection." He also said that success represent only 1% of the work. This results from the 99% which is failure. Peters (1988) says that Honda put two conditions for failure: 1) Something is learned from each failure. 2) It is quickly followed with a new modification.

In a cover page, BusinessWeek (August 25, 1997) had about Silicon Valley, the number one lesson for the rest of the world to learn was about failure. The survey of the Valley firms showed a common comment: "Encourage all levels of management to try new ideas with no penalty for failure--that's how the Valley stays on the cutting edge," the article says. It has been demonstrated once and again that entrepreneurs have the spirit and the determination to go outside of the expected norms and in the process achieve results that were thought impossible. Time and again also these efforts fail bringing lots of losses to the entrepreneur, firm employees, and anyone associated with them. In so many of these cases, these entrepreneurs re-emerge with new businesses and overcome their previous losses; sometimes generating fortunes for themselves and those who invested in them. We are going to look next at some examples.

2.2 Example from Silicon Valley

Haar (1997) gave interesting examples about failure in Silicon Valley entrepreneurs, and their comeback. The most celebrated is Jerry Kaplan. In his book (1994), he cites what happened to what is considered one of the biggest failures in the Valley. He was doing some artificial intelligence work for Lotus found Mitchell Kapor. On a small private jet, when Kapor was typing into a PC, Kaplan kept staring at him. Kapor asked what was wrong. He said imagine that instead of typing in text, you write with some sort of stylus directly on the screen. He went to outline a technical description of how this would work. Both Kapor and Kaplan sat in total silence to have the idea sink in. Kaplan went on to create Go Corp to achieve his dreams of a pen-based computing. 7 years later, in 1994, his company failed taking with it $75 million in other investor's money. One of the first things he did is write a book about his experience which became a U.S. national best-seller, ***called Startup: A Silicon Valley Adventure***. He says that you should really not get labeled as a failure because of such events. "The fact that there was a monsoon does not make you a bad climber," he says.

In person and in the book, he gave us all a good lesson. He told his investors that he made bad decisions, and that he was sorry. He wanted to pay his investors back, and he went on to establish one of the first auction companies on the Internet. The company is called Onsale, Inc. The investors in the new company are the same as the ones in Go Corp. They made much more than they lost on the first company. When Onsale went public in April 1997, his family's stake alone was worth $36 million. He mentions one lesson he learned from his first endeavor to establish the 2nd company. In Useem (1998), “It’s low technical risk, low capital risk, quick time to market,” he says. A small note: on September 28, 1998 market capitalization for Onsale was more than $ 340 million.

III. Personal Experience With Failure & Lessons Learned

"Lots of small failures help avoid big failures. Become a failure fanatic. Seek out little interesting foul-ups and reward them and learn from them. The more failure, the more success – period." (Tom Peters in "Thriving on Chaos")

3.1 The Business Setup

Fresh out of college in October1983 specializing in computer engineering, my brothers wanted me to run the newly established computer unit of the family's business. This was one of our family's efforts at diversification. The PC market in Saudi Arabia, and actually at the time the whole world, was just starting. A manager in the business became quite interested in technology, and was charged to do a market research, and based on it to do a business plan. The plan was accepted although it was quite optimistic and missed key indicators in the market, like it is quite a new market, mostly untouched, so a lot of education need to happen. Also, businesses are interested in automating their processes once they see specific applications to meet their requirements. At that time, there were few customized packages and even fewer in Arabic, which was a requirement.

There is a known tendency in the Saudi market for any new venture that one of the family businesses get in, so many other family businesses will copy, without full market analysis. This quickly became the case for the Saudi PC market at the time. Early on, the decision was adapted to concentrate into the hardware business. A number of decisions followed:

1. Since no financing was possible at the time by the family business because it was a time when a lot of diversification happened, the option was adopted to run the whole business based on a bank overdraft facility. The bank saw the business plan, and accepted it mostly because of the

general trust in the family's business, which has been doing business for about 30 years. The family relationship with banks was good, so the terms of the loan were favorable.

2. Since hardware was going to be the main focus, a fancy showroom was setup costing 30% of the loan.

3. To become the only local distributor of any PC vendor, a commitment was required to purchase quite a number of PCs at the initial order. About 40% of the loan was needed for that. This was done without even having the first salesman be on board. That salesman was the me, and this was the scene at the time I arrived at this new venture.

