**ENTREPRENEURSHIP**

**Topic 1: Overview of Entrepreneurship**

**LEARNING OBJECTIVES**

At the end of the course, the learner should be able to;

1. Discuss the meaning of an entrepreneur, entrepreneurship its origin and evolution
2. Describe how entrepreneurs recognize and evaluate business opportunities.
3. Discuss different entrepreneurship theories and explain different motivations for entrepreneurs.
4. Understand the role of entrepreneurship in the society and the economy
5. Apply the principles and concepts of entrepreneurship in legal entrepreneurship
   1. **INTRODUCTION TO ENTREPRENEURSHIP**

The concept of entrepreneurship has been there for quite some time but it has never been as important as it is today when the World is confronted with challenges of youth unemployment, poverty and increased competition among businesses. Entrepreneurship is the practice of identifying, evaluating and starting new businesses or organizations or revitalizing existing enterprises through creativity and innovation.

Entrepreneurship is a tremendous force that can have a big impact in the growth, recovery and societal progress by fueling innovation, employment and social empowerment. It has a significant role in the job creation among the youth, economic growth, and poverty alleviation, contributing to the growth in our National Gross Domestic Product and enhancing national revenue through taxation. Entrepreneurship is therefore the engine that drives the economy.

**1.2 THE ENTREPRENEURSHIP AND ITS EVOLUTION**

The word entrepreneur has its origin form a 17th Century French word “entreprendre” which meant to “undertake’’. This meant individuals who undertook the risk of starting new enterprises. Earliest entrepreneurs were associated with risk-taking and bearers of uncertainty.

Today, an entrepreneur is more than a risk-taker but includes one who is creative, innovative and has the ability to identify and evaluate an opportunity. He or she starts a, new business at the face of risk and uncertainty for the purpose of growth and profitability. Entrepreneurship is therefore the dynamic process of creating incremental wealth.

French Economist Richard Cantillon (1730) is credited with giving the concept of entrepreneurship a central role in economics.

Cantillon considered entrepreneurship as a form of self-employment. He described the entrepreneur as a person who pays a certain price for a product to resell it at uncertain price. The entrepreneur therefore makes decisions about obtaining and using resources while assuming the risk of the enterprise. For example, the decision may involve resource allocation such as land, capital, labour and entrepreneurial skills. The entrepreneur was therefore viewed as a bearer of risk and uncertainty.

During the period (1940 – 1921) Carl Menger considered entrepreneurs as a change agent who transforms resources that are usually of low value into useful and more valuable products often creating the circumstances that lead to industrial growth. Carl Menger’s model was that of value addition transformation of resources from low value to higher value. (Provide examples).

Frank Knight (1921) viewed entrepreneurs as persons who attempt to predict and act upon change within markets hence bearing the uncertainty of market dynamics. Entrepreneurs also performed such fundamental managerial functions such as providing leadership, direction, control and organizing functions.

Joseph Schumpeter (1934) an Austrian economist considered entrepreneurs as a force of creative destruction. This is where established ways of doing things are destroyed by the creation of new and better ways of doing things.

This is the concept of innovation and is today the driving force in entrepreneurship. This concept takes several forms including the following:

* Introduction of new products/services.
* Introduction of new method of production.
* Introduction of new market and new marketing methods.
* Establishing of new forms of organizations.

The concept of innovation and newness is an integral part of entrepreneurship. Joseph Schumpeter considered entrepreneurs as a force of creative destruction where established ways of doing things are destroyed by the creation of new and better ways.

This concept of innovation could take several forms such as:

* Introduction of new product / service
* Introduction of new method of production
* Opening of new market or new marketing methods
* Carrying out of new forms of organizations

Thus an entrepreneur can be considered as:

* A manager- undertaking an activity.
* An agent of economic change i.e. in terms of the effect they have on economic systems.

An individual – in terms of their psychology, personality and personal characteristics.

The concept of an entrepreneurs is therefore further refined when principles and terms from a business, managerial, and personal perspective has been considered. Another helpful view of entrepreneurship is provided by the twenty-first-century management scholar Peter Drucker. Drucker suggests that entrepreneurs always search for change, respond to it, and exploit it as an opportunity. Entrepreneurs take risks in starting new activities and take on significant personal responsibility. Many sustainability entrepreneurs perceive opportunities emanating from increased public concern about the environment and climate disruption and are responding to this opportunity with profit-making ventures that address these concerns.

