


# The Nature and Importance of Entrepreneurs

## Chapter 1




# Nature and Development of Entrepreneurship

- ◆ French word
  - ◆ Means “between-taker” or “go-between”
  - ◆ “Individual who takes risks and starts something new”
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To include all types of entrepreneurial behavior the following definition:


Entrepreneurship is the process of

**CREATING SOMETHING NEW WITH VALUE  
BY DEVOTING THE NECESSARY TIME AND  
EFFORT, ASSUMING THE ACCOMPANYING  
FINANCIAL, PSYCHIC, AND SOCIAL RISKS,  
AND RECEIVING THE RESULTING  
REWARDS IN MONETARY TERMS,  
PERSONAL SATISFACTION AND  
INDEPENDENCE.**


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# Entrepreneurship

Process of creating something new & assuming the risks & rewards


- Creation Process (for entrepreneur & audiences)
  - Devotion of time & effort
  - Assuming Risks (Financial, Psychological & Social)
  - Rewards (Independence, satisfaction & monetary rewards)
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# DEFINITION OF ENTREPRENEUR TODAY


- A concise, universally accepted definition has not yet emerged
  - Almost all the definitions includes:
    - (1) initiative taking,
    - (2) the organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account,
    - (3) the acceptance of risk or failure.
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# DEFINITION OF ENTREPRENEUR TODAY

To an economist,

- who brings resources, labor, materials, and other assets into combinations
  - makes their value greater than before
  - introduces changes, innovations, and a new order.
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# Who is an Entrepreneur

- ◆ *recognise opportunities where others see chaos or confusion*
  - ◆ *highly creative and innovative*
  - ◆ *possess business know-how ,  
networks and general management skills*
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# Who is an Entrepreneur .....

- ◆ *Dictionary in France (1723)*

*"One undertaking a project, a manufacturer, a master builder"*

- ◆ *England (18th Century)*

*"An adventurer, projector, or undertaker"*



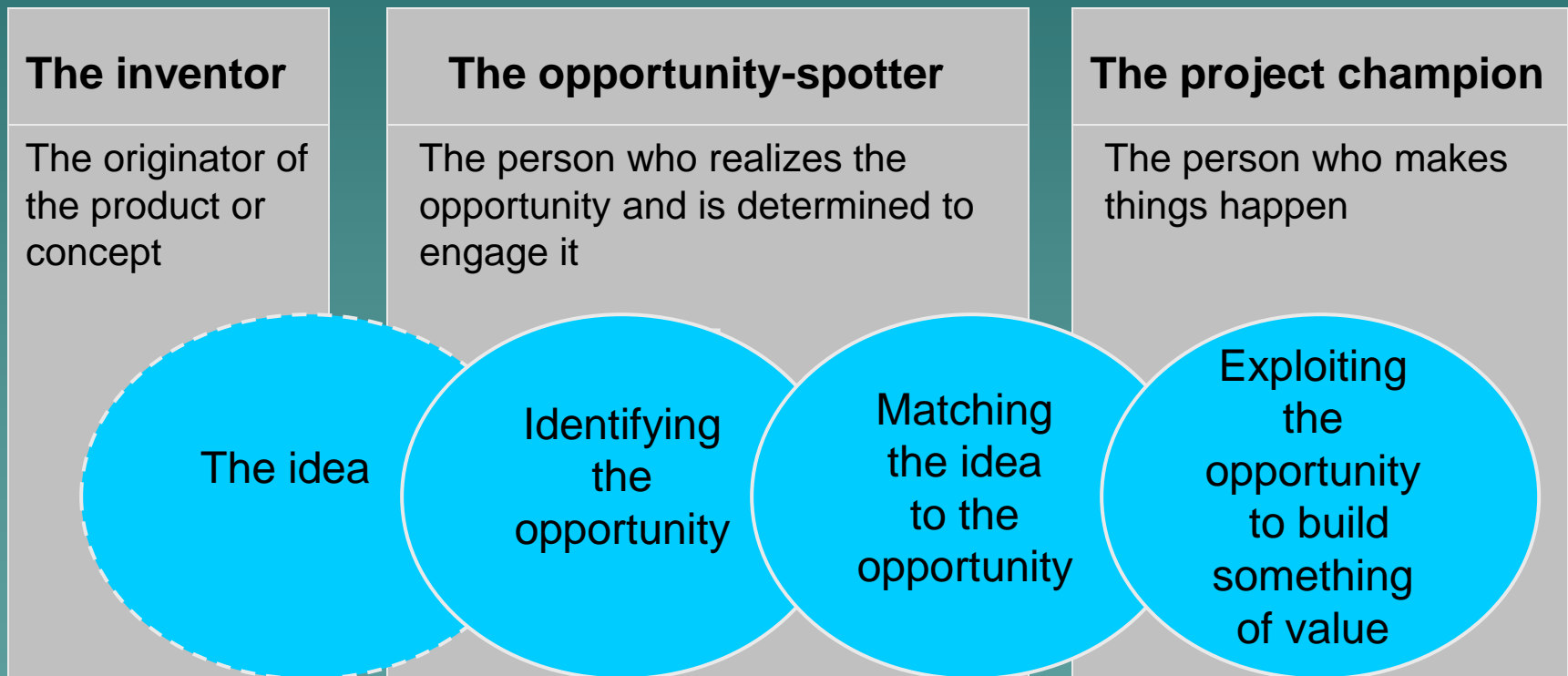
# Who is an Entrepreneur .....

