

Introduction to entrepreneurship

The Entrepreneurial Mind-Set

What is Entrepreneurship?

- Academic Definition (Stevenson & Jarillo)
 - Entrepreneurship is the process by which individuals pursue opportunities without regard to resources they currently control.
- Venture Capitalist (Fred Wilson)
 - Entrepreneurship is the art of turning an idea into a business.
- Explanation of What Entrepreneurs Do
 - Entrepreneurs assemble and then integrate all the resources needed – the money, the people, the business model, the strategy – to transform an invention or an idea into a viable business.

The Entrepreneurial Process

The Entrepreneurial Process Consists of Four Steps

Step 1: Deciding to become an entrepreneur.

Step 2: Developing successful business ideas.

Step 3: Moving from an idea to an entrepreneurial firm.

Step 4: Managing and growing the entrepreneurial firm.

Corporate Entrepreneurship 1 of 2

- Corporate Entrepreneurship
 - Is the conceptualization of entrepreneurship at the firm level.
 - All firms fall along a conceptual continuum/scale that ranges from highly conservative to highly entrepreneurial.
 - The position of a firm on this continuum is referred to as its entrepreneurial intensity.

Corporate Entrepreneurship 2 of 2

Entrepreneurial Firms

- Proactive
- Innovative
- Risk taking

Conservative Firms

- Take a more “wait and see” posture
- Less innovative
- Risk averse

Why Become an Entrepreneur?

The three primary reasons that people become entrepreneurs and start their own firms



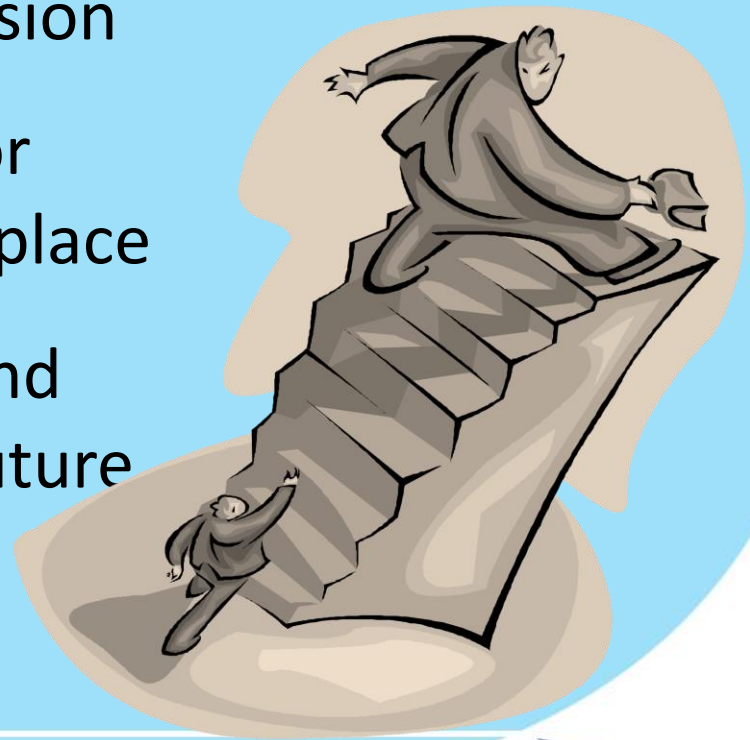
Desire to be their own boss

Desire to pursue their
own ideas

Financial rewards

Entrepreneurs—Breakthrough Innovators

- Entrepreneurs
 - Recognize opportunities where others see chaos or confusion
 - Are aggressive catalysts for change within the marketplace
 - Challenge the unknown and continuously create the future



Indications of Increased Interest in Entrepreneurship

- Books
 - Amazon.com lists over 36,900 books dealing with entrepreneurship
- College Courses
 - Today, nearly all colleges/universities offer at least one course in entrepreneurship.

Entrepreneurs versus Small Business Owners: A Distinction

- Small Businesses Owners
 - Manage their businesses by expecting stable sales, profits, and growth
- Entrepreneurs
 - Focus their efforts on innovation, profitability and sustainable growth



Entrepreneurship: A Mind-Set

- Entrepreneurship is more than the mere creation of business:
 - Seeking opportunities
 - Taking risks beyond security
 - Having the tenacity to push an idea through to reality
- Entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner.



The Myths of Entrepreneurship

- Myth 1: Entrepreneurs Are Doers, Not Thinkers
- Myth 2: Entrepreneurs Are Born, Not Made
- Myth 3: Entrepreneurs Are Always Inventors
- Myth 4: Entrepreneurs Are Academic and Social Misfits
- Myth 5: Entrepreneurs Must Fit the Profile
- Myth 6: All Entrepreneurs Need Is Money
- Myth 7: All Entrepreneurs Need Is Luck
- Myth 8: Entrepreneurship Is Unstructured and Chaotic
- Myth 9: Most Entrepreneurial Initiatives Fail
- Myth 10: Entrepreneurs Are Extreme Risk Takers

Entrepreneurial Schools-of-Thought Approach

Macro View

- Environmental School of Thought
- Financial/Capital School of Thought
- Displacement School of Thought

Micro View

- Entrepreneurial Trait School of Thought (People School)
- Venture Opportunity School of Thought
- Strategic Formulation School of Thought

Macro View: External Locus of Control

- The Environmental School of Thought
 - Considers the external factors that affect a potential entrepreneur's lifestyle
- The Financial/Capital School of Thought
 - Based on the capital-seeking process—the search for seed and growth capital.
- The Displacement School of Thought
 - Alienation drives entrepreneurial pursuits
 - Political displacement (laws, policies, and regulations)
 - Cultural displacement (preclusion of social groups)
 - Economic displacement (economic variations)

Micro View: Internal Locus of Control

- The Entrepreneurial Trait School of Thought
 - Focuses on identifying traits common to successful entrepreneurs.
 - Achievement, creativity, determination, and technical knowledge
- The Venture Opportunity School of Thought
 - Focuses on the opportunity aspect of venture development—the search for idea sources, the development of concepts, and the implementation of venture opportunities.
 - New pathways or opportunities will arise that lead entrepreneurs in different directions.