In almost all the definitions of entrepreneurship, there is an agreement that entrepreneur is a kind of behaviour that includes: -

1. Initiative taking
2. Organizing of resources to create more value and wealth
3. Acceptance of risk
4. Creativity and innovation

Entrepreneur is therefore a person with a certain behavioural characteristics of risk taking and innovativeness, persistent and ability to identify and evaluate an opportunity among other attributes while entrepreneurship is the activities that entrepreneurs are involved with sometimes referred to as entrepreneurial development process.

Putting these perspectives together, entrepreneurship can be viewed as a mindset of;

* Recognizing change,
* Pursuing opportunity,
* Taking on risk and responsibility,
* Innovating,
* Making better (higher value) use of resources,
* Creating new value that is meaningful to customers,

Entrepreneurship is also an attitude and drive to pursue opportunity and create something new and of value.

**1.3 Role of Entrepreneurs in Society and the Economy**

The role of entrepreneurs and entrepreneurship in society and in economic development involves more than just increasing per capita output and income. It involves initiating and constituting change in the structure of business and society. This change is accompanied by growth and increased output which allows more wealth to be divided by the various participants.

Entrepreneurs by their very nature are innovators and one theory of economic growth depicts innovation as the key, not only in developing new products (or services) for the market but also in stimulating investment interest in the new ventures being created. This new investment works on both the demand and the supply side of the growth equation; the new capital created expands the capacity for growth (supply side), and the resultant new spending utilizes the new capacity and output (demand side).

Entrepreneurs find out business opportunities, coordinate resources and innovate. In order for them to be able to function and play their roles that will impact on the nation needs to be flexible and adaptable to changes in the economy.

Entrepreneurs view change as opportunity and look at the problem equally and see opportunities to bring forward a solution and satisfy various societal needs. There are different types of entrepreneurs including; social entrepreneurs who identify social problems and using their entrepreneurial skill find solutions, techno-preneurs identify new business opportunities based on the advancement of technology and legal entrepreneurs.

**1.4 ENTREPRENEURSHIP PROCESS**

While the entrepreneur is the person, entrepreneurship is the process involving all the functions, activities and action associated with perceiving opportunities and creating organizations to pursue them.

It is also referred to as entrepreneurial development which can be described in several stages;

1. **Acquiring the motivation**

This is what influences a potential entrepreneur to venture into business.

There is always some triggering event(s) that gives birth to new organization. Certain trigger factors may be personal, sociological or environmental factors. These are the reasons that trigger one to pursue entrepreneurial journey.

1. **Identifying and evaluating the opportunity**

There are several sources and ways of identifying and opportunity. Opportunity is a favorable set of circumstances that creates a need for a new product, service or business with a possibility of earning a profit. Opportunity is attractive, durable, timely and anchored in a product, service or business that creates or adds value for the buyer or user.

Opportunities are created from the changes in the environment which creates a new need, market gap or problems that need solving.

Before the business startup process, opportunities are evaluated on the basis of return on investment, market, size, profitability, resource availability, affordability and accessibility competition advantage, legality of the venture and personal factors among others.

1. **Developing a business plan**

This is a document prepared to serve as a roadmap that gives guidance to the entrepreneur on how to carry out the business.

Components of the business plan include; a business description, marketing plan, organization and management plan section, production and operation sections s well as financial pan section among others.

1. **Identifying and assembling the necessary resources**

The resources required for the start-up includes; financial resources, human resources and operating resources. These will vary on the type of business.

1. **Setting up the business and managing it for profit and growth.**

This stage involves setting up the necessary systems for the business start-up, business licensing and registration, compliance with government regulation and policy and performing managerial functions of planning staffing, directing, organizing and controlling, understand that key variables for success identity potential problems and deal with them, implement control systems and develop strategies for growth.

**1.5 Motivation to be an Entrepreneur**

Beyond having the common trait of having parents who were entrepreneurs, there are many personal reasons why individuals decide to become entrepreneurs. Becoming an entrepreneur can be motivated by personal interests and values, the prospects of financial rewards, or lifestyle preferences. It is also sometimes driven by “necessity” when there is a paucity of other employment or income-earning opportunities.

The motivations for being an entrepreneur include the ability to pursue a passion or interest that is exciting and one feels deeply about. It can include the opportunity to create something new, enhance one’s personal reputation, and make an impact or a difference in customers’ and employees’ lives and in society in general. All of these are motivations for many sustainability entrepreneurs.