## Entrepreneurship

...initiative, imagination,  
flexibility, creativity,  
a willingness to think  
conceptually, and the  
capacity to see change  
as an opportunity...

- William Bygrave

# The entrepreneur



# Development of Entrepreneurship Theory and the Term Entrepreneur

**Earliest Period:** a passive risk taker.

**Middle Ages:** actor and person in charge of large scale production projects.

**17<sup>th</sup> century:** person bearing risks of profit (loss) in a fixed price contract with Government.

**1725:** Richard Cantillon – person bearing risks is different from one supplying capital.

**1803:** Jean Baptise Say - separated profits of entrepreneur from profits of capital.

**1876:** Francis Walker – distinguished between those who supplied funds and received interest and those who received profits from managerial capabilities.

**1934:** Joseph Schumpeter – entrepreneur is an innovator and develops untried technology.

**1961:** David McClelland – entrepreneur is an energetic, moderate risk taker.

**1964:** Peter Drucker – entrepreneur maximizes opportunities.

# Development of Entrepreneurship Theory and the Term Entrepreneur

- 1975:** Albert Shapero – entrepreneur takes initiative, organizes some social and economic mechanisms and accepts risks of failure.
- 1980:** Karl Vesper – entrepreneur seen differently by economists, psychologists, business persons and politicians.
- 1983:** Gifford Pinchot – intrapreneur is an entrepreneur in an already established organization.
- 1985:** Robert Hisrich – entrepreneurship is the process of creating something different with value by devoting the necessary time and effort; assuming the accompanying financial, psychological and social risks; and receiving the resulting rewards of monetary and personal satisfaction.

## ◆ Earliest Period:

The Capitalist: a passive risk bearer

- The Merchant-adventurer: took the active role in trading, bearing all the physical and emotional risks.
- Marco Polo: a merchant-adventure who traveled China.
- As a go-between Marco Polo would sign a contract with the money person to sell his goods.
- When the merchant-adventurer successfully sold the goods and completed the trip, the profits were divided.

## ◆ Middle Ages:

- Entrepreneur: an ACTOR &  
a MANAGER
- did not take any risks
- who managed large production projects  
using the resources provided, usually by  
the GOVERNMENT OF THE COUNTRY

## ◆ 17<sup>th</sup> Century:

- Entrepreneur:

*a contractual arrangement with government to provide goods or services*

- The CONTRACT PRICE was fixed.

- Resulting profit or losses were of the entrepreneur's.

- John Law, a Frenchman established a ROYAL BANK (later on developed as franchise)

- Richard Cantillon: RISK-TAKER

(a noted economist of 1700's & founder of the term entrepreneurship.)