3.2 Getting Into It

This was my "baby" and I could do whatever to take it from here. I concentrated a lot on reducing this inventory which was going down in value and obsolescence by the day. I recruited another salesman, and together we made some inroads into companies never enough to clear out PC inventory. In late 1984, the manufacturer business itself started to deteriorate and it went bankrupt beginning of 1985. By that time we were trying for sometimes to sell PCs which the manufacturer does not exist. We had service people qualified to repair the PCs locally. We started looking at other options as well. Here are some of the issues I had to deal with at the time:

1. Pay the bank to cover the overdraft since it has been outstanding for quite sometime. The bank asks for a monthly cashflow statement, which was provided sometimes late because the cash situation was not that great. Later, an agreement was reached for a re-payment plan with monthly installations which was revised downwards a number of times, after tough negotiations. In addition, we needed to cover monthly the rent, and employees salaries. This is all for an engineer who had no background in finance or accounting.

2. Various attempts at diversification into software development, Arabization of hardware components and software packages, agencies for other PC manufacturers, off-the-shelf packaged software, new research projects with the local university, and industrial test equipment. We established a number of agents in Saudi Arabia and the Arabian Gulf Area. The name became trusted and well known and a lot of local computer companies were interested in working with us. So many different efforts for basically 6 people in total. The salesman is one day a programmer; another day chasing customers; yet a third day trying to get one of our debtors to settle his account.

3. Selling with credit became just about the only way you could do business in Saudi Arabia at the time (about 1986) when oil prices went down, and the liquidity dried up in the market. 70% of our sales were on credit. Payments were slow, and it was not common for any charges on late payments since it contradicts with Islamic religious beliefs.

In summary, my problem was a failing vendor which we had a lot of unsold inventory from; cashflow – all components of it: cash and credit sales, bank installments, salaries, and inventory; inexperience in finance and accounting; and of course the multi-faceted salesmen who could not concentrate on closing deals.

3.3 Facing Reality

As one would expect, there was always hope things will improve, and focus started to be less on a small number of areas. It quickly became various new business opportunities even those that do not have big customer or sales-base but it pays cash. The situation continued in 1987, and I continued to jump between dealing with cashflow, sales, and writing Arabic applications for specific customers. No doubt that the most feared calls I was afraid to get each time the phone rings were those from my “beloved” banker. By early 1988, the plug had to be pulled.

The psychological effect on me was dramatic even for quite an upbeat and optimistic person. I might say because I am upbeat and optimistic. It took sometime for me to accept. The number one lesson from such an experience is one which I will never forget, and it is the hardest of all. Actually, I found this repeated so many times during my reading about failures and its lessons over the past six weeks. Useem (1998) says the number one precondition and the hardest is **“understanding that your business is not you**.” Take it from someone who went through the experience, this is way much easier said than done.

3.4 Lessons Learned

Here are some of the lessons I learned. Some are specific to entrepreneurs; others benefit organizations in general. Some of these I found apply to me as I read material from other people who went through similar experiences.

1. Following **Beliefs Help**: In situations of great distress like the final days of closing a business, the entrepreneur want to be attached to something else to take him away from the 24-hour thinking about what to do next. Being a member of a community service organization, sports club, or better yet religious activities are really of great support. Religion reminds you that you are alive while others have died; now which is better. You still have a chance. That gives lots of hope.

2. Know thy numbers (**Cashflow**): As much as an entrepreneur is interested in market opportunities, he or she has to deal with finance and the different components of cashflow. The time taken to learn it is well worth your investment and the rate of return for that education is very high. I learned accounting the hard way; just by being forced to do it. A course like the MBA Accounting module should not be a high cost, and the payback is high.

Now it is available through different means: many books, software, the Internet, or taught courses. My recommendation is a taught course for a week or so. You benefit the rest of your life. If the entrepreneur is totally uninterested, a professional manager needs to be recruited.

3. **Don't over borrow**: You have to pay back what you borrowed sooner or later, so do not get the bank to kill your business, and it would become your major worry preventing you from concentrating on anything else. Stretch as far as you can, but do not over do it by means of a loan especially in a totally dynamic market like information technology. Flood and Beckford (1994) emphasize the same point. This particular point has impacted me so much afterwards that I do not remember even owing anyone money since that date. I might be losing business opportunities, but I do not want to owe my "life" to anyone else.

4. **Plan**: 1) Vision and then 2) focus are key. Don't just happen to stumble there. Select the market segment for the specific business you're in. Diversification is desirable to avoid failure of the only source of income, but it also has a big impact on resources and it divides attention. You might want a product that has a mass-market to generate cash, and another line with customization that pays high margins. Diversification could also leverage the skills and expertise you have in the business. Heinmiller (1997) had a similar point about diversification. So determine priorities, and allocate resources based on them. Someone said, "If you don't know where you're going, any road will take you there." Don't over-invest in a showroom when the location is not in a good spot in town. This is especially important if most of your sales are through salespeople going to customers rather than cash sales at the showroom.