Micro View... (cont'd)

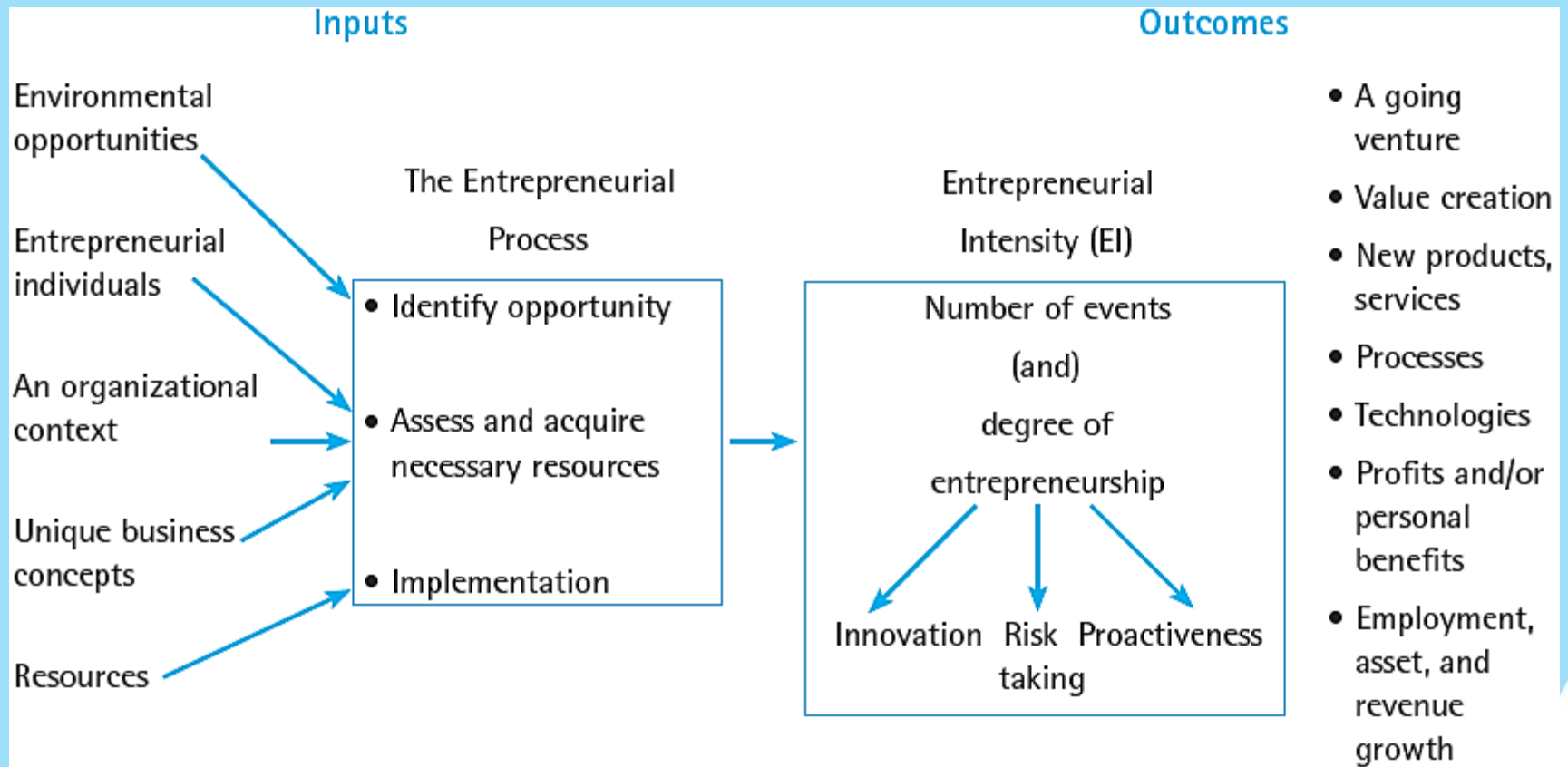
- The Strategic Formulation School of Thought
 - Emphasizes the planning process in successful venture development.
 - Strategic formulation is a leveraging of unique elements
 - Unique markets, unique people, unique products, unique resources

Venture Stage	Financial Consideration	Decision
Start-up or acquisition	Seed capital Venture capital sources	Proceed or abandon
Ongoing	Cash management Investments Financial analysis and evaluation	Maintain, increase, or reduce size
Decline or succession	Profit question Corporate buyout Succession question	Sell, retire, or dissolve operations

Process Approaches to Entrepreneurship

- An Integrative Approach
 - Built around the concepts of inputs to the entrepreneurial process and outcomes from the entrepreneurial process.
 - Focuses on the entrepreneurial process itself and identifies five key elements that contribute to the process.
 - Provides a comprehensive picture regarding the nature of entrepreneurship that can be applied at different levels.

An Integrative Model of Entrepreneurial Inputs and Outcomes



Source: Michael H. Morris, P. Lewis, and Donald L. Sexton, "Reconceptualizing Entrepreneurship: An Input-Output Perspective," *SAM Advanced Management Journal* 59, no.1 (Winter 1994): 21-31.

Process Approaches... (cont'd)

- Dynamic States Approach
 - Stresses dependency of venture on environment and the interaction of:
 - The dominant logic of the firm - cultural norms and beliefs that the company espouses
 - The business model
 - Value creation

Effects of Entrepreneurship

- The Global Entrepreneurship Monitor (GEM)
 - Provides an annual assessment of the entrepreneurial environment of 59 countries.
 - Latest GEM study: the U.S. outranks the rest of the world in entrepreneurial support.
- Entrepreneurs lead to growth by:
 - Entering and expanding existing markets.
 - Creating entirely new markets by offering innovative products.
 - Increasing diversity and fostering minority participation in the economy.

