

Chapter 8

Innovative start-up

Learning objectives

- Creativity and Innovation.
- The Difference Between Entrepreneurship and Small and Medium-Sized Enterprises.
- Conditions for Implementing Innovative Entrepreneurship.

1. Creativity and innovation

Opportunity Identification: The Search for New Ideas

- Opportunity identification is central to the domain of entrepreneurship.

“At its core entrepreneurship revolves around the questions of why, when, and how opportunities for the creation of goods and services in the future arise in an economy. Thus, opportunity recognition is the progenitor of both personal and societal wealth.”

- It has been argued that understanding the opportunity identification process is one of the primary challenges of entrepreneurship research.

Sources of Innovative Ideas

- Entrepreneurs, ever alert to opportunities that inhabit the external and internal environments around them, often spot potential opportunities that others simply cannot recognize.

Where do they find inspiration?

- ***Trends***
 - ❖ Societal trends; Technology trends; Economic trends; and Government trends.
- ***Unexpected Occurrences***
 - ❖ Successes or failures that, because they were unanticipated or unplanned, often prove to be major sources of innovation (*i.e., The infamous 9/11 terrorist attack on the United States*).

Sources of Innovative Ideas (Cont.)

- ***Incongruities***

- ❖ They exist in the gap between expectations and reality.
- ❖ For example, when Fred Smith proposed overnight mail delivery, he was told, *“If it were that profitable, the U.S. Post Office would be doing it.”* It turned out Smith was right.
- ❖ An incongruity existed between the assumption that a new, faster level of mail service would never make economic sense, given that mail delivery was, at the time, a three-day affair. So Smith started FedEx.

Sources of Innovative Ideas (Cont.)

- ***Process Needs***

- ❖ Venture capitalists often refer to process needs in the marketplace as “pain” and to innovative solutions to these needs as “painkillers.”
- ❖ When the need is to do something better, innovative new medical devices, healthier foods, more effective pharmaceuticals, and time-saving devices can be the result.

Sources of Innovative Ideas (Cont.)

- ***Industry and Market Changes***

- ❖ Continual shifts in the marketplace caused by changes in consumer attitudes, technological advancements, and growth in the structure, design, or definition of markets or industries are sources of emerging opportunity.
- ❖ An example can be found in the healthcare industry, where in-patient care has undergone radical changes, and at-home healthcare and preventive medicine have replaced hospitalization and surgery as primary focus areas.

Sources of Innovative Ideas (Cont.)

- ***Demographic Changes***

- ❖ Changes in population size, age, education, occupation, geographic locality, and similar demographic variables often catalyze new entrepreneurial opportunities.
- ❖ For example, as the average population age in Florida and Arizona has increased (due largely to the influx of retirees), land development, recreation, and health care industries all have profited.

Sources of Innovative Ideas (Cont.)

- ***Perceptual Changes***

- ❖ Perceptual changes in people's interpretation of facts and concepts may be intangible but meaningful.
- ❖ The perceived need to be healthy and physically fit has created a demand for both health foods and health facilities throughout the country.

- ***Knowledge-Based Concepts***

- ❖ Inventions, which are the product of new thinking, new methods, and new knowledge, often require the longest period between initiation and market implementation because of the need for testing and modification.
 - For example, cell phone technology has advanced to include not just phone service but cameras, Internet access, and music.

Entrepreneurial Imagination and Creativity - The Role of Creative Thinking

- Entrepreneurs combine imaginative and creative thinking with a systematic, logical process ability.
- It is important to recognize the role of creative thinking in the innovative process.
- Creativity is the generation of ideas that results in the improved efficiency or effectiveness of a system.
- Two important components of creative problem solving are process and people.
 - ❖ Process is goal oriented; it is designed to attain a solution to a problem.
 - ❖ People are the resources that determine the solution.

Entrepreneurial Imagination and Creativity - The Role of Creative Thinking (Cont.)

