

UNDERSTANDING ENTREPRENEURSHIP

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LEARNING OBJECTIVES

- Define entrepreneurship
- Explain the role of entrepreneurship
- Explain the entrepreneurial process
- Examine the reasons that businesses succeed or fail
- Identify today's trends in the field of entrepreneurship

DEFINITION OF ENTREPRENEUR

An Entrepreneur

One who

Assumes, Organizes, and Manages Risk of a Business

Merriam-Webster

*People who own, operate, and take the risk of a
business venture*

ENTREPRENEURSHIP

Entrepreneurship is a mindset

- Opportunity-focused
- Innovative
- Growth-oriented

Can you add additional Characteristics and/or Attributes...

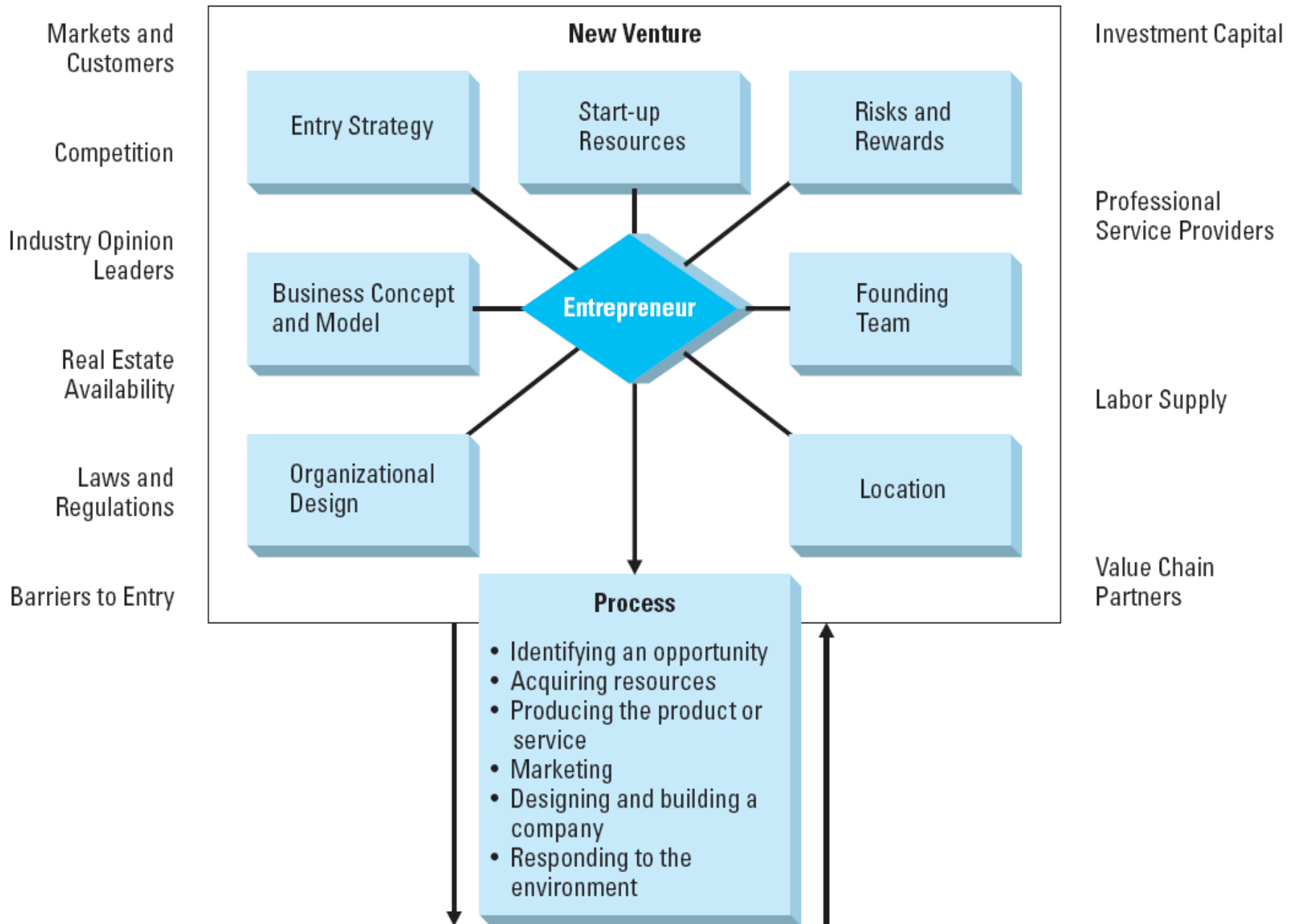
ENTREPRENEURSHIP

The process of starting and running one's own business

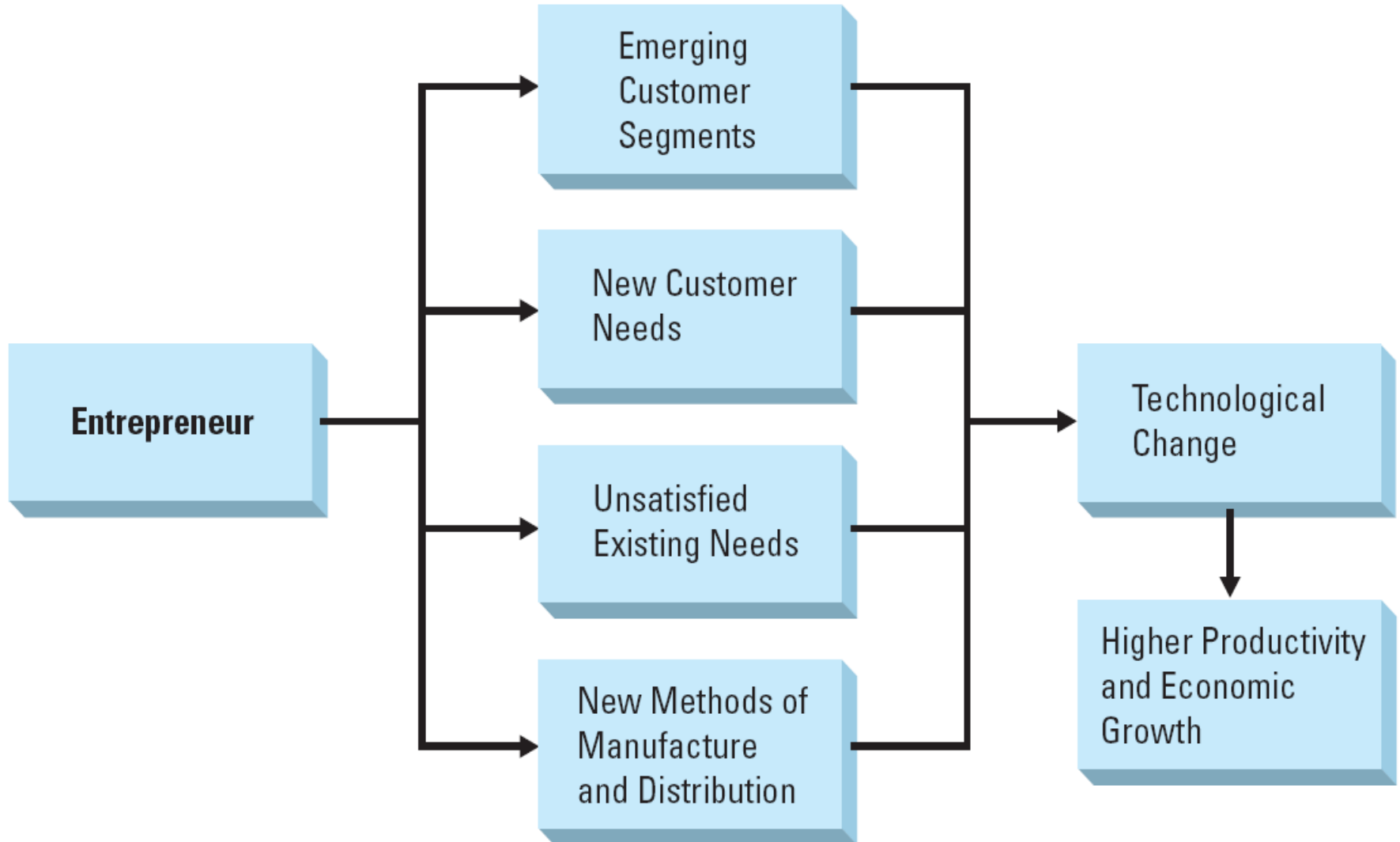
This involves a considerable amount of risk.