Entrepreneurial Firms' Economic Impact

- Entrepreneurial firms make two indispensable contributions to an economy:
 1. They are an integral part of the renewal process that pervades and defines market economies.
 2. They are the essential mechanism by which millions enter the economic and social mainstream of society.

21st Century Trends in Entrepreneurship Research



21st Century Trends in Entrepreneurship Research

- Major Research Themes:

1. *Venture Financing*: venture capital and angel capital financing and other financing techniques strengthened in the 1990s.
2. *Corporate Entrepreneurship* and the need for entrepreneurial cultures has drawn increased attention.
3. *Social Entrepreneurship* has unprecedented strength within the new generation of entrepreneurs.
4. *Entrepreneurial Cognition* is providing new insights into the psychological aspects of the entrepreneurial process.
5. *Women and Minority Entrepreneurs* appear to face obstacles and difficulties different from those that other entrepreneurs face.
6. The *Global Entrepreneurial Movement* is increasing.

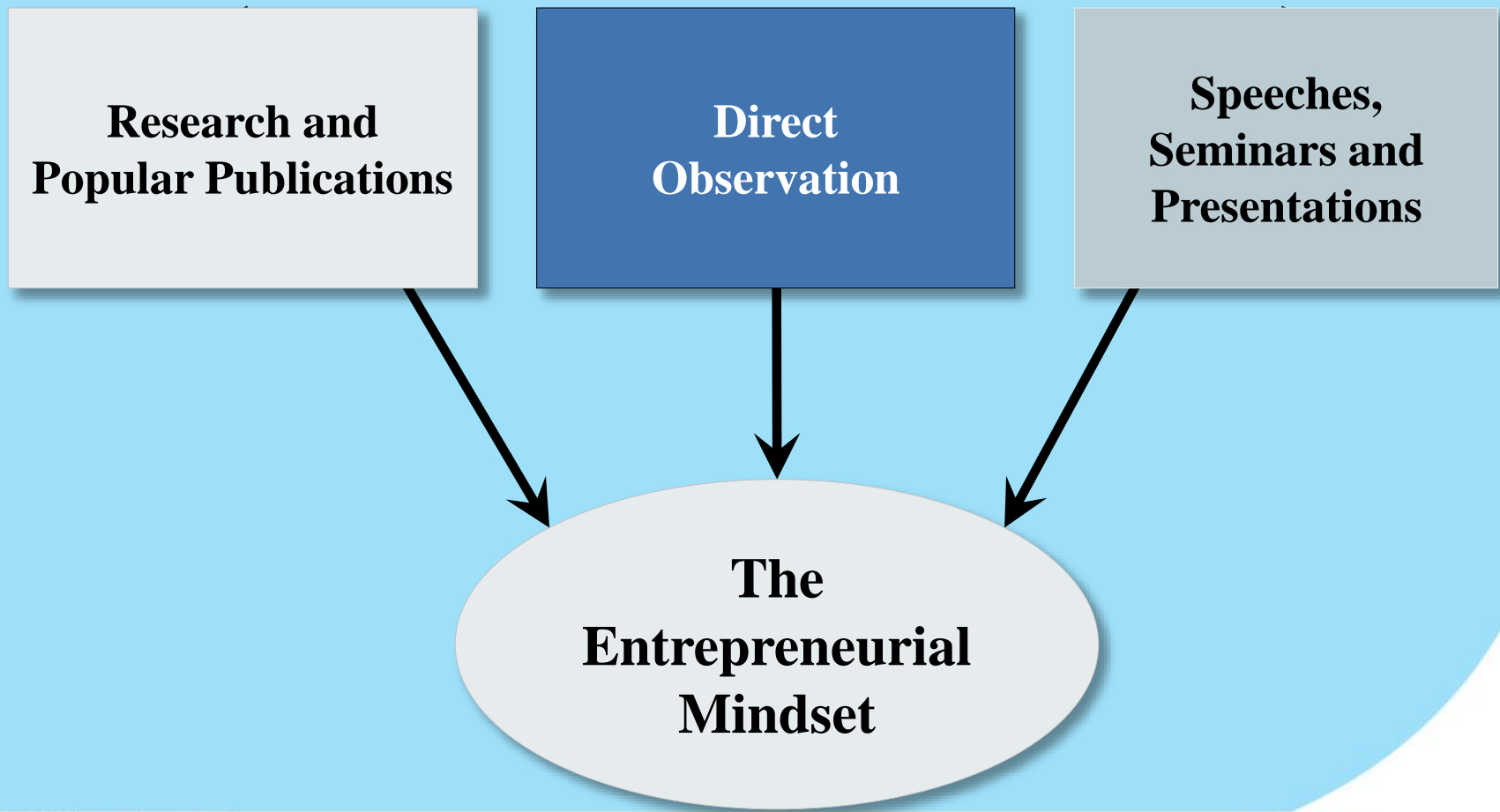
21st Century Trends in Entrepreneurship Research (cont'd)

- Major Research Themes (cont'd):
 7. *Family Businesses* have become a stronger focus of research.
 8. *Entrepreneurial Education* has become one of the hottest topics in business and engineering schools throughout the world.

The Entrepreneurial Mind-Set

- Entrepreneurial Mind-Set
 - Describes the most common characteristics associated with successful entrepreneurs.
- Who Are Entrepreneurs?
 - Independent individuals, intensely committed and determined to persevere, who work very hard.
 - They are confident optimists who strive for integrity.
 - They burn with the competitive desire to excel and use failure as a learning tool.