- Two Approaches to Creative Problem Solving

Adaptor	Innovator
Employs a disciplined, precise, methodical approach	Approaches tasks from unusual angles
Is concerned with solving, rather than finding, problems	Discovers problems and avenues of solutions
Attempts to refine current practices	Questions basic assumptions related to current practices
Tends to be means oriented	Has little regard for means; is more interested in ends
Is capable of extended detail work	Has little tolerance for routine work
Is sensitive to group cohesion and cooperation	Has little or no need for consensus; often is insensitive to others

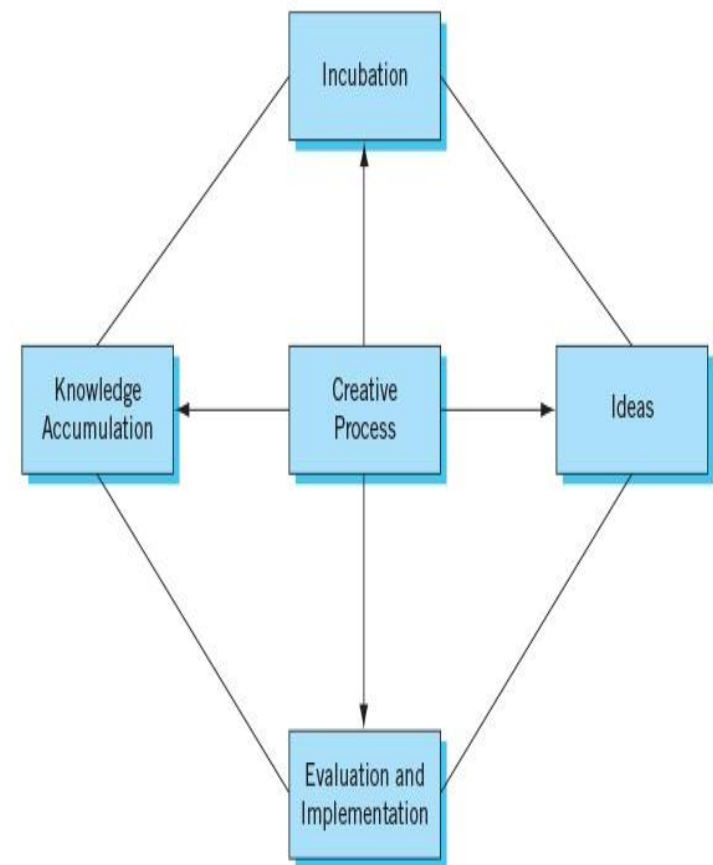
Entrepreneurial Imagination and Creativity - The Nature of the Creative Process

- Creativity is a process that can be developed and improved.
- However, there are the most common idea killers, as follows:
 - ❖ “Naah.”
 - ❖ “Can’t” (said with a shake of the head and an air of finality).
 - ❖ “That’s the dumbest thing I’ve ever heard.”
 - ❖ “Yeah, but if you did that...” (poses an extreme or unlikely disaster case).
 - ❖ “We already tried that—years ago.”
 - ❖ “I don’t see anything wrong with the way we’re doing it now.”
 - ❖ “We’ve never done anything like that before.”
 - ❖ “We’ve got deadlines to meet—we don’t have time to consider that.”
 - ❖ “It’s not in the budget.”
 - ❖ “Where do you get these weird ideas?”

Entrepreneurial Imagination and Creativity - The Nature of the Creative Process (Cont.)

- The creative process has four commonly agreed-on phases or steps.
 - ❖ Phase 1: Background or Knowledge Accumulation.
 - ❖ Phase 2: The Incubation Process.
 - ❖ Phase 3: The Idea Experience.
 - ❖ Phase 4: Evaluation and Implementation.

Figure 5.1 The Critical Thinking Process



Entrepreneurial Imagination and Creativity - Developing Your Creativity

- ***Recognizing Relationships***

- ❖ Many inventions and innovations are a result of the inventor's ability to see new and different relationships among objects, processes, materials, technologies, and people.
- ❖ Examples range widely and include:
 - (1) adding fruit juice to soft drinks to create Slices,
 - (2) combining combustion engine technology with the wheel to create the automobile, and
 - (3) using a 330-pound defensive football player as a running back and pass receiver.

Innovation and the Entrepreneur

- Innovation is a key function in the entrepreneurial process.

“Innovation is the specific function of entrepreneurship.... It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth.”

Peter F. Drucker

- Innovation is the process by which entrepreneurs convert opportunities (ideas) into marketable solutions.

Innovation and the Entrepreneur – The Innovation Process

- Most innovations result from a conscious, purposeful search for new opportunities.
 - ❖ This process begins with the analysis of the sources of new opportunities.
- Most successful innovations are simple and focused. They are directed toward a specific, clear, and carefully designed application.
 - ❖ Today's mobile technology (cell phones) is a good example.

“Genius is 1 percent inspiration and 99 percent perspiration.”