The process of designing, launching and running a new business, which typically begins as a **small business**, such as a **startup company**, offering a product, process or service for sale or hire

The Environment



ENTREPRENEURSHIP AND TECHNOLOGICAL CHANGE



OUTCOMES OF ENTREPRENEURSHIP

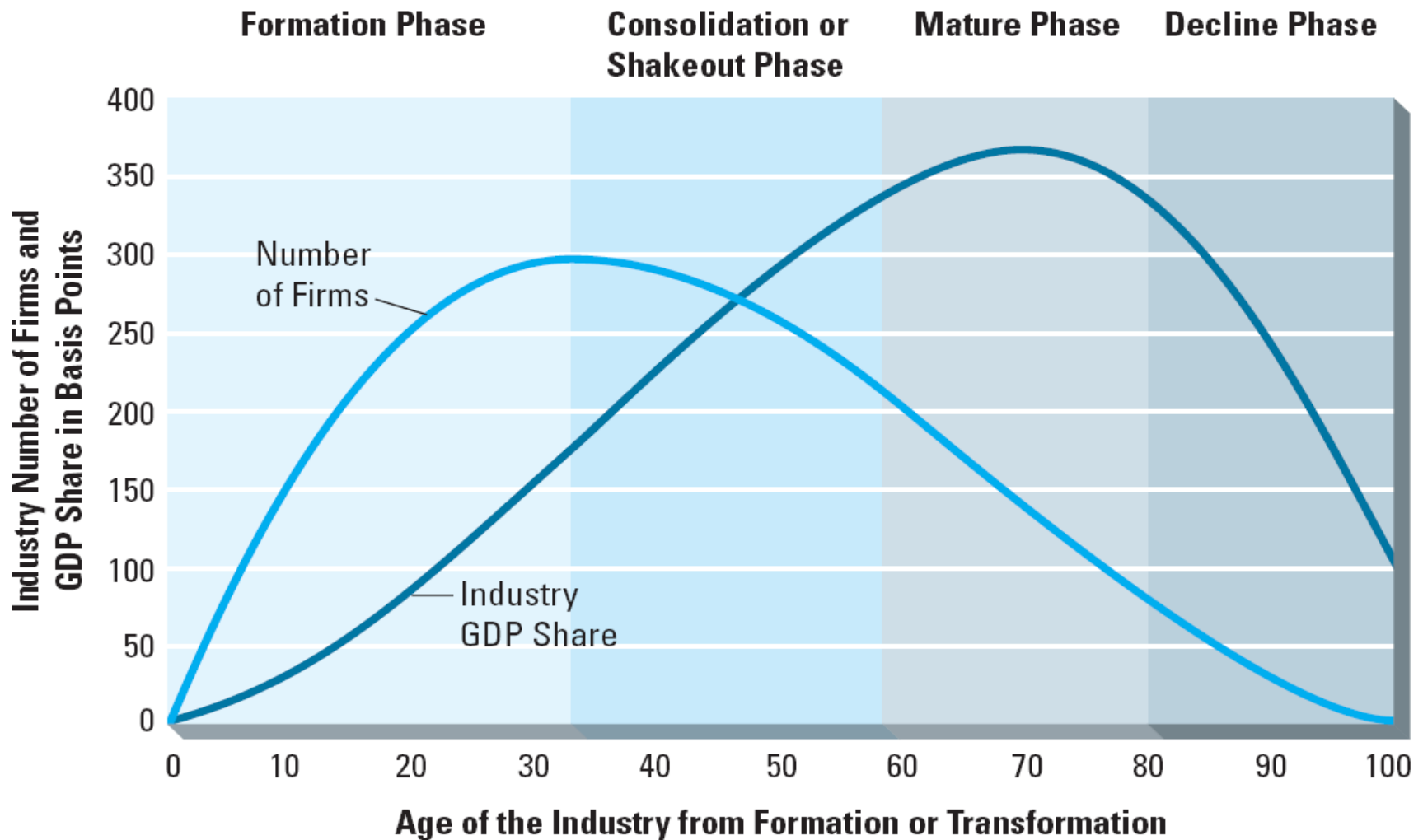
- Economic growth
- New industry formation
- Job creation

Can you add additional Outcomes...

NEW INDUSTRY FORMATION

- New industries are born when technological change produces a new opportunity for *enterprising entrepreneurs*.
- Disruptive or metamorphic technologies that destroy previous technologies and *create new industries and display a different pattern of behavior*.
- The pattern of growth, shakeout, stabilization, and decline of industry can be interrupted at any time *by the entry of another disruptive technology*.