Sources of Research on Entrepreneurs



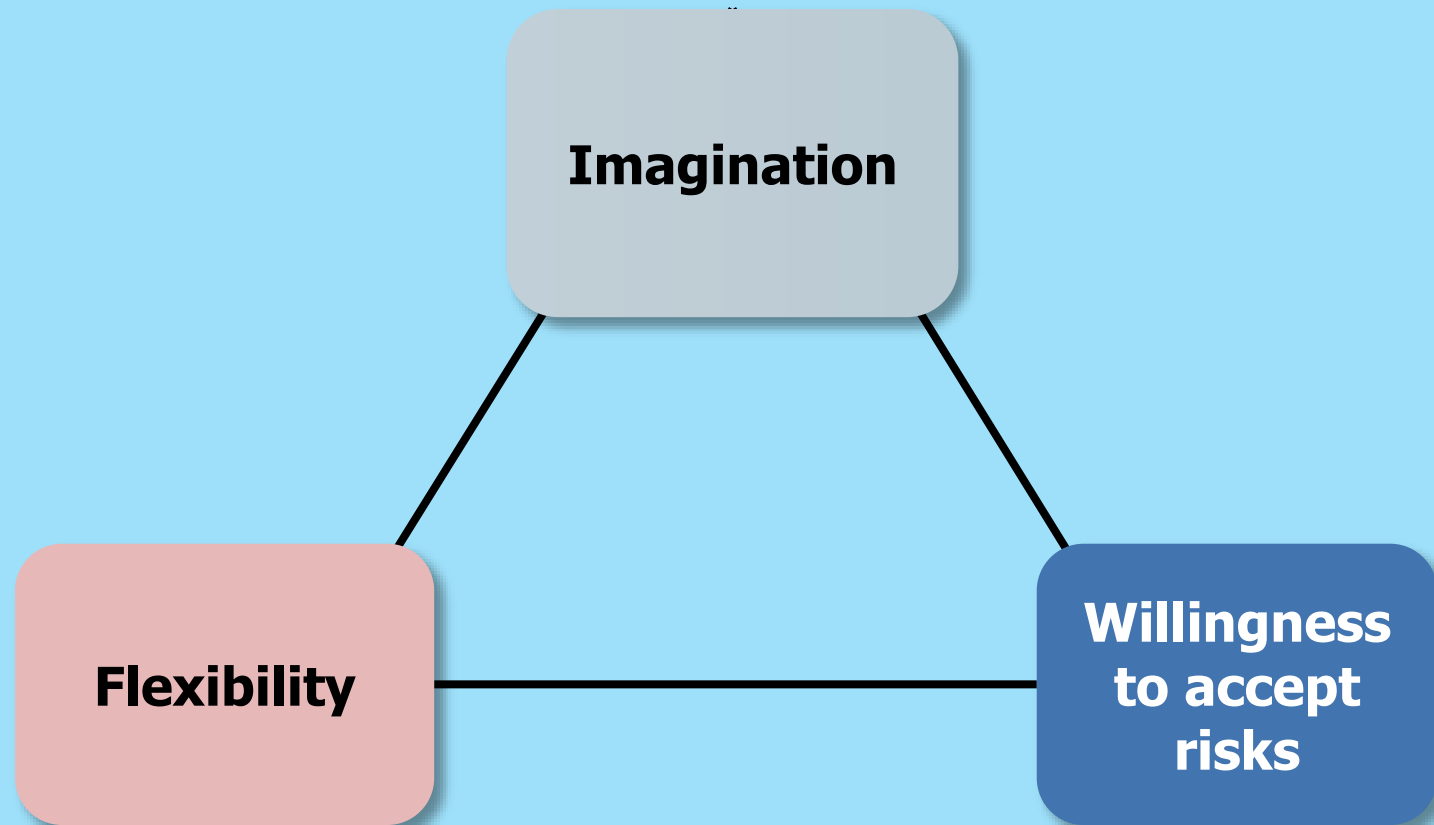
Sources of Research on Entrepreneurs (cont'd)

- Publications
 - Technical and professional journals
 - Textbooks on entrepreneurship
 - Books about entrepreneurship
 - Biographies or autobiographies of entrepreneurs
 - Compendiums about entrepreneurs
 - News periodicals
 - Venture periodicals
 - Newsletters
 - Proceedings of conferences
 - The Internet
- Direct Observation of Practicing Entrepreneurs
 - Interviews
 - Surveys
 - Case studies
- Speeches, Seminars, and Presentations by Practicing Entrepreneurs

Characteristics of the Entrepreneurial Mind-Set

- Determination and perseverance
- Drive to achieve
- Opportunity orientation
- Initiative and responsibility
- Persistent problem solving
- Seeking feedback
- Internal locus of control
- Tolerance for ambiguity
- Calculated risk taking
- High energy level
- Creativity and innovativeness
- Vision
- Passion
- Independence
- Team building

Outline of the Entrepreneurial Organization



Characteristics Often Attributed to Entrepreneurs

1. Confidence
2. Perseverance, determination
3. Energy, diligence
4. Resourcefulness
5. Ability to take calculated risks
6. Dynamism, leadership
7. Optimism
8. Need to achieve
9. Versatility; knowledge of product, market, machinery, technology
10. Creativity
11. Ability to influence others
12. Ability to get along well with people
13. Initiative
14. Flexibility
15. Intelligence
16. Orientation to clear goals
17. Positive response to challenges
18. Independence
19. Responsiveness to suggestions and criticism
20. Time competence, efficiency
21. Ability to make decisions quickly
22. Responsibility
23. Foresight
24. Accuracy, thoroughness
25. Cooperativeness
26. Profit orientation
27. Ability to learn from mistakes
28. Sense of power
29. Pleasant personality
30. Egotism
31. Courage
32. Imagination
33. Perceptiveness
34. Toleration of ambiguity
35. Aggressiveness
36. Capacity for enjoyment
37. Efficacy
38. Commitment
39. Ability to trust workers
40. Sensitivity to others
41. Honesty, integrity
42. Maturity, balance

Entrepreneurship Theory

- Entrepreneurs cause entrepreneurship.
 - Entrepreneurship is a function of the entrepreneur:

$$E = f(e)$$

- Entrepreneurship is characterized as the interaction of skills related to inner control, planning and goal setting, risk taking, innovation, reality perception, use of feedback, decision making, human relations, and independence.

