

Brief Agenda

Issue 01: Entrepreneurship: basics, myths, concepts & preliminaries

Issue 02: The Entrepreneurial Process/Start ups

Issue 03: The Entrepreneurial Mind

Issue 04: The Individual Entrepreneur

Issue 05: International Entrepreneurial Opportunities

Issue 06: Creativity & the Business Idea

Issue 07: Creating & Starting the Venture

Issue 08: The Marketing Plan & the Marketing Mix

Issue 09: The Organizational Plan

Issue 10: The Financial Plan, Pro-forma for Sources & Uses of Funds

Issue 11: Bank Lending Decisions & Sources of Capital

Issue 12: Venture Launch – Early Management Decisions

Issue 13: New Venture Expansion Strategies & Issues

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THE NATURE AND IMPORTANCE OF ENTREPRENEURSHIP

LEARNING OBJECTIVES

1. To introduce the concept of entrepreneurship and its historical development.
2. To explain the entrepreneurial decision process.
3. To identify the basic types of start-up ventures.
4. To explain the role of entrepreneurship in economic development.
5. To discuss the ethics and social responsibility of entrepreneurs.

NATURE AND DEVELOPMENT OF ENTREPRENEURSHIP

The term *entrepreneur* comes from the French and translates "between-taker" or "go-between."

Earliest Period

In this period the **money person** (forerunner of the capitalist) entered into a contract with the go-between to sell his goods. While the capitalist was a passive risk bearer, the **merchant** bore all the physical and emotional **risks**.

Middle Ages

In this age the term *entrepreneur* was used to describe both an actor and a person who managed large production projects. In such large production projects, this person did **not** take any **risks**, managing the project with the resources provided. A typical entrepreneur was the cleric who managed architectural projects.

17th Century

In the 17th century the entrepreneur was a person who entered into a contract with the government to perform a service.

Richard Cantillon, a noted economist of the 1700s, developed theories of the entrepreneur and is regarded as the founder of the term. He viewed the entrepreneur as a risk taker who "buy[s] at certain price and sell[s] at an uncertain price, therefore operating at a risk."

18th Century

In the 18th century the person with capital was differentiated from the one who needed capital. In other words, entrepreneur was distinguished from the capital provider.

Many of the inventions developed during this time as was the case with the inventions of Eli Whitney and Thomas Edison were unable to finance invention themselves. Both were capital users (entrepreneurs), not capital providers (venture capitalists.) Whitney used expropriated crown property. Edison raised capital from private sources.

A **venture capitalist** is a professional money manager who makes risk investments from a pool of equity capital to obtain a high rate of return on investments.

19th and 20th Centuries

In the late 19th and early 20th centuries, entrepreneurs were viewed mostly from an economic perspective. The entrepreneur "contributes his own initiative, skill and ingenuity in planning, organizing and administering the enterprise, assuming the chance of loss and gain."

Andrew Carnegie is one of the best examples of this definition, building the American steel industry on of the wonders of industrial world, primarily through his competitiveness rather than creativity.

In the middle of the 20th century, the notion of an *entrepreneur as an innovator* was established.

Innovation, the act of introducing something new, is one of the most difficult tasks for the entrepreneur.

Edward Harriman and John Pierpont Morgan are examples of this type of entrepreneur. Edward reorganized the Ontario and southern railroad through the northern pacific trust and john developed his large banking house by reorganizing and financing the nation's industries.

This ability to innovate is an instinct that distinguishes human beings from other creatures and can be observed throughout history.

DEFINITION OF ENTREPRENEUR

The concept of entrepreneurship from a personal perspective has been explored in this century. This exploration is reflected in the following three definitions of an entrepreneur:

In almost all definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes:

1. Initiative taking.
2. The organizing and reorganizing or social/economic mechanisms to turn resources and situations to practical account.
3. The acceptance of risk or failure.

To an economist, an entrepreneur is one who brings resources, labor, materials, and other assets into combinations that make their value greater than before, and one who introduces changes, innovations, and a new order.

To a psychologist, such a person is typically driven by certain forces- the need to obtain something, to experiment, to accomplish or perhaps to escape the authority of others.