Thomas Edison

Innovation and the Entrepreneur – Types of Innovation

- ***Invention***: the creation of a new product, service, or process—often one that is novel or untried. Such concepts tend to be “revolutionary.”
- ***Extension***: the expansion of a product, service, or process already in existence. Such concepts make a different application of a current idea.
- ***Duplication***: the replication of an already existing product, service, or process. The duplication effort, however, is not simply copying but adding the entrepreneur’s own creative touch to enhance or improve the concept and beat the competition.
- ***Synthesis***: the combination of existing concepts and factors into a new formulation. This involves taking a number of ideas or items already invented and finding a way that they can form a new application.

Innovation and the Entrepreneur – Types of Innovation (Cont.)

Table 5.6 Innovation in Action		
Type	Description	Examples
Invention	Totally new product, service, or process	Wright brothers—airplane Thomas Edison—lightbulb Alexander Graham Bell—telephone
Extension	New use or different application of an already existing product, service, or process	Ray Kroc—McDonald’s Mark Zuckerberg—Facebook Barry Sternlicht—Starwood Hotels & Resorts
Duplication	Creative replication of an existing concept	Wal-Mart—department stores Gateway—personal computers Pizza Hut—pizza parlor
Synthesis	Combination of existing concepts and factors into a new formulation or use	Fred Smith—FedEx Howard Schultz—Starbucks

Innovation and the Entrepreneur – The Major Misconceptions of Innovation

- ***Innovation is planned and predictable.***
 - ❖ This statement is based on the old concept that innovation should be left to the research and development (R&D) department under a planned format. In truth, innovation is unpredictable and may be introduced by anyone.
- ***Technical specifications must be thoroughly prepared.***
 - ❖ This statement comes from the engineering arena, which drafts complete plans before moving on. Thorough preparation is good, but it sometimes takes too long. Quite often, it is more important to use a try/test/revise approach.

Innovation and the Entrepreneur – The Major Misconceptions of Innovation (Cont.)

- ***Innovation relies on dreams and blue-sky ideas.***
 - ❖ The creative process is extremely important to recognizing innovative ideas. However, accomplished/good innovators are very practical people and create from opportunities grounded in reality—not daydreams.
- ***Big projects will develop better innovations than smaller ones.***
 - ❖ This statement has been proven false time and time again. Larger firms are now encouraging their people to work in smaller groups, where it often is easier to generate creative ideas.

Innovation and the Entrepreneur – The Major Misconceptions of Innovation (Cont.)

- ***Technology is the driving force of innovation success.***
 - ❖ Technology is certainly one source for innovation, but it is not the only one. Numerous sources exist for innovative ideas; technology is certainly a driving factor in many innovations, but it is not the only success factor.
 - ❖ Moreover, the customer or market is the driving force behind any innovation. Market-driven or customer-based innovations have the highest probability of success.

Innovation and the Entrepreneur – Principles of Innovation

- Potential entrepreneurs need to realize that innovation principles exist. These principles can be learned and—when combined with opportunity—can enable individuals to innovate.
- The major motivation principles are as follows:
 - ❖ Be action oriented.
 - ❖ Make the product, process, or service simple and understandable.
 - ❖ Make the product, process, or service customer-based.
 - ❖ Start small.
 - ❖ Aim high.
 - ❖ Try/test/revise.
 - ❖ Learn from failures.
 - ❖ A milestone schedule.
 - ❖ Reward heroic activity.
 - ❖ Work, work, work.

2. The Difference Between Entrepreneurship and Small and Medium-Sized Enterprises

Introduction

- SMEs and entrepreneurship have historically been important components of every economy and have been recognized as cornerstones by most economists.
- Both contribute positively to development and are necessary for economic growth.
- For example, they can increase the value of economic activity by providing more jobs, lowering poverty, promoting trade growth, and helping people achieve self-development and independence.
- Approximately 90% of businesses and over half of all jobs worldwide are held by SMEs. Formal SMEs account for up to 40% of GDP in emerging economies.

Introduction (Cont.)

- The World Bank estimates that by 2030, the world's expanding workforce would need up to 600 million jobs, so many governments worldwide have made SME development a top priority.
- On the other side, entrepreneurship is thought to foster creativity, social cohesiveness, and the effective use of local and raw resources.
- In a similar vein, governments and economists alike acknowledge the critical role that entrepreneurship plays in driving economic growth in the majority of modern nations.