The Dark Side of Entrepreneurship

- The Entrepreneur's Confrontation with Risk
 - *Financial risk* versus profit (return) motive varies in entrepreneurs' desire for wealth.
 - *Career risk*—loss of employment security
 - *Family and social risk*—competing commitments of work and family
 - *Psychic risk*—psychological impact of failure on the well-being of entrepreneurs

Stress and the Entrepreneur

- Entrepreneurial Stress
 - The extent to which entrepreneurs' work demands and expectations exceed their abilities to perform as venture initiators, they are likely to experience stress.
- Sources of Entrepreneurial Stress
 - Loneliness
 - Immersion in business
 - People problems
 - Need to achieve

Dealing with Stress



The Entrepreneurial Ego

- Self-Destructive Characteristics
 - Overbearing need for control
 - Sense of distrust
 - Overriding desire for success
 - Unrealistic externalized optimism – putting the brave face



Entrepreneurial Ethics

- Ethics
 - Provides the basic rules or parameters for conducting any activity in an “acceptable” manner.
 - Represents a set of principles prescribing a behavioral code of what is good and right or bad and wrong
- Sources of Ethical Dilemmas
 - Pressure from inside and outside interests
 - Changes in societal values, mores, and norms

Entrepreneurial Ethics (cont'd)

- Ethical rationalizations used to justify questionable conduct involve believing that the activity:
 - Is not “really” illegal or immoral.
 - Is in the individual’s or the firm’s best interest.
 - Will never be found out.
 - Helps the firm so the firm will condone it.

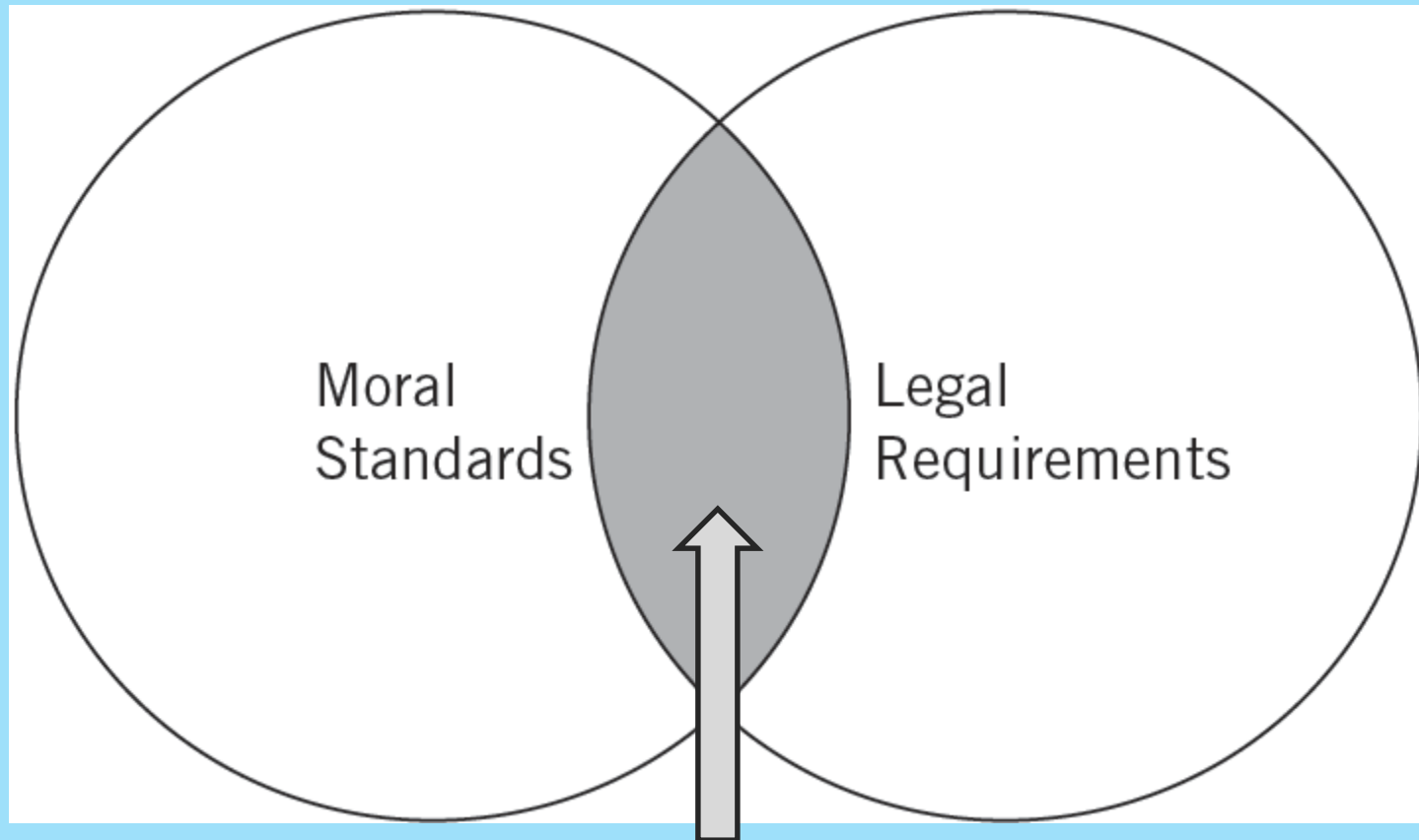


Types of Morally Questionable Acts

Type	Direct Effect	Examples
Nonrole	Against the firm	Expense account cheating Embezzlement Stealing supplies
Role failure	Against the firm	Superficial performance appraisal Not confronting expense account cheating Palming off a poor performer with inflated praise
Role distortion	For the firm	Bribery Price fixing Manipulating suppliers
Role assertion	For the firm	Investing in unethically governed countries Using nuclear technology for energy generation Not withdrawing product line in face of initial allegations of inadequate safety

Source: James A. Waters and Frederick Bird, "Attending to Ethics in Management," *Journal of Business Ethics* 5 (1989): 494.

