

# **Entrepreneurship II**

Presented

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# Contents

- Importance of Entrepreneurship
- Innovation and entrepreneurship
- Constraints of entrepreneurship
  - Failure
  - Growth patterns

# Importance of Entrepreneurship

- **Plays significant role in economic development:**
  - c — SBs play the role of **coordinating resources** as **entrepreneur acts as coordinating agent** supervising process of production into new products.
  - E — SBs **create employment opportunities** where businesses are located and thus **help to improve living standards** and **foster social development**.
  - Q — SBs bring **inventions and innovations** that improve the quality of life
  - c — SBs **encourage competition in two ways**:
    - through **price competitiveness** and;
    - through **efficiency of operations**.
  - s — SB owners have an **ability to see profit or gainful opportunities** and act on them swiftly – **speculators**
  - SBs **develop people** in terms of skills and experience or exposure to running business.

# Importance – in EU

- European Communities (2002) Report revealed that about 20 million SMEs were the driving force behind the economic prosperity in 2002 employing over 120 million people
- European Charter for SMEs calls on member states and the commission to take action to support and encourage SMEs in 10 key areas:
  - **education and training for entrepreneurship,**
  - cheaper and faster start up, better legislation and regulation,
  - **availability of skills, improving online services,**
  - **getting more out of the single market, taxation and financial matters,**
  - **strengthening the technological capacity of small enterprises,**
  - making use of successful e-business models and developing top class small business support,
  - **developing stronger more effective representation of small enterprises' interests at union and national level.**

# EU Experience

- The Charter further emphasized the EU's commitment to equipping small enterprises being the EU's most promising source of new jobs, innovation, economic dynamism and greater social inclusion taking full advantage of the digital economy.
- Highlights of 2001 survey of SMEs revealed three major findings:
  - major growth constraint was lack of skilled labour,
  - **growth in international business contacts**
  - **growth in women owned small businesses**
- The Euro News of 2002 revealed that:
  - Europe's 20 million non-primary sector private enterprises **employed approximately 122,000,000 workers with over 99% contribution from SMEs;**
  - two thirds of jobs were in SMEs, small firms (under 10 employees) provided a third of all jobs and;
  - average size of a business employed 6 workers (19 in USA and 10 in Japan).

# UK Experience

- Bolton Report of 1971 highlighted importance and functions of SMEs which made special contribution to the economy, identifying eight important roles - SMEs are:
  - Productive outlets for enterprising and independent individuals (some of whom may be frustrated under-achievers in a larger controlled environment)
  - The most efficient form of business organization in some industries or markets where the optimum size of the production unit or sales output is small,
  - Specialist suppliers, or sub-contractors to larger companies,
  - Contributors to the variety of products and services made available to customers in specialized markets, too small for larger companies to consider worthwhile,
  - Competition to the monopolistic tendencies of large companies,
  - Innovators of new products, services and processes,
  - The breeding ground for new industries, and
  - The seedbed from which tomorrow's larger companies will grow, providing entry points for entrepreneurial talent who will become the industrial captains of the future

# UK Experience

- Institute for Independent Business (IIB) of the UK was established in 1984 to provide practical advice and useful information to those responsible for making day-to-day decisions in running businesses under the following justification:
  - **that SMEs operate in isolation** without network of contacts and information services available to large companies.
  - that SMEs lack of fundamental skills in key aspects of management that are required to develop a truly successful business
  - that organizations expected to provide help and information to SMEs were “poorly sign-posted” **and inaccessible, and were largely governmental, bureaucratic and remote in nature.**
  - that SME owners are expected to “know everything, keep up with everything and do everything”. In most cases, “they don’t know what they don’t know.”
  - **that SMEs lack capacity** in contrast to larger companies which readily buy-in expertise and afford a board of professional directors on whom the large company’s Chief Executive can call at any time for specialist advice and assistance.

# Innovation and Intrapreneurship

- **Innovation** – is a time consuming systematic process of development and practical application of new concept or idea.
- Shortening the innovation time lag is a priority goal for managers and entrepreneurs.
- Shorter innovation lags constitute a **competitive edge**
- Promoting innovation in an organization is through **Intrapreneurship**



# Entrepreneurs and Intrapreneurship

- An entrepreneur is generally described as a creative individual who has risked everything while starting his own business.
- **An intrapreneur is described as an employee who takes personal 'hands-on' responsibility for pushing any type of innovation through the organization.**
- **Intrapreneurs differ from entrepreneurs in several ways:**
  - intrapreneurs strive for innovation within existing organizations,
  - entrepreneurs leave organizational confines to pursue dreams;
  - intrapreneurs tend to have a higher need for security
  - Entrepreneurs have a higher need for autonomy
  - intrapreneurs prefer being employees rather than owners.

# Differences

- An intrapreneur is an entrepreneur in the corporate world with the same disposition for creativity and innovation.
- The most significant difference between the two is in **motivation**:
  - An intrapreneur is motivated by strong need for security but simultaneously he is averse to close control.
  - Intrapreneurship is constrained by organizational demands of authority and control systems.
  - Intrapreneurs (corporate entrepreneurs) **have no capital to start own ventures**. They spend time persuading management that their ideas are promising.
  - Unlike successful independent entrepreneurs, intrapreneurs are not free to guide their ventures by their own intuitive judgments: they still have to justify every move to their superiors.