5. **Watch** your **Inventory** levels and limit your **Debtors**: As outlined in the PC business I had, these two paused major problems for us that we could not

get away from, even though so many other efforts were done to minimize their effect.

6. **Partner/Collaborate/Establish Strategic Alliances**: The above four are mostly for entrepreneurs and are mostly taken for granted in a large corporate environment. This point applies to both. You can no longer go it alone, as Moore (1997) emphasizes[1]. We have done this through agents and by selecting one customer who was the main distributor of a large air conditioning manufacturer. We customized some packages for him. He then invited us to do the same offer to all of his 66 local agents in their annual meeting. We sold the same setup to a quite a few of them.

7. **Management Experience Counts Greatly**: As I learned the hard way, concentration on the management function is very important, as much as the technical knowledge and sales and marketing are. You can not have concentration on financial issues when you have to do the sales and be a software developer at the same time.

8. **The Spirit Continues Through Intrapreneurship**: Since I decided to join a corporation after my experience with Entrepreneurship, many times I have run into creating areas where everyone else thought "**this is not our business**." For example, a vendor said we needed to spend about $500,000 to Arabize our data on the mainframe computer. From my previous experience in Arabization, I thought this work could easily be done, and started doing it. My supervisors kept asking me reasons we are doing this since it is not our business. I had to spend most of the time during lunch hour, and after working hours to get it done. This took 3 months, and it has since saved a lot of money since we did not special equipment anymore. The lesson here is that if an entrepreneur decides to join a

[1] Because I have already exceeded my word limit, my Strategic Management and Business Policy paper addresses this point in more details. If interested, I can supply a copy or it could be possible to get it from the University of Hull; professor Paul Webb.

company, he will face some obstacles that he is not familiar with (like silos), but **the spirit lives on**.

Looking back at it, I have benefited a lot from the above experience. I must admit that since then I wanted to minimize my risk taking approach. One way I did it was to work in a corporate environment for 10 years now. With all its learning experience and growth, it is a totally different life, and I never expected it to last this long. The entrepreneurial life inside me will never go away, and I know the day will come when I will go back (or forward for that matter). The advice I can give that I did not practice is that if you are an entrepreneur at heart stick with it by learning from your failure. Being at the edge of your seat is more rewarding (and could be more punishing) than the guarantees of corporate life. That is what entrepreneurs get paid for – **taking calculated risks**.

IV. Lessons Learned From Failures In General

"We fail more often not because we fail to solve the problem we face, but because we fail to face the right problem." (Russell L. Ackoff)

To so many people, success means more money. To entrepreneurs, a lot of times, it is the challenge in brining new ideas people thought not possible, or no market exists for them. Yet to others, success is the joy of life itself. So you need to have your definition of success before you go on in life. Please see Appendix C for an example of 'What Defines Success?'

The lessons learned from failure that will lead to success are so many. Over the past weeks, I found out so many suggestions about such lessons. I decided to include the ones that were common, and some I felt were key to be included. I have already listed the ones that I learned from my experience; and I will try not to duplicate them here, although you might find some overlap.

1. **Spread Failure News**: Peters (1988) says that companies should be as proud to display their failures internally as they are displaying their successes in public. One way to do that is what knowledge management experts always advocate; create a knowledge database to collect all knowledge generated in the company. One subject in this database could be the lessons learned from failures so all members of the company could benefit from. Learning, should be the primary purpose, rather than exposing or embarrassing the failing team.

2. **Spread the Wealth Body**: This one is not common. It comes as a lesson we learn from the Silicon Valley where sharing wealth is becoming the only sure way to keep people motivated and not go on their own. The stock options that are available to all employees get them committed since their stake is at hand. Also, this wealth is used to invest, mostly in Valley startups on the next

new idea, which creates more wealth in the Valley. James G. Treybig, founder of Tandem Computers Inc. says: "This is an awesome machine to create new companies." The lesson for us all is, put in place compensation systems that reward achievements--for all employees, not just those at the top. (From BusinessWeek – August 25, 1997).