The motivation for becoming an entrepreneur can also be driven by a desire to be independent, to be your own boss, to make your own decisions, and to make your own schedule. This moves into the so-called lifestyle motivations for being an entrepreneur—to have a more flexible work schedule that allows time for other activities including more time for family and recreational and creative pursuits.

**1.6 Entrepreneurial Risk and the Importance of Resilience and Persistence**

Being a successful entrepreneur is not easy and there is no guarantee of success. It requires broad competence across a range of functional areas including finance, accounting, strategy, marketing, management and operations, and strong interpersonal skills. There are also significant risks and significant likelihood of failure. Part of being an entrepreneur is assessing and managing risk.

Also part of being an entrepreneur is being resilient and persistent. As an entrepreneur, there will always be challenges and difficult times and being able to endure through the tough times and being persistent in working to achieve success is critical for entrepreneurs. Remember that even Steve Jobs got removed from his position at Apple before he came back to transform the company with the introduction of innovative new products including the iPod, iPhone, and iPad.

**1.7 Corporate Entrepreneurship (Intrapreneurship)**

While entrepreneurship is normally thought of as starting a new business, intrapreneurship applies to applying innovation to existing organizations. It is entrepreneurial activity which is entrepreneurship within the existing organization. Intrapreneurship applies the entrepreneurial mindset characterized by innovation, risk taking, and flexibility to an established firm. The objective is to enhance the ability of an established firm to react to market opportunities in a timely and effective manner much like start-up ventures do. Large established companies like telecommunication company Safaricom often encourage intrapreneurship to foster innovation and accelerate new product development, to take advantage of a new opportunity, or to assess feasibility of a new process or design.

Intrapreneurship is the process of creating and developing new ideas and turning them into successful products or services within an organization.

Intrapreneurship can be a way to promote within the organizational culture, the values that entrepreneurship promotes such as sense of responsibility, openness, creativity, resilience and overcome challenges and more.

Through intrapreneurship, employees feel the chance to test out their innovation, creativity, and risk-taking skills.

Intrapreneurship is about having a vision and taking the necessary steps to make it a reality.

It’s about being proactive and finding new ways to improve the company from within.

There might be already employees who have the entrepreneurial spirit, but they might be afraid of starting their own venture, they might feel unsecure or any number of reasons where they would prefer to have someone that push them to start a new project.

In those cases, it is a matter of working out and developing the entrepreneurial skills of the person, so that his or her ideas can be successfully applied in benefit of both, the company and the individual.

There are some key ways to empower and encourage your employees to become intrapreneurs.

1. Give them the freedom to experiment, make decisions and take risks.
2. Encourage employees to think outside the box and come up with new ideas.
3. Provide them with the resources they need to be successful, but also to allow making mistakes. This includes access to funding, mentorship, and training.
4. Create a culture of innovation within your company.

By promoting entrepreneurship within your organization, gradually employees know they receive a level of trust to undertake new projects.

**KEY TAKEAWAYS**

* Entrepreneurship is the introduction of a new product or service through the creation of a new company or the innovation of an existing organization.
* Entrepreneurs search for change, respond to the change, and seize on the change as an opportunity.
* Entrepreneurship requires hard work, dedication, passion, resilience, and persistence.
* Entrepreneurship is to a large degree a mind-set, always striving to do new things in an innovative and better way.
* Entrepreneurs require access to capital, equipment, land, talent, and business know-how.
* Intrapreneurship refers specifically to entrepreneurial activity that originates from within an existing company.
* The key elements of entrepreneurial success include recognizing change, identifying market opportunities inherent in that change, and delivering value to customers by addressing customer needs or problems associated with the change.

**CHECK POINT EXERCISE**

1. Search online for a recent article discussing an entrepreneurial venture, a start-up company. Describe the venture, the motivation for the start-up, and the background of the entrepreneur.
2. Reflect on your personal experiences. Have you had personal experience with an entrepreneur or have you thought about starting your business?
3. Search online for an article or case study about sustainability legal entrepreneurship Write a paper discussing the activity, the role that innovation and entrepreneurship played in the activity, and the tangible business benefits the company experienced from the new sustainability activity.

**TOPIC: Entrepreneurial Opportunities**

Many different conditions in society can create entrepreneurial opportunities for new goods and services. Opportunity conditions arise from a variety of sources. At a broad societal level, they are present as the result of forces—such as changes in knowledge and understanding, the development of a new technology, shifting demographics, political change, or changing attitudes and norms—that give rise to new preferences and concerns. These forces constantly open up new opportunities for entrepreneurs.

