Entrepreneurship and Business Development

MGMT 102

CHAPTER 1: THE NATURE OF ENTREPRENEURSHIP

1.1 Introduction

- The word '**entrepreneur**' is widely used, both in **everyday conversation** and as a technical term **in management and economics**.

- Its **origin** is from a **French word**, ***entreprendre***, where an entrepreneur was an individual commissioned to **undertake a particular commercial project.**

- Entrepreneurship is then **what the entrepreneur does.**

- The **entrepreneurial process** in which the entrepreneur engages is the means through which **new value is created** as a result of the project: **the entrepreneurial venture**.

1.2 Historical Origin of Entrepreneurship

What is entrepreneurship?

- Offering a specific and **unambiguous definition** of the term entrepreneurship /entrepreneur presents **a challenge**.

- This is not because definitions are not available, but **because there are so many**.

- During the **ancient period** the word entrepreneur was used to refer to **a person managing large commercial projects through the resources provided to him**.
- In the 17th Century a person who has signed a **contractual agreement with the government** to provide stipulated products or **to perform service was considered as entrepreneur**.
- In this case the **contract price is fixed** so **any resulting profit or loss reflects the effort of the entrepreneur**.

- In the 18th Century the first **theory of entrepreneur** has been developed by **Richard Cantillon**.
- He said that **an entrepreneur is a risk taker**.
- If we consider the **merchant, farmers** and /or the professionals **they all operate at risk**.
- For example, **the merchants buy products at a known price and sell it at unknown price** and this shows that **they are operating at risk.**

- In the late 19th and early 20th Century an **entrepreneur was viewed from economic perspectives.**

- The **entrepreneur organizes and operates an enterprise for personal gain**.

- In the middle of the 20th Century the **notion of an entrepreneur as an inventor** was established.

- “The function of the entrepreneur is to reform or **revolutionize the pattern of production** by exploiting an invention or more generally **untried technological possibility** for **producing new commodities or producing an old one in a new way** or opening a **new outlet** for products by reorganizing a new industry.”

- The concept of **innovation and newness are at the heart of the above definition**.

- From the historical development it is possible to understand the fact that the perception of the word **entrepreneur was evolved from managing commercial project** to the **application of innovation (creativity) in the business idea**.

1.3 Definitions of Entrepreneurship and Entrepreneur

- **Common attributes of the definitions** of entrepreneurship and entrepreneur.
- Entrepreneurship is the process of **identifying opportunities** in the market place, arranging **the resources** required to pursue these opportunities and **investing the resources** to exploit the opportunities for long term gains.
- **It involves creating incremental wealth** by bringing together resources in new ways to start and operate an enterprise.

1.Entrepreneurship is the processes through which **individuals become aware of business ownership** then develop ideas for, and **initiate a business**.

2.Entrepreneurship can also be defined as the **process of creating something different and better** with value by devoting the necessary time and effort by assuming the accompanying financial, psychic and social risks and receiving the resulting **monetary reward** and **personal satisfaction**.

3.In this case an individual should **come up with something different and better** in order **to be named as entrepreneur**.

4.Entrepreneurship is the **art of identifying viable business opportunities** and **mobilizing resources** to **convert** those opportunities into a successful enterprise through **creativity**, **innovation**, **risk taking** and progressive imagination.

- Entrepreneurship is a practice and a process that **results in creativity**, **innovation** and **enterprise development and growth.**

- It refers to an **individual's ability to turn ideas into action** involving and engaging in socially-useful wealth creation through application of innovative thinking and execution to meet consumer needs, using one's own labor, time and ideas.
- Engaging in **entrepreneurship shifts people from being "job seekers" to "job creators",** which is critical in countries that have **high levels of unemployment**.
- It **requires a lot of creativity** which is the **driving force behind innovation.**

- In general, the **process of entrepreneurship includes five critical elements**. These are:

  1.The **ability to perceive** an **opportunity**.

  2.The **ability to commercialize** the perceived opportunity i.e. **innovation**

  3.The **ability to pursue** it on a **sustainable basis.**

  4.The **ability to pursue it through systematic means.**

  5.The **acceptance of risk or failure**.

- Based on the above concepts of entrepreneurship, an entrepreneur can be defined as follows:
- 1.An entrepreneur is any person who creates and **develops a business idea** and takes the risk of **setting up an enterprise** to produce a product or service which satisfies customer needs.
- 2.An entrepreneur can also be defined as a **professional** who discovers a business opportunity to **produce improved or new goods and services** and identifies a way in which resources required can be mobilized.

- **3. An entrepreneur is an individual who**: has the ability to identify and pursue a business opportunity; undertakes a business venture; raises the capital to finance it; gathers the necessary physical, financial and human resources needed to operate the business venture; sets goals for him/herself and others; initiates appropriate action to ensure success; and assumes all or a major portion of the risk!