Entrepreneurship is the dynamic process of creating incremental wealth. Our definition of entrepreneurship involves four aspects:

1. Entrepreneurship involves the creation process.
2. It requires the devotion of the necessary time and effort.
3. It involves assuming the necessary risks.
4. The rewards of being an entrepreneur are independence, personal satisfaction, and monetary reward.

For the person who actually starts his or her own business there is a high failure rate due to poor sales, intense competition, lack of capital or lack of managerial ability.

THE ENTREPRENEURIAL DECISION PROCESS**(Deciding to become an entrepreneur by leaving present activity)**

Many individuals have difficulty bringing their ideas to the market and creating new venture. Yet entrepreneurship and the actual entrepreneurial decisions have resulted in several million new businesses being started throughout the world. Although no one knows the exact number in the United States.

Indeed, millions of ventures are formed despite recession, inflation, high interest rates, and lack of infrastructure, economic uncertainty and the high probability of failure

The entrepreneurial decision process entails a movement *from* something *to* something— a movement from a present life style to forming a new enterprise.

To leave a present live-style to create something new comes from a negative force--disruption. Many companies are formed by people who have retired, moved, or been fired. Another cause of disruption is completing an educational degree.

The decision to start a new company occurs when an individual perceives that forming a new enterprise is both desirable and possible.

KEY TERMS***Breakthrough innovations***

A new product with some technological change

Business ethics

The study of behavior and morals in a business situation

Desirability of new venture formation

Aspects of a situation that make it desirable to start a new company.

Entrepreneur

Individual who takes risks and starts something new

Entrepreneur as an innovator

An individual developing something unique

Entrepreneurial decision process

Deciding to become an entrepreneur by leaving present activity

Entrepreneurship

Process of creating something new and assuming the risks and rewards

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Desirability of New Venture Formation

(Aspects of a situation that make it desirable to start a new company)

The perception that starting a new company is desirable results from an individual's culture, subculture, family, teachers and peers.

American culture places a high value on being your own boss, being a success and making money therefore, it is not surprising to find a high rate of company formation in the United States. On the other hand in some countries making money is not as valued and failure may be a disgrace. The rate of business formation in these countries is not as high. Many subcultures that shape value systems operate within a cultural framework.

Studies indicate that a high percentage of founders of companies had fathers and/or mothers who valued independence. Encouragement to form a company is also gained from teachers, who can significantly influence individuals. An area having a strong educational base is also a requirement for entrepreneurial activity. Peers are important, also, as is an area with an entrepreneurial pool and peer-meeting place.

Possibility of New Venture Formation

(Factors making it possible to create a new venture)

Although the desire of new venture formation derived from the individual's culture, subculture, family, teachers and peers needs to be present before any action is taken, the second feature necessary centers around this question "What makes it possible to form a new company?"

Formal education and previous business experience give a potential entrepreneur the skills needed to form and manage a new enterprise. Although educational systems are important in providing the needed business knowledge, individual will tend to be more successful in forming in fields in which they have worked. The government also contributes by providing the infrastructure to help a new venture.

The market must be large enough and the entrepreneur must have the marketing know-how to put together the entire package.

Finally, financial resources must be readily available. Although most start-up money comes from personal savings, credit, and friends, but there is often a need for additional capital. Risk-capital availability plays an essential role in the development and growth of entrepreneurial activity.

KEY TERMS

Foundation companies

A type of company formed from research and development that usually does not go public.

Gazelles

Very high growth ventures.

Government as an innovator

A government active in commercializing technology

High-potential ventures.

A venture that has high growth potential and therefore receives great investor interest

Entrepreneurship

Entrepreneurship within an existing business structure

Iterative synthesis

The intersection of knowledge and social need that starts the product development process

Lifestyle firm

A small venture that supports the owners and usually does not grow

Ordinary innovation

A new product with little technological change

Possibility of new venture formation

Factors making it possible to create a new venture

ENTREPRENEURIAL PROCESS/START UPS

LEARNING OBJECTIVES

1. To identify the basic types of start-up ventures.
2. To explain the role of entrepreneurship in economic development
3. To discuss the ethics and social responsibility of

TYPES OF START-UPS

Life-Style Firms

A *life-style firm* exists primarily to support the owners and usually has little growth opportunity.

This type of firm may grow after several years to 30 or 40 employees.

