

# New Venture Creation - Chapter 2

## 1 Your Resources

- Financial Capital
  - May be limited
  - Using resources that you may not own is called bootstrapping
  - People only commit resources they can afford to lose
  - Find ways of using resources they do not own by partnering with others
- Human Capital
  - Education, training, managerial or industry experience
  - Vital as experience of industry brings a good source of business ideas. Also gives insight into problems that may be faced in business
  - Can increase credibility with financial backers
- Social Capital
  - Access to personal networks of friends and commercial contacts
  - This can be used to get information on new opportunities and threats
  - Can provide customers, workers or discounted office space

The more capital, of any kind, you bring to the business, the more likely you are to succeed

## 2 Character Traits of entrepreneurs

- Need for independence
  - Entrepreneurs have a need to be their own boss, or an unwillingness to take orders
  - This may mean doing things differently, or being in challenging situations
- Need for achievement
  - Money is just a badge of success, validating their achievement
  - This does not mean that they are high achievers, but they do have a need for it
- Internal locus of control
  - This is a belief that they control their own destiny
  - They believe that their drive and determination will lead them to achieve the outcome they want
  - This is all driven by their self confidence in their ability to undertake a task
  - This can manifest itself in a desire to control everything and everyone around them
  - Because of this trait, entrepreneurs tend to be proactive, rather than reactive
  - Can be easily diverted by the latest market opportunity
  - Do things at twice the pace of others, work other people hard
- Creativity, innovation and opportunism
  - Creativity focused on commercial opportunities
  - Spot an opportunity, then use creativity and innovation to exploit it
- Acceptance of risk and uncertainty
  - Willing to risk: money, reputation and personal standing
  - Try to avoid or minimise the risks taken
  - They have "inside information", real or imaginary, that reduces the risk and uncertainty in their minds
  - They never really believe that their business will fail and have complete faith that they will be able to influence the outcome

### 3 Factors that influence the entrepreneurial character

- Nationality
  - Certain cultures promote entrepreneurial traits more than others
  - There are particular traits that vary by nationality:
    - \* Individualism vs Collectivism - The degree to which people act as individuals, rather than groups
    - \* Power Distance - The degree of inequality among people that the community is willing to accept
    - \* Uncertainty avoidance - The degree to which people would like to avoid ambiguity and resolve uncertainty
    - \* Masculinity vs Femininity
- Education
  - There is a correlation between educational achievement and the probability of starting up in business
- Age and Parenting
  - Young to middle aged people are most likely to be associated with growth companies
  - Youth brings creativity. Age brings experience, knowledge and a larger network of contacts
- Immigration and ethnicity
  - Immigration to a foreign country is positively associated with entrepreneurship
  - There are non uniform self employment rates for ethnic minorities in the UK. People from different countries have different rates of self employment
- Gender
  - Women are less likely to start a business than men
  - Statistics show that women owned businesses are likely to perform less well than male owned businesses

### 4 How entrepreneurs manage

#### 4.1 Relationships

- Entrepreneurs are good at developing relationships with customers, staff, suppliers and all the stakeholders
- **Relationship Marketing** - The ability to form loyal relationships with customers
- Formality reduces flexibility so they manage informally
- The ability to form strong personal relationships helps them to develop the partnerships and networks that are part of the social capital they create
- The implication of all this is that entrepreneurs need strong **interpersonal skills**

#### 4.2 Strategy development

- Entrepreneurs develop a **strong vision** of what they want their business to become
- They have strong **strategic intent**
- They use a loose or flexible plan with continuous strategising
- By creating more **strategic options** they improve their chances of successfully pursuing at least one opportunity and avoiding the most risks
- They keep as many options open as possible for as long as possible

### 4.3 Decision making

- Entrepreneurs adopt an incremental approach to decision making.
- Only commit to costs after the opportunity has proved to be real
- Often experiment with a limited launch to the market

### 4.4 Risk Mitigation

- Use knowledge and information coming from the network of close personal relationships they have developed
- Use their network to form partnerships that help them spread the risk of the venture
- Only commit limited resources
- Compartmentalise risk by separating business ventures into separate legal entities