3. **Read Literature About Failure Experiences**: This is one of the best ways to learn. Understand the experience of others to benefit from it. One book we already mentioned was the one written by Kaplan. Richman (1998) mentions the eight books he suggest to read from a survey he did at Inc. Magazine. These books are in the references. The writers are: Vonnegut (1997), Wheelis (1975), Davis (1997), Gerber (1995), Drucker (1993), Timmons (1994), Kaplan (1994), and De Pree (1988). These are his suggestions, I am sure there will be other books that could be as beneficial. Most of my research for this paper was from the Internet, in particular University Microfilm, Inc. (UMI) that collects thousands of magazine articles and make them available on the Internet. Also, Ph.D. dissertations. A general search of the Internet is well worth it, also. For magazines, Inc. Magazine is one of the best resources for entrepreneurs.

4. **Learn Some Success Formulas**: This is again not a common one in the list of lessons. Here is one formula a writer claims he has developed after observing failures. McGuire (1996) gives his formula: $ES = (I+M^3)P$. Entrepreneurial Success = [Idea + (Market x Money X Management)] X Passion. There are many I have found. I just gave one.

5. **Do Not Over-rely on a Limited Number of Customers**: Customers can decide the service or product they get from outside could be done inside, which could kill the entrepreneur. Also, competition could create better pricing or product which limits your opportunities and could lead to your failure. A customer could also think it is risky to deal with only one supplier, which means bad news for the entrepreneur.

6. **Be Humble**: Failure is a very humbling experience. Entrepreneurs' arrogance turns off a lot of people, including key customers. Sometimes, this could lead to failure, especially if the word spreads around that a particular entrepreneur owns the world and is free to do what he likes. Customers, especially senior management of large organizations, like to think they are king. One good example of being humble is Stephen Covey. He started his company in 1989, by leaving the BYU University, after writing the 7 Habits of Highly Successful People. Even after making millions he is quite humble. I met him in September 1996 and could not believe how simple he was, yet one day before I met him he was meeting U.S. President Bill Clinton. 3 days later, he was going to Russia to meet President Boris Yeltsin. Franklin bought his company early 1997 for $700 million. The biggest recent example of result of being arrogant is Digital Equipment Corp. (DEC). It started by 5 engineers leaving IBM to start this known company for innovation. They have beaten IBM for quite a while in the Mini-computer range. Then they lost vision of what started them: vision, and good engineering, and of course marketing. They started losing billions of dollars, only to be acquired by Compaq, a company started 25 years after them. Here is a chart of what happened as DeLisi (1998) shows it:

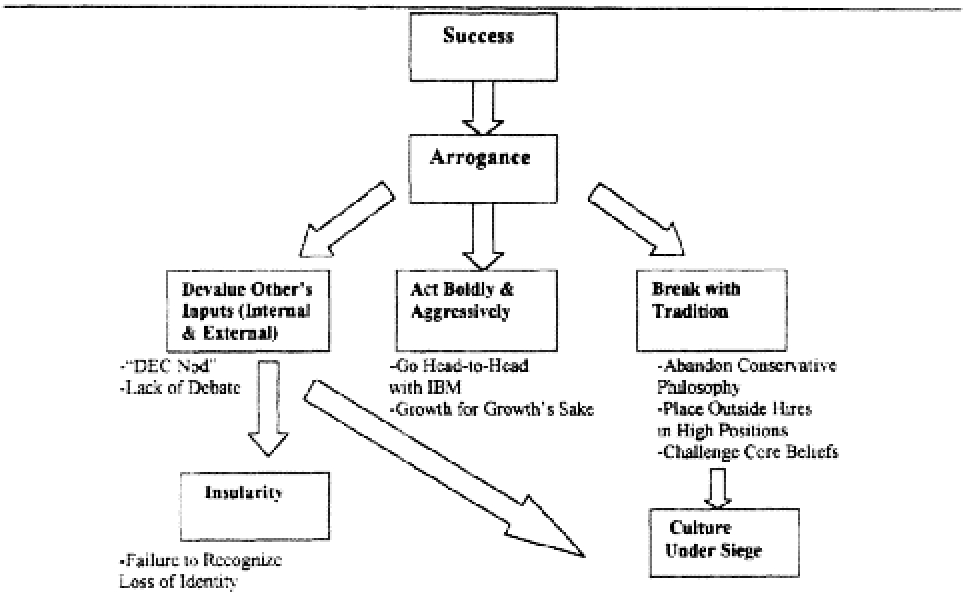

Figure 2: The root of the problem

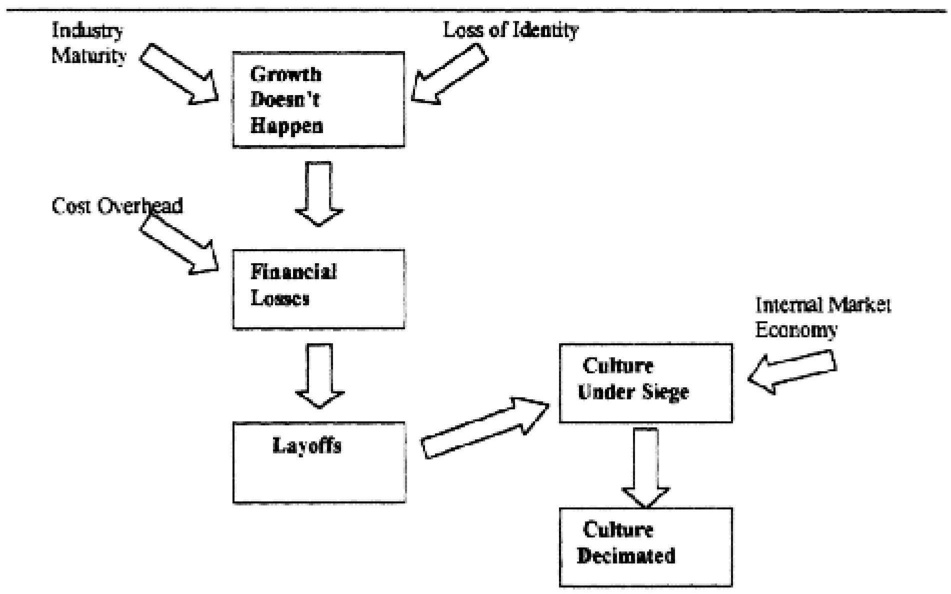

Figure 3: The effects

7. **Marketing is as Important As Technical Innovations**: A lot of scientists and engineers think it is the product that counts. In reality, it is the perception of

the product's value in the customer's eye that ultimately gets the sale. When everybody counted Apple Computer out, they came up last month with the iMac, an artistically designed machine. The main ideas of it is a totally different look than the normal PCs we have been used to, one cord to be plugged to the power supply, another to for the phone. And you are up and running, and connected to the Internet. Inside it is the same machine as previous Macintoshes, but the sales have been unmatched. From being the number 5 every month over the past year, the iMac became the # 1 in sales in September 1998. Of course, this could not have been done without the typical advertising blitz Steve Jobs has with his introductions, but that is expected. You can see the look here:

8. **Inadequate Pricing**: According to Beste (1996), there is no start-up strategy more likely to fail than one planned around being the lowest price competitors. New inventions always come along that will challenge that base. Margins is what "puts food on the plate," but it has to be reasonable.

9. **Be Aware of Market Developments**: People tastes keep changing and if you continue manufacturing based on the assumption that there is demand, you are in for the hard times. Comeback entrepreneurs always cite having “antennas” are key and lack of them was key to their initial demise.

10. **Avoid Long Distribution Channels to the Customer**: Getting to the customer and making the sale is what counts. If so many are in between, there are lots of delays and possibility for errors that do a dis-service to the product and image of the original company. Shorten the channels. Dell Computer introduced an excellent model using technology. For Aramco, for example while we deal through a local supplier, most of the transactions happen directly. Appendix D has more details.

11. **Inadequate Market Segmentation and Market Research**: This is a common point and I feel do not need further expansion. The Marketing Management module covers this subject in detail.

12. **Learn to Admit Mistakes**: Beste (1996), elaborates even more on this point. Psychologically, one of the most dangerous failure reasons is the one which might be titled "we have too much invested in this initiative to walk away from it now" - in other words, the good money after bad judgment. For all kinds of reasons (fear, ego, etc.), these judgments are tough to make without much emotions. The appropriate question to ask yourself is, "Would we invest the needed funds in this project today if it was presented to us as a fresh opportunity?"

V. Conclusion

Now we are approaching our destination. We have covered an extensive amount of subjects that took us in a tour around the world from research about failure lessons to a personal experience with failure. Learning is a key advantage to organizations today. I have written a lot about the Learning organization in my IMT, HRM, and Strategic Management papers. That is the reason I did not elaborate about it here. It is a key concept to avoid failure. In a lot of the discussion points presented, you could see that the concept is embedded. the question, actually addresses that point too.

Viewing failure as an opportunity to try again with better focus, and less arrogance made so many people happy failure happened to them. To us all, we do not need to fail to learn. There are many resources available that we could learn from with success. Of course there is nothing like the real experience. Almost all entrepreneurs, though, want to avoid this particular experience.

I must say that writing for this module brought some key memories I had with a failing business; only to encourage to move away after the MBA program into even better opportunities and a brighter future. This last module is serving as a propeller to move forward.