Foundation Companies

A type of company formed from research and development that usually does not go public. This firm can grow in five to ten years from 40 to 400 employees.

High-Potential Venture

A venture has high growth potential and therefore receives great investor interest. The company may start out like a foundation company, but its growth is far more rapid. After five to ten years the company could employ around 500 employees. These firms are also called *gazelles* and are most important for the economic development of an area.

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

The role of entrepreneurship in economic development involves initiating change in the structure of business and society. One theory of economic growth depicts innovation as the key, not only in developing new products, but also in stimulating investment interest. The new capital created expands the capacity for growth (supply side), and new spending utilizes the new capacity and output (demand side.)

In spite of the importance of investment and innovation in the economic development of an area, there is still a lack of understanding of few factors which are as follows:

- ✓ The *product-evolution process* is the process through which innovation develops and commercializes through entrepreneurial activity, which in turn stimulates economic growth. It begins with knowledge in the base technology and ends with products or services available in the marketplace.
- ✓ The critical point in the process is the intersection of knowledge and a recognized social need, called the *iterative synthesis*. This point often fails to evolve into a marketable innovation.
- ✓ Most innovations introduced in the market are *ordinary innovations*, with little uniqueness.
- ✓ *Technological innovations* refer to new products with significant technological advancements.
- ✓ *Breakthrough innovations* mean the development of new products with some technological change.

Regardless of the level of uniqueness or technology, each innovation evolves into and develops towards commercialization through one of three mechanisms: the government, entrepreneurship, or entrepreneurship. Entrepreneurship has assisted in revitalizing areas of the inner city. Individuals in inner-city areas can relate to the concept and see it as a possibility for changing their present situation.

GOVERNMENT AS AN INNOVATOR

A government active in commercializing technology is known as an innovative government. Commercializing technology is frequently called *technology transfer*.

However, few inventions resulting from government-sponsored research have reached the commercial market. Most of the by-products from scientific research have little application to any social need. The government lacks the business skills needed for successful commercialization. Government bureaucracy and red tape also often inhibit the timely formation of the business. Recently, federal labs have been required to commercialize some of their technology each year and some are providing entrepreneurial training.

Entrepreneurship

Entrepreneurship refers to entrepreneurship within an existing organization or business structure. Entrepreneurship can also bridge the gap between science and the marketplace.

Existing businesses have the financial resources, business skills, and marketing and distribution system to commercialize innovation successfully. Often the bureaucratic structure, emphasis on short-term profits, and structured organization inhibit creativity. Some corporations have tried to establish an Entrepreneurial spirit in their organization, some in the form of strategic business units (SBUs.)

Entrepreneurship

The third method for bridging the gap between the science and the marketplace is via entrepreneurship. Many entrepreneurs have difficult time bridging this gap and creating new ventures. They may often lack managerial skills, marketing capabilities, or financial resources. They frequently do not know how to interface with banks, suppliers, customers, and distributors. Yet, entrepreneurship is the most effective method for bridging the gap and creating new enterprises, these activities affect an areas economy by building the economic base and providing jobs.

ENTREPRENEURIAL CAREERS AND EDUCATION

Since 1985 there has been an increased interest in entrepreneurial careers fostered by factors such as increased media coverage of entrepreneurs and employment shifts.

A conceptual model for understanding entrepreneurial careers views the career stages as interacting with other stages and events in the individual's life, the life-cycle approach. This approach conceptualizes entrepreneurial careers in nine categories.

1. Educational environment
2. The individual's personality
3. Childhood family environment
4. Employment history
5. Adult development history
6. Adult family/non-work history
7. Current work situation
8. The individual's current perspective
9. The current family situation

Although there exist a common perception that entrepreneur are less educated than the general population however studies have found entrepreneurs overall and female entrepreneurs in particular, are far more educated than the general population. However, this education sometimes does not develop the specific skills needed in the venture, especially for women entrepreneurs.

Childhood influences have been explored, particularly in terms of values and the individual's personality. The traits most frequently researched are the need for achievement, locus of control, *risk-taking*, and gender identity..

The research on the childhood family environment of the entrepreneur has had more definite results. Entrepreneurs tend to have self-employed fathers, and many also have entrepreneurial mothers. The family plays an important role in establishing the desirability of entrepreneurship as a career.