Related to sustainability concerns, certain demographic shifts and pollution challenges create opportunities. For example, with 50 percent of the world’s population, for the first time in history, now living in urban areas, city air quality improvement present opportunities for entrepreneurs.

The entrepreneur must first recognize the opportunity and then innovate by proposing a business solution that provides an attractive alternative to customers. A solution is just the first step in the process, the entrepreneur must also investigate the economic value of and business proposition emanating from that opportunity. They must research the market to understand how their potential product or service provides value to a customer and whether the amount a customer is willing to pay, which reflects the value of the product or service to the customer, exceeds the costs to provide that value, product, or service to the customer. In this way, the entrepreneur is contributing to economic growth and society by providing customers with goods and services whose costs to provide are less than their value to consumers.

An entrepreneur can come up with a new approach that meets a customer’s need or want, but if not enough customers are willing or able to pay a price above the cost of that product or service, it will not be financially viable. Therefore, the opportunity becomes a true business opportunity when it is of sufficient scale and value that is, revenues will cover costs and promise to offer net revenue above operating costs after the initial startup investment expenditures are repaid.

**6.1 Opportunity recognition** is actually a process that's found in the way that individuals and businesses with an entrepreneurial mindset approach new business ventures or ideas. In many ways, it is a constant brainstorming in which individuals look for ''new and improved ways'' of addressing problems. It could be a brand new business idea or even new products or services that fulfill customers' needs and expectations.

You've probably had a thought at some point and considered, ''Hey, I bet I could make money doing this!'' That's an example of opportunity recognition. You recognize that you have an idea or a capability that could be beneficial to a particular audience. Some people seize on these ideas and turn them into new opportunities that drive business growth by creating new streams of revenue.

Opportunity recognition is important because it helps a business stay relevant and be successful long-term. What would have happened to Amazon if it had not embarked on digital books, the buyout of Whole Foods and new ways of shipping to customers quickly, and instead focused solely on selling books on its website? It may not even still be around, and it certainly wouldn't be as relevant of a player as it is in the retail environment.

**6.2 The Basis of Opportunity Recognition**

The process of starting a new business is embodied in the entrepreneurial development process.

In this process, an entrepreneur must find, evaluate, and develop an opportunity by overcoming the forces that resist the creation of something new. Finding a good business idea is the first step in transforming the entrepreneurs’ business opportunity. However, an idea by itself however good, is not sufficient for success it must be evaluated for an attractive opportunity.

Most good business opportunities do not suddenly appear, but rather result from an entrepreneur’s alertness to possibilities. This alertness to identify opportunities is one of the characteristics of entrepreneurs. Entrepreneurs are quick to identify change in the environment and respond. They endeavor to satisfy new needs as well as providing solutions to problems that emanate from the environment.

Researchers who have studied opportunity recognition look at it as a process that involves three steps:

* Actively looking for opportunities.
* Being able to perceive opportunities when they present themselves.
* Understanding the industry, you're in (which allows you to know where new opportunities might lie).

Most business opportunities arise as a result of changes in the external environmental factors that create; - changes that create a problem or some form of difficulty which entrepreneurs see the opportunity of a solution in form of a business model.

* Circumstances that create a need where the need require to be satisfied again in form of business
* Situation that creates a market gap entrepreneurs see the opportunity of filling in the gap in form of business.

**6.3 Evaluating the Opportunity**

After generating business ideas and identifying opportunities, they must be evaluated to ensure the idea of the opportunity represents an attractive business opportunity. The factors include;

1. **Industry factors**- Identify factors within the industry that makes it attractive and profitable. Such factors include; entry barriers, cost structures, competition, substitute products, usefulness and desire for products etc.
2. **Market factors-** The product/service must have a clearly identifiable target market with a need to satisfy**.**

**–** Theremust also be a reasonable demand for the product/service and a reasonable market size with scope for growth.

**3. Economic factors**- offers good return on investment, reasonable profits after tax and a shorter time to break-even.

**4. Resource availability**- raw material availability with adequate supply, reliable and at reasonable cost.

- Availability of an appropriate technology

- Availability of finance for start-up, sources and cost of acquiring.

- Availability of skills-reliable and at reasonable cost

**5. Personal factors**- interest, commitment, risk/reward, opportunity cost and desirability and compatible with the ones goals and interest.

**6. Competitive factors-** Must offer superior product/service than the competitor. If the product does not offer competitive advantage, then you should have the ability to create a competitive advantage.

**7. Legal factors and government policy requirement**

-The business should be legal and comply with legal and government policy.