Thank you very much for ***listening*** upto here. Even though this has been quite a long paper, I hope it has been beneficial.

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VII.Appendices

Appendix A - Sample of Large Companies Defaulted in 1997

The following data about large companies that defaulted on the payment of their debts is extracted from Moody's Credit Rating Service.

A.1. Kia Motors Corp. Car Manufacturer

$80.0 million 0.25% Convertible Eurobonds due 12/31/2006
$80.0 million 0.25% Convertible Eurobonds due 12/31/2007
$44.0 million Floating% Euronotes w/warrants due 2/6/2000

Kia Motors Corp., is a subsidiary of Kia Group, Korea's eighth largest industrial conglomerate. Kia Group is one of Korea's leading motor vehicle manufacturers, producing passenger cars, vans and trucks for the domestic and international markets. Kia borrowed heavily in early 1990s to finance rapid expansion amassing about $10.7 billion in debt. Excess capacity and a saturated domestic market in 1996 and the first half of 1997 caused serious cash flow problems. Moreover, Kia has continued to lose market share, sliding to third place in total car sales behind Hyundai and Daewoo. A 25% drop in domestic market share coupled with substantial losses at its subsidiaries Kia Steel Co., Ltd. and Asia Motors Corp. limited its ability to meet current debt obligations. Consequently, the Korean Stock Exchange suspended trading of six Kia Group companies and creditor banks granted bankruptcy protection extending emergency loans and freezing all debt payments in July 1997.

07/15/1997 - Placed under bankruptcy protection

09/22/1997 - Applies for court protection

A.2. L.A. Gear, Inc. Sporting Goods Manufacturer

$50.0 million 7.75% Convertible Subordinated Debentures due 11/30/2002

L.A. Gear, Inc., located in Santa Monica, California, designs, develops and markets a broad range of ath-letic and lifestyle footwear for adults and children worldwide through its principal subsidiary L.A. Gear California, Inc. The company's greatest challenge has been to increase and maintain sales and margins in an intensely competitive and consolidating branded athletic footwear industry. The firm was not success-ful in its efforts, experiencing an overall drop-off in sales volume and gross margins and recording consec-utive operating losses over the last several years. A soft market for athletic shoes compounded poor decisions managing the inventory and product lines. For the nine months ended August 31, 1997, L.A. Gear's net sales decreased 44.2% to $95.2 million compared to $170.6 million in the prior year period, resulting in net losses of $21.5 million and $11.3 million, respectively. Following PCH Investments PLC's acquisition of 42% of L.A. Gear, Inc., the company announced on November 3, 1997 that approximately 60 percent of the employees have been laid off. Subsequently, on November 24, it determined that it had insufficient resources to make the interest payment due November 30 on its convertible subordinated debentures maturing in 2002.

11/24/1997 - Announced it would not make an interest payment due November 30
11/30/1997 - Missed interest payment
01/13/1998 - Prepackaged Chapter 11

A.3. MIDCOM, Inc. Telecommunications Provider

$97.7 million 8.25% Convertible Subordinated Notes due 8/15/2003

MIDCOM Communications Inc., based in Southfield, Michigan, provides long distance voice and data telecommunications services to small and medium-sized businesses. The company experienced rapid expansion through the end of 1995 mainly through acquisitions. Although the acquisitions resulted in revenue growth, it was more than offset by high costs associated with integrating and consolidating the acquired businesses. MIDCOM recorded losses of $46 million, $97.3 million and $33.4 million for the six months ended June 30, 1997 and for the years ended December 31, 1996, and 1995, respectively. As a result of these recurring operating losses and significant past and current capital expenditures, the compa-ny has experienced a severe working capital shortfall and on October 31, 1997 announced that it did not have sufficient resources to satisfy its current obligations. Subsequently, MIDCOM filed for Chapter 11 protection on November 7, 1997.

11/07/1997 - Chapter 11

01/07/1998 - Bankruptcy court has approved the sale of substantially all assets to WinStar Communications, Inc. for $92 million.