Employment history also has an impact on entrepreneur careers in both positive and a negative sense. Entrepreneurs tend to have a higher probability of success when the venture created is in their field of experience. Negative displacement (such as dissatisfaction with various aspects of ones job) also encourages entrepreneurship.

Although no definite research has been done on the adult development history of entrepreneurs, it appears to also affect entrepreneur's careers. One's development history has somewhat more of an impact on women, since they tend to start businesses at a later stage in life.

There is a lack of data on adult family/non-work history and the available data adds little understanding towards entrepreneurial career development.

Entrepreneurs are known for their strong work values, their long workdays, and their dominant management style. They tend to fall in love with the organization and will sacrifice almost anything in order for it to survive.

While in college, few future entrepreneurs realize that they will pursue entrepreneurship as their major life goal. Relatively few individuals will start a business immediately after graduation. Entrepreneurship education is a fast growing area in colleges and universities. While the courses vary by university, there is a great commonality, especially in the initial few courses.

The **skills required by entrepreneurs** can be classified in to three main areas:

1. *Technical skills* involve such things as writing, listening, oral presentations, coaching, and technical know-how.
2. *Business management skills* include those areas involved in starting, developing and managing any enterprise.
3. *Personal entrepreneurial skills* differentiate an entrepreneur from a manager and include inner control (discipline), risk taking, innovativeness, persistence, visionary leadership, and being change oriented.

These skills and objectives form the basis of the modular approach to an entrepreneurship curriculum. Today entrepreneurs are recognizing the need to learn some of the "science" of management in an MBA program in order to grow their businesses effectively in the global environment.

ETHICS AND SOCIAL RESPONSIBILITY OF ENTREPRENEURS

The entrepreneur must establish a balance between ethical exigencies, economic expediency, and social responsibility. A managers attitudes concerning corporate responsibility tend to be supportive of laws and professional codes of ethics. Entrepreneurs have few reference persons, role models, and developed internal ethics codes. Entrepreneurs are sensitive to peers pressure and social norms in the community as well as pressures from their companies.

While **ethics** refers to the "study of whatever is right and good for humans," **business ethics** concerns itself with the investigation of business practices in light of human values. The word "ethics" stems from the Greek *éthos*, meaning custom and usage.

Development of Our Ethical Concepts

Socrates, Plato, and Aristotle provide the earliest writings dealing with ethical conceptions; earlier writings involving moral codes can be found in both Judaism and Hinduism.

American attitudes on ethics result from three principle influences: Judeo-Christian heritage, a belief in individualism and opportunities based on ability rather than social status.

Research on business ethics can be broken down into four broad classifications:

1. Pedagogically-oriented inquiry
2. Theory-building without empirical testing
3. Empirical research, measuring the attitudes and ethical beliefs of students and academic faculty
4. Empirical research within business environments

THE FUTURE OF ENTREPRENEURSHIP

In spite of the differences in definition of entrepreneurship, there are common aspects such as risk taking, creativity, independence, and rewards. Entrepreneurship is currently being embraced by educational institutions, governments, societies, and corporations. Schools are increasing their emphasis on entrepreneurship in terms of courses and academic research. In Europe many universities have started programs in entrepreneurship.

There has also been an increase in academic research, endowed chairs and centers of entrepreneurial activity. Governments have also promoted the growth of entrepreneurship. Individuals are encouraged to form new businesses and provided tax incentives, roads, and a communications system to facilitate this creative process. Some state governments are developing strategies for fostering entrepreneurial activity.

The venture capital industry has benefited from lowering of capital gains tax rates and more relaxed rules regarding pension fund investment.

Society's support of entrepreneurship is critical in providing motivation and public support. The media has played a powerful role in developing public support. Media coverage uplifts the image of the entrepreneur and growth companies. Articles have appeared in newspapers such as *New York Times*, *The Wall Street Journal*, and the *Washington Post*. Business magazines such as *Barrons*, *Business Week*, *Forbes*, and *Fortune* have provided coverage. Magazines such as *Black Enterprise*, *Entrepreneur*, *Inc.*, and *Venture* focus on issues of the entrepreneurial process. Television on both a national and local level has highlighted entrepreneurship.