## ◆ 18<sup>th</sup> Century:

- Distinguished ENTREPRENEUR from VENTURE CAPITALIST
- Venture Capitalist: a professional money manager

### Reasons for differentiation:

- Industrialization occurring throughout the world
- Many inventions developed during this time
- Inventor Tomas Edison: was unable to finance invention himself



## ◆ 19<sup>th</sup> and 20<sup>th</sup> Centuries:

### Late 19<sup>th</sup> & earlier 20<sup>th</sup> century

- Viewed from an ECONOMIST'S PERSPECTIVE
- Entrepreneurs were not distinguished from managers

### Middle of 20<sup>th</sup> Century

- Entrepreneur as an INNOVATOR
- Andrew Carnegie is one of the best examples of this definition
- He made the American steel industry one of the wonders of the industrial world, preliminary through his unremitting competitiveness rather than his inventiveness or creativity

# *Entrepreneur as an innovator:*

- an integral part of entrepreneurship
- the act of introducing something new
- the ability to create and conceptualize
- to understand all the forces at work in the environment
- the history from Egyptians who designed and built great pyramids out of stones blocks weighing many tons each to the Apollo Lunar module to laser beams
- Tools have changed with advances in science and technology but the ability to innovate has been present in every civilization

# Decisions for a potential Entrepreneur

## **Change from present lifestyle**

Work environment  
Disruption



## **Form New Enterprise Desirable**

- 1. Cultural**
- 2. Sub-cultural**
- 3. Family**
- 4. Teachers**
- 5. Peers**

## **Possible**

- 1. Government**
- 2. Background**
- 3. Marketing**
- 4. Financing**
- 5. Role models**

## ◆ Desirability of new venture formation:

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

## ◆ Possibility of new venture formation:


Several factors contribute to the creation of a new venture.

1. The Government
2. Formal education
3. Previous business experience
4. Marketing know how
5. A role model
6. Financial resources


# Types of start - ups

- ◆ Three categories
  1. Life style firm
  2. Foundation firm
  3. High – potential venture

## 1. Lifestyle Firm:


- ◆ Privately held
  - ◆ Modest growth
  - ◆ Limited money devoted to R&D
  - ◆ Grow after several years to 30 or 40 employees
  - ◆ Annual revenues of about \$2 million
  - ◆ Exists primarily to support owners
  - ◆ Little opportunity for significant growth and expansion
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## 2. Foundation Company:

- ◆ Created for R&D
  - ◆ Grows in 5 to 10 years from 40 to 400 employees
  - ◆ \$10 million to \$20 million in yearly revenues
  - ◆ Rarely goes public
  - ◆ Draws the interest of private investors only
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### 3. High Potential Venture:

- ◆ Receives the greatest investment, interest and publicity
  - ◆ Rapid growth
  - ◆ After 5 to 10 years could employ about 500 employees
  - ◆ Revenues are \$20 million to \$30 million
  - ◆ Also called Gazelles
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# Role of entrepreneurship in Economic Development

- ◆ It involves initiating and constituting change in the structure of business and society (i.e. innovation).

## Innovation

Developing new products (& services) for the market

stimulating investment interest in the new venture

Expanding the capacity for growth (supply side)

Utilizing new capacity and output (demand side)

## Product – Evaluation process:

The process through which innovation develops and commercializes through entrepreneurial activity, which in turn stimulates economic growth.

## Iterative (Repeating)synthesis:

The critical point in the product-evaluation process is the intersection of knowledge and a recognized social need, which begins the product development phase. This point is called iterative synthesis.

## Ordinary innovations:

New products having little uniqueness and technology

## Technological innovations:

New products with significant technological advancement

Regardless of its level of technology, each innovation evolves into and develops into commercialization through one of the three mechanisms:

1. The government
2. Intrapreneurship or
3. Entrepreneurship

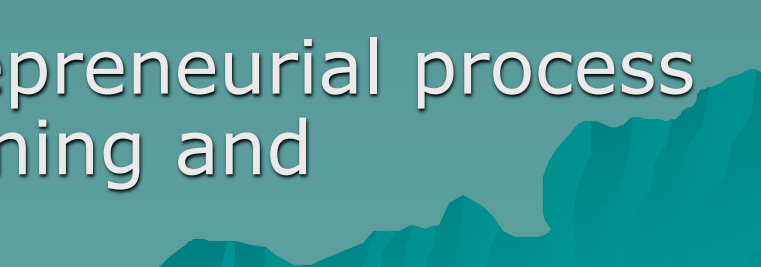
# Government as an innovator

- ◆ Govt. is one conduit for commercializing the results of the synthesis of social need and technology. This is frequently called *technology transfer*.
- ◆ Though the govt. has the financial resources to transfer technology but it faces the following problems:
  - It lacks business skills
  - Bureaucracy and red tape

# Intrapreneurship


- ◆ Entrepreneurship within an existing organization
- ◆ It bridges the gap between science and the marketplace.
- ◆ Problems:-
  - Bureaucratic structure
  - Emphasis on short term profits
  - Highly structured org inhibit creativity
- ◆ In the present era of hyper competition organizations need to develop the intrapreneurial spirit.

# Overall objectives for a Course in Entrepreneurship

- ◆ Understand the role of new and smaller firms in the economy.
  - ◆ Understand the relative strengths and weaknesses of different types of enterprises.
  - ◆ Know the general characteristics of an entrepreneurial process.
  - ◆ Assess the student's own entrepreneurial skills.
  - ◆ Understand the entrepreneurial process and the product planning and development process
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- ◆ Know alternative methods for identifying and evaluating business opportunities and the factors that support and inhibit creativity
- ◆ Develop an ability to form, organize and work in interdisciplinary teams.
- ◆ Know the general correlates of success and failure in innovation and new venture creation.
- ◆ Know the generic entry strategies for new venture creation.
- ◆ Understand the aspects of creating and presenting a new venture business plan.
- ◆ Know how to identify, evaluate and obtain resources.



- ◆ Know the essentials of :
    - Marketing planning
    - Financial planning
    - Operations planning
    - Organization planning
    - Venture launch planning
  - ◆ Know how to manage and grow a new venture.
  - ◆ Know the managerial challenges and demands of a new venture launch.
  - ◆ Understand the role of entrepreneurship in existing organizations.
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# Types of Skills required in Entrepreneurship

## ◆ Technical skills

- Writing
  - Oral communication
  - Monitoring environment
  - Technical business management
  - Technology
  - Interpersonal
  - Listening
  - Ability to organize
  - Network building
  - Management style
  - Coaching
  - Being a team player
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## ◆ Business management skills

- Planning and goal setting
- Decision making
- Human relations
- Marketing
- Finance
- Accounting
- Management
- Control
- Negotiation
- Venture launch
- Managing growth

## ◆ Personal entrepreneurial skills

- Inner control
- Risk taker

- Innovative
- Chang oriented
- Persistent
- Visionary leader
- Ability to manage change





# The Future of Entrepreneurship

- ◆ The term entrepreneurship means different things to different people
- ◆ In spite of differences, there are some common aspects:
  - Risk taking
  - Creativity
  - Independence and
  - Rewards
- ◆ These commonalities will continue to be the driving force behind the notion of entrepreneurship in the future
- ◆ We are living in the age of entrepreneur,

with entrepreneurship endorsed by educational institutions, governmental units, society and corporations.

- ◆ Entrepreneurship education has never been so important in terms of courses and academic research.
- ◆ This increase in course offering has been accompanied by an increase in academic research, endowed chairs in the area, entrepreneurship concentrations and majors and centers of entrepreneurial activity.
- ◆ Various governments are taking an increased interest in promoting the growth of entrepreneurship.

- ◆ Encouragement by the Federal and Local governments should continue in the future as more lawmakers understand that new enterprises create jobs and increase economic output in the area.
  - ◆ Society's support is critical in providing both motivation and public support.
  - ◆ The media has played and will continue to play, a powerful constructive role by reporting on the general entrepreneurial spirit.
  - ◆ This media coverage uplifts the image of the entrepreneur and growth companies, and focuses on their contribution to society.
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- ◆ Large companies will continue to have an interest in their special form of entrepreneurship – intrapreneurship – in the future.
  - ◆ These companies will be increasingly interested in capitalizing on their research and development (R&D) in the hyper competitive business environment today.
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