- **4.An entrepreneur is a person who:** creates **the job not a job-seeker**; **has a dream, has a vision**; **willing to take the risk** and makes something out of nothing
- **5.**Other definition, views the term entrepreneur from three perspectives; i.e. from the economist, psychologist and capitalist philosopher's point of view.

1.4 Types of Entrepreneurs

- Entrepreneurship can take three different forms. They are:

  1.The individual entrepreneur: An individual entrepreneur is someone who started; acquired or franchised **his/her own independent organization**. The major portion of this module is also devoted to describe the basic features and activities of the individual entrepreneur.

- **2.Intrapreneur:** An Intrapreneur is a person **who does entrepreneurial work within large organization.** The process by which an intrapreneur affects change is called Intrapreneurship.

- **3.The Entrepreneurial Organization:** The entrepreneurial function **need not be embodied in a physical person.** Every social environment has its own way of filling the entrepreneurial function.

1.5 Role of Entrepreneurs in Economic Development

- Entrepreneurial development is the most **important input in the economic development of any country**.
- The objectives of **industrial development**, **balanced regional growth**, and **generation of employment opportunities** are **achievable** through entrepreneurial development.

- The entrepreneurs **serve as a key to the creation of new enterprises**, thereby **rejuvenating economy** and **sustaining the process of economic development** in the following ways:

1.Improvement in **per capita Income/ Wealth Generation**

2.Generation of **Employment Opportunities**

3.Inspire others Towards Entrepreneurship

4.Balanced Regional Development

5.Enhance the Number of Enterprises

6.Provide **Diversity in Firms**

7. Economic **Independence**

8. **Combine Economic factors**

9. Provide **Market efficiency**

10. **Accepting Risk**

11. **Maximize Investor’s Return**

1.6 Entrepreneurial Competence and Environment

- Entrepreneurial Mindset

  Who Becomes an Entrepreneur?

  The Young Professional

  The Inventor

  The Excluded

- **Qualities of an Entrepreneur**

  Opportunity-seeking

  Persevering

  Risk taking

  Demanding for efficiency and quality

  Information-seeking

  Goal setting

  Planning

  Persuasion and networking

  Building self-confidence

  Listening to others, Demonstrating leadership

- **Entrepreneurial Skills:**

- General Management Skills- *Strategy Skills, Planning Skills, Marketing Skills, Financial Skills, Project Management Skills, Time Management Skills*

- People Management Skills- *Communication Skills, Leadership Skills*, *Motivation Skills*, *Delegation Skills, Negotiation Skills*

- **The Entrepreneurial Tasks:**

  Owning Organizations

  Founding New Organizations

  Bringing Innovations to Market

  Identification of Market Opportunity

  Application of Expertise

  Provision of leadership

  The entrepreneur as manager

1.7 Creativity, Innovation and Entrepreneurship

- **Creativity**, **innovation** and **entrepreneurship**, have been recognized as **important contributors to a nation's economic growth**.

- These three terminologies are chronologically interrelated and it is very important to look into them to get their full picture.

- **Creativity-** Creativity is defined as the tendency to **generate or recognize ideas**, **alternatives**, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.

- **Steps in the Creative Process**

Step1: Opportunity or problem Recognition: A person discovers that a new opportunity exists or a problem needs resolution.

Step2: Immersion: the individual concentrates on the problem and becomes immersed in it. He or she will recall and collect information that seems relevant, dreaming up alternatives without refining or evaluating them.

Step 3: Incubation: the person keeps the assembled information in mind for a while. He or she does not appear to be working on the problem actively; however, the subconscious mind is still engaged.

Step 4: Insight: the problem-conquering **solution flashes into the person's mind at an unexpected time**, such as on the verge of sleep, during a shower, or while running. Insight is also called the Aha! Experience.

Step 5: Verification and Application: the individual sets out to **prove that the creative solution has merit**. Verification procedures include gathering supporting evidence, using **logical persuasion**, and **experimenting with new ideas**.

- **Innovation**

- Innovation lies **at the heart of the entrepreneurial process** and is a means to the exploitation of opportunity. It is the **implementation of new idea at the individual, group or organizational level**.

- There are four distinct **types of innovation**, these are as follows:
- **Invention** - described as the **creation** of a **new product**, service or process
- **Extension** - the **expansion** of a product, service or process
- **Duplication** - defined as **replication** of an already existing product, service or process
- **Synthesis** - the **combination of existing concepts** and factors into a new formulation

- **The Innovation Process**

  1.Analytical planning: carefully identifying the product or service features, design as well as the resources that will be needed.

  2.Resources organization: obtaining the required resources, materials, technology, human or capital resources

  3.Implementation: applying the resources in order to accomplish the plans

  4.Commercial application: the provision of values to customers, reward employees and satisfy the stakeholders.

- **From Creativity to Entrepreneurship**

Creativity is the **ability to develop new ideas** and to **discover new ways** of looking at problems and opportunities.

Innovation is the **ability to apply creative solution to those problems** and opportunities in order to enhance people's lives or to enrich society.

Entrepreneurship = **creativity** + **innovation**.