Characteristics of Entrepreneurship and SME

Characteristics	SME	Entrepreneurship
Objective	Maintaining regular business.	Innovation, High Growth, and Profit.
The amount of wealth creation	Small business is for steady income generation over employment.	Entrepreneurship is for wealth creating purposes.
Speed of wealth building	The time taken to build a steady income stream is long and sustainable; however, it just might not exceed the potential of income generation.	Entrepreneurship ventures work faster if the idea is potential and generate wealth with a short time span.
Management Strategy (Risk)	Small business is built around a safety feature and risk minimization principle.	Entrepreneurship is all about risking it for wealth or else it simple does not matter.

Characteristics of Entrepreneurship and SME (Cont.)

Characteristics	SME	Entrepreneurship
Innovation and creativity	Small business is about following traditional ways to conduct operations and deviation is not a practice.	Entrepreneurship is all about creativity and innovation in doing business and this innovation is continuous and dynamic in every aspect of the operations.
The classification used for definition.	Size varies between micro small and depends upon the country of origin.	Age of entrepreneurial venture is 42 months as per Global Entrepreneurship Monitor.
Cross border	SME Most likely to be a local business.	Entrepreneurs like to cross the border with their products or services.

Characteristics of Entrepreneurship and SME (Cont.)

Characteristics	SME	Entrepreneurship
New technology (product or service)	The goal is to guarantee longevity and continuous development with the same products or services.	entrepreneurship always makes a challenge to the market by introducing an innovative product or feature or become the most recognized brand from the quality of service or production.
Universal product	While their product is not unique so usually sell as a domestic product.	Entrepreneurial activity leads to be used anywhere in the world.

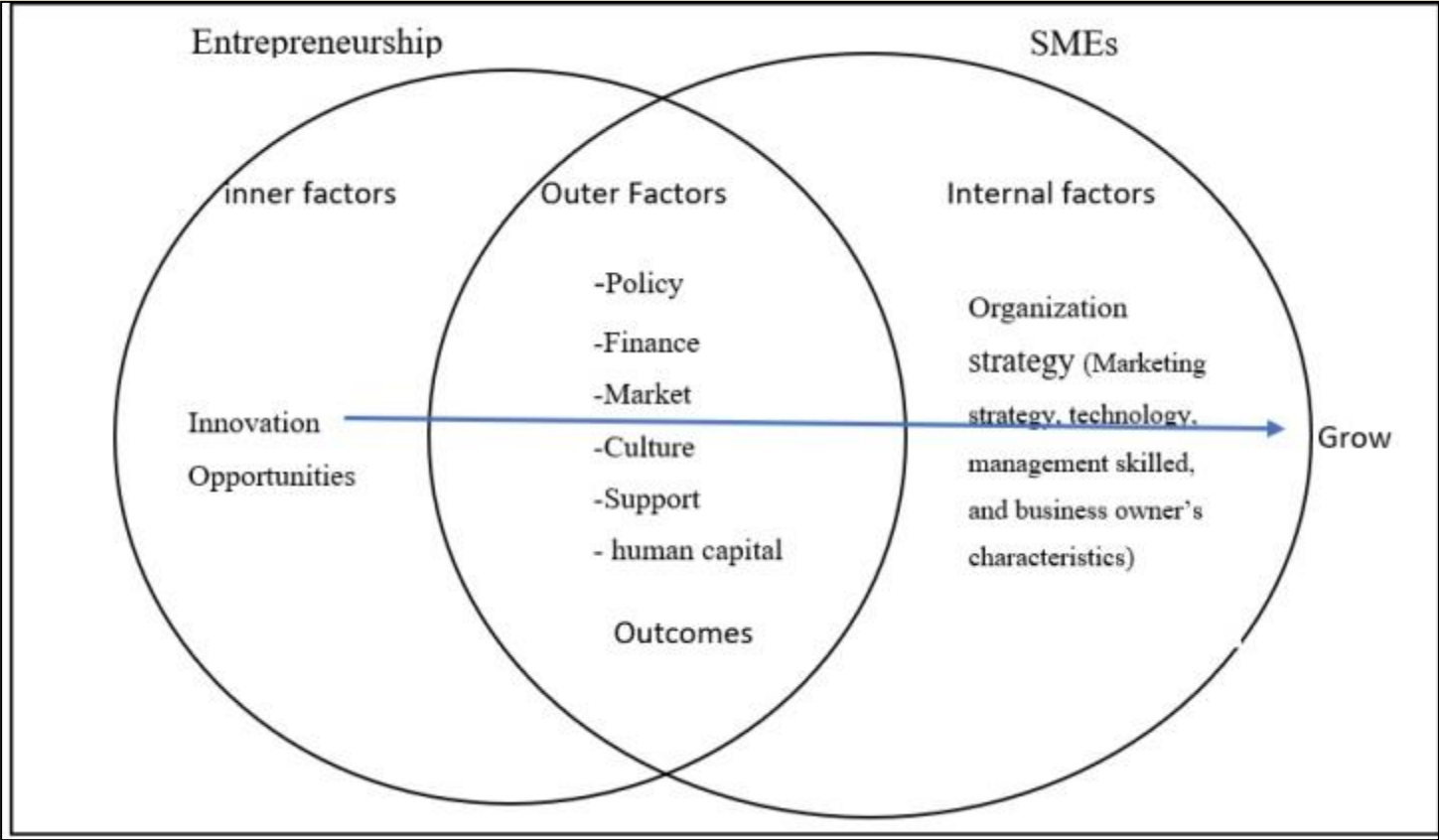
Similarities and Differences between Entrepreneurship and SME