A.3. Yaohan Japan Corp. Grocery Chain Operator

JpnY 8,774.9 million 1.875% Convertible Debentures due 9/30/98 [$71.9 million]

JpnY 8,838.1 million 1.8% Convertible Debentures, Ser. 1 due 5/20/99 [$72.4 million]

JpnY 19,826.8 million 0.9% Convertible Debentures, Ser. 3 due 9/28/2001 [$162.4 million]

Yaohan Japan Corporation (Yaohan), based in Numazu, Japan, is a medium sized supermarket and depart-ment store operator. The company operates 43 supermarkets and department stores in Japan, and about 200 stores in 13 other countries. Present problems stem directly from Yaohan's overly aggressive international expansion during 1980s and 1990s. This rapid expansion left the company financially strapped and especially vulnerable to increased competition from discount and convenience stores. Posting its first ever loss of 35.9 billion Yen (US$300 million) in its 70-year history in the fiscal year ended March 31, 1997, Yaohan was further hurt by the increase in national sales tax in April of 1997. This resulted in lower revenues and prompted the company to sell some of its most profitable stores in order to pay off current obligations. In addition, the company's inability to adjust to changing market conditions both domestically and overseas led to its failure to attract and retain shoppers. Financing its rapid expansion, Yaohan had amassed nearly Yen 161.3 billion ($1.34 billion) in debt and collapsed on September 8, 1997, filing under Japan's equivalent of Chapter 11's bankruptcy protection.

09/18/1997 - Filed for bankruptcy protection

Appendix B - Entrepreneurship Quotes

When Julie Bick was asked in an interview by Schindler (1998) how Microsoft treats failure, she replied "They don't just fire the person that screwed up, or demote them. ... They really figure, well, if this person can sort of dust themselves off and learn from the experience and go on -- they'll be smarter."

“Entrepreneurship – Initiative, Imagination, Flexibility, a willingness to think conceptually, and the capacity to see change as an opportunity.” (William Bygrave)

"You always pass failure on the way to success." (Mickey Rooney)

"People fail forward to success." (Mary Kay Ash)

"I don't know the key to success, but the key to failure is trying to please everybody." (Bill Cosby)

"Nothing fails like success." (Gerald Nachman)

“You have to leave the city of your comfort and go into the wilderness of your intuition. What you'll discover will be wonderful. What you'll discover is yourself. (Alan Alda)

“If you don't fail now and again, it's a sign you're playing it safe. (Woody Allen)

“Our lives improve only when we take chances -- and the first and most difficult risk we can take is to be honest with ourselves. (Walter Anderson)

“An entrepreneur tends to bite off a little more than he can chew hoping he'll quickly learn how to chew it.” (Roy Ash)

"Only those who dare to fail greatly can ever achieve greatly." (Robert F Kennedy)

"For you to be successful, sacrifices must be made. It's better that they are made by others but failing that, you'll have to make them yourself." (Rita Mae Brown)

"The spread of evil is the symptom of a vacuum. Whenever evil wins, it is only by default: by the moral failure of those who evade the fact that there can be no compromise on basic principles." (Ayn Rand, Capitalism: The Unknown Ideal, 1966)

"Men are born to succeed, not fail." (Henry David Thoreau)

"Far better it is to dare mighty things, to win glorious triumphs even though checkered by failure, than to rank with those poor spirits who neither enjoy nor suffer much because they live in the gray twilight that knows neither victory nor defeat." (Theodore Roosevelt)

"Many of life's failures are people who did not realize how close they were to success when they gave up." (Thomas Edison)

"Goodness is the only investment that never fails." (Henry David Thoreau, Walden: Higher Laws, 1854)

"Success is the ability to go from one failure to another with no loss of enthusiasm." (Winston Churchill)

"There will be a time when loud-mouthed, incompetent people seem to be getting the best of you. When that happens, you only have to be patient and wait for them to self destruct. It never fails." (Richard Rybolt)

"A minute's success pays the failure of years." (Robert Browning)

"It is pretty hard to tell what does bring happiness; poverty and wealth have both failed." (Kin Hubbard)

"The probability that we may fail in the struggle ought not to deter us from the support of a cause we believe to be just." (Abraham Lincoln)

"You may be disappointed if you fail, but you are doomed if you don't try." (Beverly Sills)

"Never fear the want of business. A man who qualifies himself well for his calling, never fails of employment." (Thomas Jefferson)

"Act as if it were impossible to fail." (Dorothea Brande)

"It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something." (Franklin D. Roosevelt)

"This thing that we call 'failure' is not the falling down, but the staying down." (Mary Pickford)

"Don't be discouraged by a failure. It can be a positive experience. Failure is, in a sense, the highway to success, inasmuch as every discovery of what is false leads us to seek earnestly after what is true, and every fresh experience points out some form of error which we shall afterwards carefully avoid." (John Keats)

"Only as you do know yourself can your brain serve you as a sharp and efficient tool. Know your own failings, passions, and prejudices so you can separate them from what you see." (Bernard M. Baruch)

"I can't give you a sure-fire formula for success, but I can give you a formula for failure: try to please everybody all the time." (Herbert Bayard Swope)

"Good people are good because they've come to wisdom through failure." (William Saroyan)

"Learn the art of patience. Apply discipline to your thoughts when they become anxious over the outcome of a goal. Impatience breeds anxiety, fear, discouragement and failure. Patience creates confidence, decisiveness, and a rational outlook, which eventually leads to success." (Brian Adams)

"What would you attempt to do if you knew you could not fail?" (Dr. Robert Schuller)

"We shall not fail or falter; we shall not weaken or tire. Give us the tools and we will finish the job." (Sir Winston S. Churchill, BBC radio broadcast, Feb 9, 1941)

Appendix C - What Defines Success?