Overlap Between Moral Standards and Legal Requirements



Ethical
Dilemmas

Reasons for Unethical Behaviors Occur



Entrepreneurial Ethics (cont'd)

- Extended consequences
- Multiple alternatives
- Mixed outcomes
- Uncertain ethical consequences
- Personal implications

Complexity of
Ethical Decisions



Establishing a Strategy for Ethical Enterprise

- Ethical Code of Conduct
 - Is a statement of ethical practices or guidelines to which an enterprise adheres.
 - Are becoming more prevalent in industry.
 - Are proving to be more meaningful in terms of external legal and social development.
 - Are more comprehensive in terms of their coverage.
 - Are easier to implement in terms of the administrative procedures used to enforce them.

“Always Do the Right Thing”

- Reasons for management to adhere to a high moral code:
 - It is good business because unethical practices have a corrosive effect not only on the firm itself, but on free markets and free trade which are fundamental to the survival of the free enterprise system.
 - Improving the moral climate of the firm will eventually win back the public’s confidence in the firm.

Ethical Responsibility

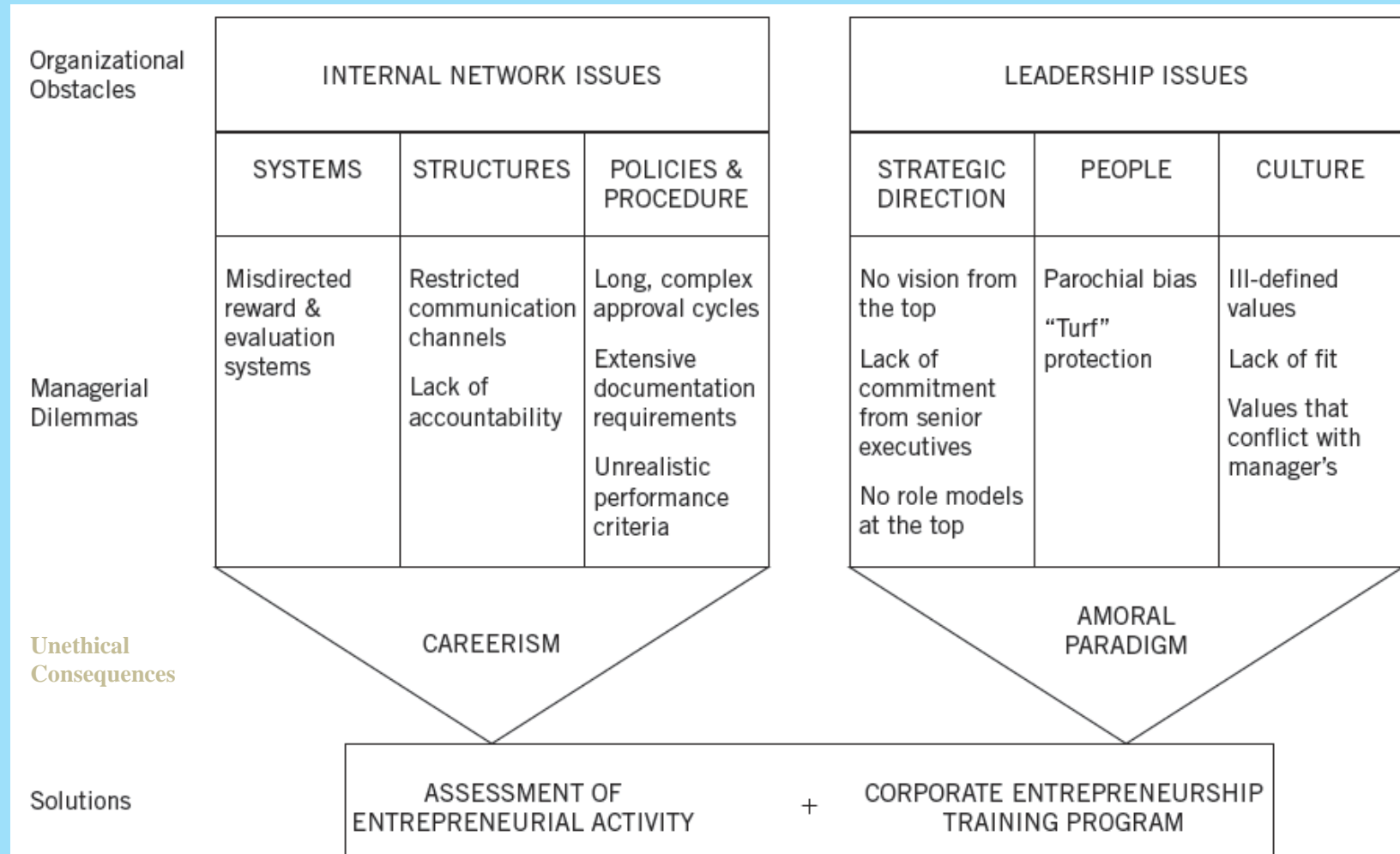
Establish a strategy for ethical responsibility that encompasses:

- Ethical consciousness
- Ethical process and structure
- Institutionalization

Ethical Considerations of Corporate Entrepreneurs

- Organizational barriers that invite unethical behaviors:
 - Systems
 - Structures
 - Policies and Procedures
 - Culture
 - Strategic Direction
 - People
- Promote ethical employee behaviors by:
 - Providing flexibility, innovation, and support of initiative and risk taking
 - Removing barriers for entrepreneurial middle managers
 - Including an ethical component to corporate training

Ethical Challenges for Corporate Entrepreneurship



Education to take you places

Source: Donald F. Kuratko and Michael G. Goldsby, "Corporate Entrepreneurs or Rogue Middle Managers? A Framework for Ethical Corporate Entrepreneurship," *Journal of Business Ethics* 55 (2004): 18.