Large companies will continue to have a special interest in Entrepreneurship in the future. The largest 15 companies account for over 20 percent of the total U.S. research and development. Other companies will create more new businesses through Entrepreneurship.

KEY TERMS

Product-evolution process

Process for developing and commercializing an innovation

Risk taking

Taking calculated chances in creating and running a venture.

Technological innovation

A new product with significant technological advancement

Technology transfer

Commercializing the technology in the laboratories into new products

Economy

Facts and myths about innovation



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The origins of many successful organisations that exist today can be traced back to the nineteenth century or even earlier. The business interests of such organisations typically span a wide range of sectors and industries, and all of them have been able to continue operations sustainably and successfully. They are standing tall today not because their century-old business models were robust, but because they have been continuously innovating and remodelling their businesses to stay relevant over time. That's why innovation is necessary not only for superior growth, but also to sustain the journey over a long duration.

At the same time, innovation has become a buzzword today. However, despite its popularity, the term isn't fully understood. This article tries to discuss a few facts and clear up some myths around innovation.

"Innovation must fuel creative destruction, inside and outside. Successful organisations always go through such a cycle of internal creative destruction which helps them stay relevant over time"

Innovation is not invention: Quite often, we see people using these two words interchangeably and, more surprisingly, synonymously. Invention is about creating something that was earlier not available or believed to be impossible.

Innovation, on the other hand, is implementing a new idea by mobilising the required resources and things that are already invented or available.

For example, creating a photographic camera was a path-breaking invention that opened up a completely new world of scientific and business activities. But inserting a miniature version of such a camera inside a mobile phone is not an invention, but an innovation. This was an innovative idea that helped in mobilising multiple working elements, including a camera and a mobile phone, to create an unprecedented experience for users of mobile phones and cameras.

novation is not copying another innovation: This is another misconception among entrepreneurs and other stakeholders. Innovation does not mean borrowing an innovation from another part of the world. On the other hand, if an innovator adapts an innovation from somewhere else to solve a local problem, then this may qualify as innovation.

For example, ride-sharing apps had become popular in the USA's Silicon Valley more than a decade ago. The business model was relatively simple: to provide a better experience to riders and drivers alike in comparison to prevailing cab services.

Copying that business model and developing a new app would not qualify as another innovation. But when the innovators of emerging countries implemented a new idea of ride sharing involving two-wheelers, the business model was altered through an innovation.

Innovation is not only for start-ups: It's true that one of the most important criteria for distinguishing a start-up from a small business is its innovative capabilities. But innovation is not only for start-ups. In fact, large companies need to innovate more to remain relevant in this fast-changing world.

As discussed above, large companies have been able to maintain their position as industry leaders over centuries due to their ability to sustain innovation-driven business remodelling.

Similarly, there are ample examples of large companies that have failed due to their inability to innovate. For example, the innovative idea of inserting miniature but powerful cameras inside mobile phones disrupted the traditional business of photography.

Innovation is not training: Many stakeholders believe that we can make the younger generation innovative by training them with modern skills. It's true that upskilling is an important element to improve workforce productivity and employability. However, skills building is not the only activity that can foster

vation. A proper education system is also essential to create innovative minds. Education, particularly one centred around science, technology, engineering and mathematics, plays a pivotal role in fostering creativity and problem-solving skills.

Additionally, innovation hubs should be working to catalyse the formation of communities of problem solvers who can collaborate across domains and co-create innovative solutions. Just focusing on training is unlikely to yield the desired outcome of innovation.

There is no silver bullet: There is no magical formula for innovation. That's why taking a centralised approach towards innovation is unlikely to work. Innovation can happen anywhere and everywhere; it can originate from any rank of an organisation. A focus on collecting, collating and incubating innovative ideas in an inclusive manner can result in several innovative outcomes. Innovation can be encouraged through an openness to all ideas rather than a set of cumbersome processes.

Finally, innovation must fuel creative destruction, inside and outside. Successful organisations always go through such a cycle of internal creative destruction which helps them stay relevant over time. At the same time, their innovations drive creative destruction in the external world, leading to progress in society.

The writer is a partner with PwC. The views expressed here are personal.

Stock

Majority Chittagong stocks rise



Star Business Report