George Ferguson, a senior consultant at Hoechst Marion Roussel, Inc. was replying to a message about someone considering success to be his ability to be an effective manager. had this to say about success:

I'm an old hand with a little experience to share. Pull up a chair and have a listen:

I would suggest you decide what you mean by "success." At one time I defined my success as to the number of "stripes on my sleeve," or my position in the company (when I went to work for Hallmark Cards, my goal was to be president of the company...unfortunately, I figured out my last name was not Hall). After several positions and situations I felt, even though I was higher in the organization and held quite a bit of responsibility, I wasn't REALLY making a difference...I felt I was nothing more than a (word deleted).

I took some time to critically examine what I did well and what was truely important to me. I finally figured out that "making a positive difference in peoples' lives" (my current mission) was what I really wanted to do. And I can do that best by developing and delivering training and education.

With that decision came the realization that I wouldn't make the "big bucks," or in some folks eyes be a success. But for me, there is nothing sweeter than to have a former student come to me 3 years after a class and thank me for the success THEY are having because of my classes. Because of this, I am having an impact on not only my students, but also on the people THEY impact....and so on, and so on, etc.

Am I a manager...not in the classical sense. Am I a leader? I guess so...people say I am. But I'm not trying to lead. I'm trying to make a difference following a vision and set of values that are important to me. Am I successful? As far as I'm concerned, very.

You say your success will be determined on your ability to be an effective manager....so what is success to you? The size of the office, the number of perks, the amount of the bonus, the title on your business cards? Or the impact you might have on people (some say "organization," but an organization is PEOPLE). What do you mean by "effective manager"? Being a Boss? A greater number of people reporting to you? Or do you mean people buy into your vision and share your values for a greater cause than just this month's goals or what your boss wants? What's first and foremost in your mind? What your next promotional opportunity might be? Or how to help the people that report to you be successful?

What are YOU, and everyone else who might be reading my 2 cents worth, doing to make a difference?

Appendix D - Build To Order – The Dell Model of Success

Six weeks ago, we had a visit from Dell Computer's senior management and I was impressed. First, they had a 6-minute video customized just for Saudi Aramco done by Michael Dell, the founder of the company and one of the 20 richest people in the world and creator of 'Build to Order' manufacturing concept. He said that he appreciated the business we're doing together and he wished he was here, but was sure his team will address all our requirements. He said he will make sure that he gets the results of the visit once the team comes back, and he will personally address concerns if any. Keep in mind we just bought 12,000 PC workstations from them over the past two year. Although that is not small by any means, it is incomparable to the business they do in the U.S. When they showed their process, I was really astonished about the order, and simplicity. Similar to EMC, a lot of parts are manufactured outside. They reduced PC manufacturing from 20 days to 3 in one year. Saudi Aramco can send their order electronically using what is called Electronic Data Interchange (EDI) to the local representative of Dell. The computer systems of the local rep recognizing it is an order for Dell automatically generates an EDI message to Dell notifying them of the order. Once Dell computer system receives the order, it automatically issues another EDI message to its suppliers including a message to Federal Express to pick up the packages after 3 days. The last part is financing where all the invoicing and payments after delivery are automatically processed by EDI. Believe it or not, there is minimal manual intervention in this whole process. Dell's target is zero inventory by next year. The investor community is so amazed with the concept to the extent that Dell's market value is an unbelievable 170 times over revenues. Other well-established companies in the PC market, like Compaq and IBM, are starting to follow the Dell model to reap similar benefits.

Is this futuristic business? No, it is today's business when we think about new ways to take advantage of Information Technology, not to reduce costs; rather to create opportunities. Results? Dell sales went up from $ 7.8 billion in 1996 to $ 16 billion this year.

I don’t have a calculation on the benefit Saudi Aramco got after implementing EDI with its major suppliers; we can now get equipment delivered much faster to end users, thereby drilling faster for oil and delivering our products to markets much faster.