Ethical Leadership by Entrepreneurs

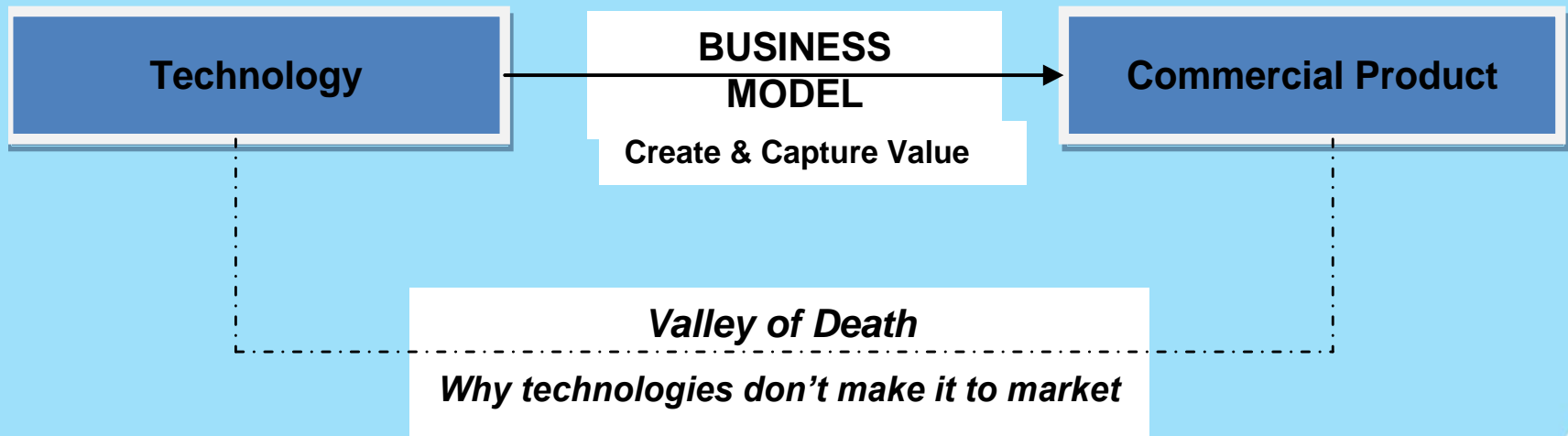
- The value system of an owner/entrepreneur is the key to establishing an ethical organization.
 - A code of ethics provides a clear understanding of the need for:
 - Ethical administrative decision-making
 - Ethical behavior of employees
 - Explicit rewards and punishments based on ethical behavior

Entrepreneurial Motivation

- Entrepreneurial Motivation
 - The quest for new-venture creation as well as the willingness to sustain that venture
 - Personal characteristics, personal environment, business environment, personal goal set (expectations), and the existence of a viable business idea
- Entrepreneurial Persistence
 - An entrepreneur's choice to continue with an entrepreneurial opportunity regardless of counterinfluences or other enticing alternatives

Scientists and Engineers as Entrepreneurs

From Bench to Market



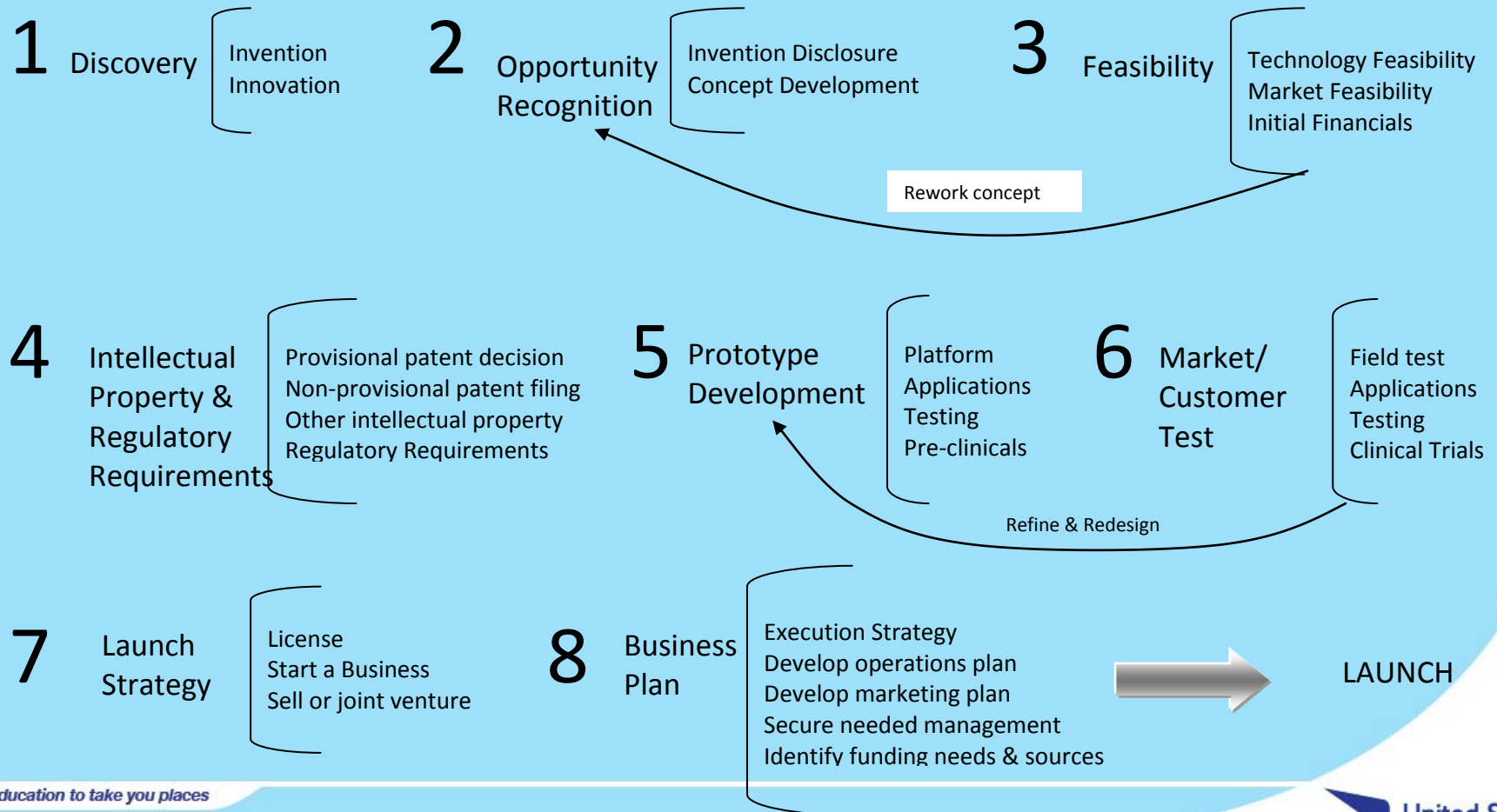
The Role of Innovation and Entrepreneurship