INDUSTRY LIFE CYCLES

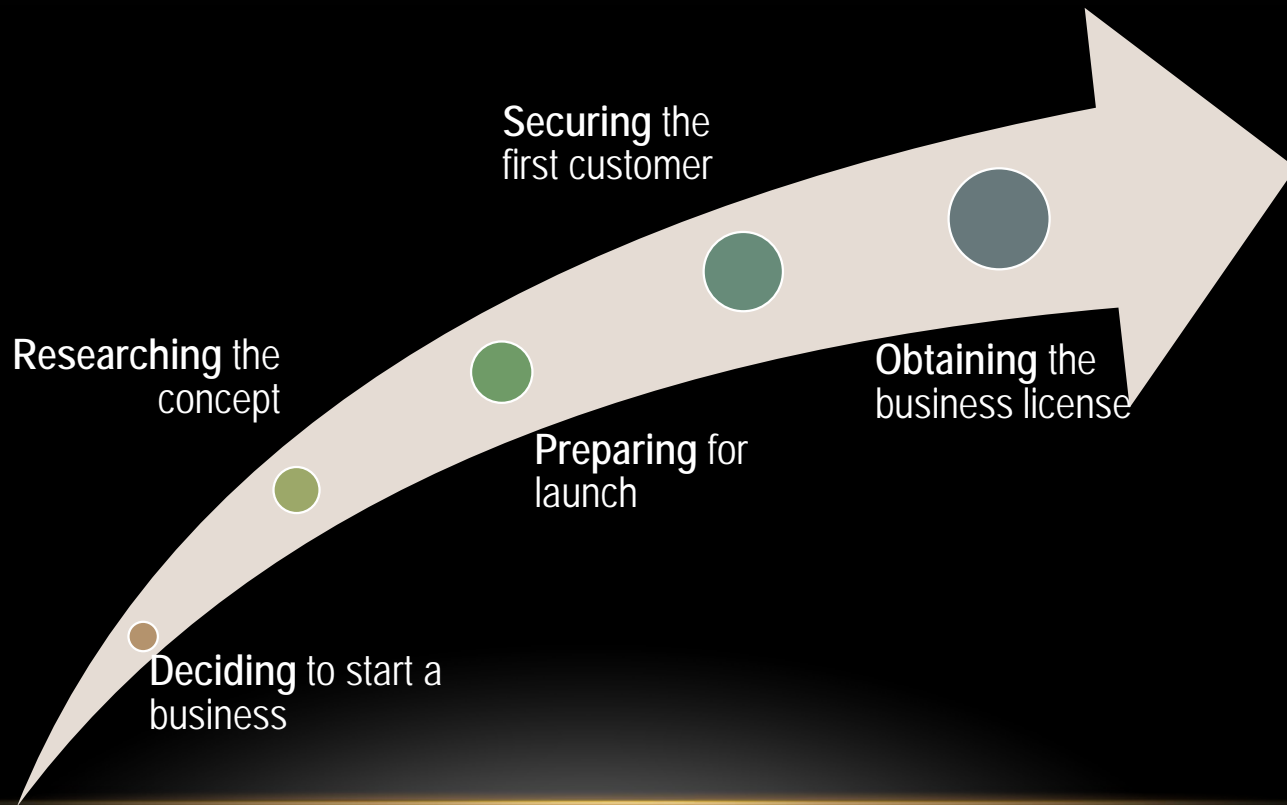


THE NATURE OF ENTREPRENEURIAL START-UPS

- An entrepreneurial venture brings value to the marketplace.
- Three primary characteristics
 1. Innovative
 2. Value-creating
 3. Growth-oriented

NEW BUSINESS FORMATION

Entrepreneurs use *identifiable milestones* to *measure their progress*



NEW BUSINESS FAILURE

- Not all entrepreneurs succeed in growing their start-up into an established business.
- Survival has been attributed to sufficient capital, having employees, and the entrepreneur's intention in starting the business.

Category	2001	2002	2003	2004	2005
New firms	585,140	569,750	612,296	642,600 ^e	671,800 ^e
Firm closures	553,291	586,890	540,658	544,300 ^e	544,800 ^e
Bankruptcies	40,099	38,540	35,037	34,317	39,201

^eEstimate using percentage changes in similar data provided by the U.S. Department of Labor, Employment and Training Administration.

SOCIALLY RESPONSIBLE ENTREPRENEURSHIP

- Today more than 85 percent of the company's employees are involved in charity.
- Free enterprise as foundation of entrepreneurial motivation
- Gen Z Characteristics
 - Socially conscious – look for meaning and purpose
 - Volunteer/ Charity

ENTREPRENEURIAL TRENDS

- Women and minority-owned businesses
 - Social responsibility
 - The Internet
 - Globalization
 - *Can you think of additional trends...*
-

DO THE VENTURE CHECKLIST

- Keep as a Journal/Work Papers
- Your Ideas...Write Them Down On Paper...!!!
- Bring to Every Class