Basis of Comparison	Entrepreneurship	SME
Similarity		
Value creation	Jobs, economic growth, catering to employment needs.	
External Factors enhance ecosystem	Policies and regulations regarding fiscal matters, markets, infrastructure, technological and human capital.	
Differences		
Description	The use of creativity and innovation as the main sources to create and identify opportunities with risk taking.	Owners have direct involvement in business and risk averting tactics for running a small-scale operation.

Similarities and Differences between Entrepreneurship and SME (Cont.)

Basis of Comparison	Entrepreneurship	SME
Differences		
Key characteristics	Main goal is profitability and exponential growth through innovation and risk taking.	No goal to dominate the industry just taking care of business as source of income .
Focus on	Innovation and originality.	Business managing (organization strategy).
Character attributes	Changing things regularly to innovate and take risks.	Like stability and conducting business as usual for longer time period.
Critical internal factors for Success	Innovation opportunities identified.	Strategic Marketing , technological management skills, and business owner’s attributes.

Overlap and Intersection between Entrepreneurship and SME



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3. Conditions for Implementing Innovative Entrepreneurship

Traits and Tips for Innovative Entrepreneurship

- ***Traits:***

- ❖ Patience: recognizing that developing new business ideas takes time.
- ❖ Proactive problem-solving: seeking solutions to challenges using innovative approaches.
- ❖ Effective communication skills: conveying ideas and networking with industry professionals.
- ❖ Determination: overcoming obstacles and persevering in the face of challenges.
- ❖ Adaptability: embracing change and incorporating evolving market trends into business plans.

Traits and Tips for Innovative Entrepreneurship (Cont.)

- ***Tips:***

- ❖ Create a solid financial plan to ensure stability and manage resources effectively.
- ❖ Engage in networking to build valuable connections and partnerships.
- ❖ Accept constructive feedback as a means for growth and improvement.
- ❖ Leverage insights and customer feedback to continuously enhance products or services.
- ❖ Cultivate an innovative mindset by staying curious, open-minded, and embracing creativity.

Favorable Conditions For Enhancing Entrepreneurial Activities

- Innovation is not the only important prerequisite for entrepreneurship development; other conditions, major features of a country's socio-economic milieu, are expected to impact the entrepreneurial sector significantly.
- Personal traits like alertness, creativity, ambition, and perseverance, according to experts, lie at the origin of successful entrepreneurship.
- There are conditions favorable to enhancing entrepreneurial activity that largely depend on government interventions.

Favorable Conditions For Enhancing Entrepreneurial Activities (Cont.)

- These Entrepreneurial Framework Conditions (EFCs), favorable to enhancing the rate of entrepreneurial activity, can be:
 - ❖ **Cultural:** open-mindedness, acceptance of risk, long-term orientation, “business culture”: a more business-friendly environment, etc.
 - ❖ **Institutional:** stability in government, regulatory incentives (taxation, property rights, etc.)
 - ❖ **Financial:** access to finance, credit, and available financial resources, including grants and subsidies, etc.

In conclusion

- Creativity and Innovation.
- The Difference Between Entrepreneurship and Small and Medium-Sized Enterprises.
- Conditions for Implementing Innovative Entrepreneurship.

Understand



**THANK YOU
FOR YOUR ATTENTION**

Q&A