# Intrapreneurship

- **To achieve corporate competitive advantage through innovation, organizations need to foster a supportive climate for intrapreneurs.**
- An organization can foster Intrapreneurship if it
  - focuses on results and teamwork,
  - rewards innovation and risk-taking,
  - tolerates and learns from mistakes and,
  - remains flexible and change-oriented.
- Entrepreneurs can have among his /her employees, people who are highly innovative.
- Successful entrepreneurs have the **ability to identify innovative and creative persons, nurture, develop and reward them accordingly.**

# Constraints - Business Failure

- Two types of business failure: **formal and personal**.
- **Formal failure** ends up in the courts with some loss to creditors.
- They are relatively few and the underlying causes are:
  - **neglect** (1%) due to bad habits, poor health, marital difficulties etc,
  - **fraud** (1/2%) false financial statements, premeditated overbuy, irregular disposal of assets, etc,
  - **lack of experience** in the business (12%),
  - **lack of managerial experience** (15%),
  - **unbalanced experience** (18%),
  - **incompetence** (47%) – evidenced by inadequate sales, heavy operating expenses, and receivable difficulties, excessive fixed assets, poor location competitive weakness etc,
  - **disaster** (1/2%) – fire, flood, burglary, employee fraud etc. insurance cushions against factor, and
  - **unknown reasons** (6%).

# Personal Failure

- **Personal failure** involves situations where individuals have put their savings or income into a business only to see losses wipe out their investments.
- This comes about through many personal inabilities and attributes:
  - lack of personal capacity
  - lack of knowledge
  - lack of creativity
  - reluctance to become a businessperson
  - lack of concerted effort, energy, zeal, optimism and ambition.

# Minimising Failure

- **Self-reparation:** starting a business takes:
  - motivation, desire and talent,
  - research and planning
  - time to explore and evaluate business and personal goals.
  - build comprehensive business plan that will help reach set goals
- **Lack of knowledge:** keep abreast with business trends
- **Sources of funds:** realize that the best source of financing is personal savings; avoid rushing for bank financing without realizing cost implications
- **Starting big;** start off small operating with one office; keep overhead cost low; price products competitively and offer volume discounts to customers; learn how to manage business as it grows
- **Inability to plow back profits;** plow back profits into business to avoid bankruptcy and continue steady expansion and growth; sacrifice material possessions now for future rewards

# Failure

- **Other causes of personal failure** (related to incompetence) include;
  - lack of proper business records,
  - lack of business experience,
  - insufficient stock turnover,
  - uncollected accounts receivables,
  - inventory shrinkage, and
  - poor inventory control,
  - lack of finances,
  - improper mark up and lack of sales.
- **External causes** include:
  - environmental conditions,
  - lack of entrepreneurship development programs,
  - market reforms, (reforming market regulations through improving entry into formal sector increases the number of small businesses in the national economy)
  - government policies (deliberate policy to increase entrepreneurial opportunities)

# Worst Constraint

- **Ignorance and its Consequences:** several **multifarious facets of ignorance** plague entrepreneurs.
- **Lack of knowledge about environmental factors** – an entrepreneur who does not scan the political, economic, demographic, technological and socio-cultural environment to identify the target market for proposed services, will fail to conduct his business
- **Lack of the formal plan** - evidence suggests that failures can be attributed to the lack of a formal plan. Risk is reduced by thorough analysis of proposed business.
- **Lack of information** – collecting useful information is a fundamental and primary task prior to planning.
- **Lack of skills** – an entrepreneur must plan for acquisition of requisite skills.
- The last two causes are **resource related**; especially **the human resource** that must be properly organized to best utilize their energies, skills and interests, and to control activities.
- Appropriate **record-keeping system** as a prerequisite; inaccurate, insufficient and untimely data plague small business resulting in employee theft, inventory mismanagement, indifference and many shortcomings which create storage, insurance and other costs tying up funds critical for other purposes.



# SME Common Drawbacks

Drawbacks	Possible solutions
Lack of experience Lack of money Wrong location of business Inventory mismanagement Too much capital in fixed assets Poor credit mgt practices Taking too much money for yourself Unplanned expansion Having the wrong attitude to business	Recognize own limitations Plan appropriately Keep records and analyze Watch the balance sheet Investigate and adjust Cooperate with suppliers and bankers Learn to control your appetites Use professional assistance Change your attitude and watch your health

# Problem of Growth

- The problem of growth is a built-in dilemma for entrepreneurs for three reasons:
- First, if owners are inefficient and lack initiative, businesses will **flounder and fail**.
- Second, if owners are mediocre, businesses will continue to be small and to be constantly **plagued with problems of smallness**.
- Third, if owners are efficient and capable, loss of advantages of smallness will occur, but businesses will grow and become successful.
- However, owners of successful businesses run the **risk of losing** things they seek from their business firms – **autonomy and control**.

# Bsn Growth Stages

- Business growth pattern appears to follow the pattern described below.

- **Stage I**



- This is a one-person operation; where the owner does all the business activities.

- **Stage II**



- Separation of management and non-management functions: hired subordinates do some of the manual and/or simple mental activities while the owner manages the business.

- **Stage III**



- Separation of ownership and management functions: owner delegates some of the authority for the day-to-day managing of business to a professional manager.

End