- Technological change and entrepreneurship are critical components of growth models based on market incentives.
- The new economy is characterized by:
 - Knowledge workers
 - Globalization
 - Innovation
- Time-to-market is a key competitive advantage

What is Innovation?

- Producing something new
- Commercializing or extracting value from ideas
- Schumpeter's five types of innovation
 - New product or substantial change in existing product
 - New process
 - New market
 - New sources of supply
 - Changes in industrial organization
- Incremental innovation = improvements on existing products
- Disruptive innovation = game changers

The Commercialization Process



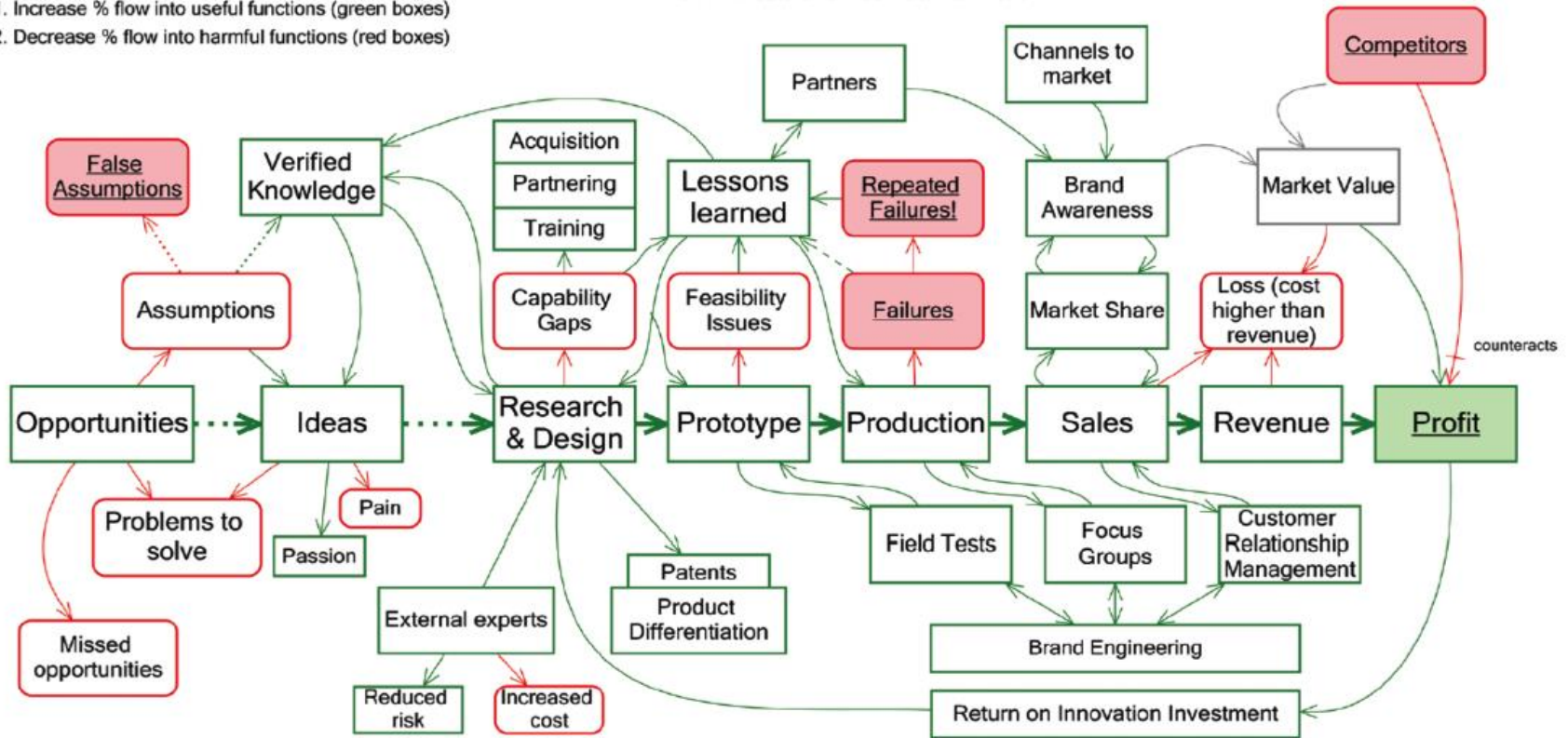
Innovation Value Stream

Key Performance Indicators:

1. Increase % flow into useful functions (green boxes)
2. Decrease % flow into harmful functions (red boxes)

Innovation Value Stream

Arrows indicate a flow between functions



End-to-End Innovation Process

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Key: Risk Harmful Variable Useful Goal

A Southbeach Notation Model