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FORMS OF BUSINESS OWNERSHIP

- *Sole proprietorship*
 - 1 owner
 - Unlimited liability to owner
 - Individual starting a business and easiest way to conduct the business
- *Partnership*
 - 2 or more owners
 - Somewhat limited
 - Easy way for two or few individuals to conduct businesses
- *Corporation*
 - Any number of shareholders
 - Limited liability
 - A legal entity with shareholders or stakeholders

FORMS OF BUSINESS OWNERSHIP



***Sole Proprietorship** - Businesses owned and operated by one individual; the most common form of business organization in Sri Lanka*

80% of all businesses

Men 2x more likely than women to start own business

- Many restaurants
- Hair salons
- Flower shops
- Independent grocery stores



FORMS OF BUSINESS OWNERSHIP



Advantages and disadvantages of a Sole Proprietorship

- Ease and cost of formation
- Secrecy
- Distribution and use of profits
- Flexibility and control of the business
- Government regulation
- Unlimited liability
- Limited sources of funds
- Limited skills
- Lack of continuity
- Lack of Qualified Employees
- Taxation

FORMS OF BUSINESS OWNERSHIP



***Partnership** - A form of business organization defined by as “an association of two or more persons who carry on as co-owners of a business for profit”*

Types of Partnerships

- **General partnership**
A partnership that involves a complete sharing in both the management and the liability of the business
- **Limited partnership**
 - A business organization that has at least one general partner, who assumes unlimited liability, and at least one limited partner whose liability is limited to his or her investment.

FORMS OF BUSINESS OWNERSHIP



Advantages

- Ease of organization
- Capital & credit
- Knowledge & skills
- Decision making
- Regulatory controls

Disadvantages

- Unlimited liability
- Business responsibility
- Life of the partnership
- Distribution of profits
- Limited sources of funds
- Taxation of partnerships

KEYS TO SUCCESS IN BUSINESS PARTNERSHIPS

- Keep profit sharing and ownership at 50-50
- Partners should have different & complementary skill sets
- Honest is critical
- Maintain face-to-face communications
- Transparency – sharing information
- Awareness of funding constraints and limited resources
- To be successful, you need experience
- Family is priority; limit associated problems
- Do not become too infatuated with “the idea” think implementation
- Couple optimism with realism in sales and growth expectations

FORMS OF BUSINESS OWNERSHIP



Corporations - Legal entities created by the state whose assets and liabilities are separate from its owners..

Typically owned by many individuals and/or organizations who own shares of the business – stock (shareholders or stockholders)

Stock & Dividends

Stock – shares of a corporation that may be bought or sold

Dividends – profits of a corporation that are distributed in the form of cash payments to stockholders.



FORMS OF BUSINESS OWNERSHIP

Creating a Corporation - A Corporation is created (incorporated) under the laws of the jurisdiction in which it incorporates. The individuals creating the corporation are called incorporators.

Articles of Incorporation - Legal documents filed with basic information about the business with the appropriate legal office

FORMS OF BUSINESS OWNERSHIP

Types of Corporations

- ***Private corporation***
a corporation owned by just one or a few people who are closely involved in managing the business
- ***Public corporation***
a corporation whose stock anyone may buy, sell, or trade.
- ***Quasi-public corporation***
Corporation owned and operated by the government
- ***Non-profit corporation***
focuses on providing a service rather than earning a profit but are not owned by a government entity

FORMS OF BUSINESS OWNERSHIP

Elements of Corporations

- ***Board of Directors***

a group of individuals elected by the stockholders to oversee the general operation of the corporation who set the corporation's long-range objectives.

- ***Initial Public Offering (IPO)***

A private corporation who wishes to go “public” to raise additional capital and expand. The IPO is selling a corporation's stock on public markets for the first time.

- ***Common Stock***

stock whose owners have voting rights in the corporation, yet do not receive preferential treatment regarding dividends.

FORMS OF BUSINESS OWNERSHIP

Types of Business Ownership

- *Joint Venture (JV)*

a partnership established for a specific project or for a limited time

- *Limited Liability Company (LLC)*

- form of ownership that provides limited liability and taxation like a partnership but places fewer restrictions on members.
- It requires one director and two shareholders.
- The company secretary should be a Sri Lankan citizen.

- *Public Liability Company (PLC)*

- Company shares are issued on the Colombo stock exchange.
- Need two shareholder and two directors to run this company.
- Directors are required to file annual returns, audit and issue financial statements.

FORMS OF BUSINESS OWNERSHIP

Exit Strategies in Business Ownership

- ***Mergers***

the combination of two companies (usually corporations) to form a new company



- ***Acquisition*** –

the purchase of one company by another, usually by buying its stock and/or assuming its debt.

