

Eighth Edition

# Entrepreneurship

## Chapter 1 Entrepreneurship and the Entrepreneurial Mind-Set

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# Nature and Development of Entrepreneurship

- **Entrepreneur** – An individual who takes initiative to bundle resources in innovative ways and is willing to bear the risk and/or uncertainty to act.
- **Entrepreneurship** - The capacity and willingness to develop, organize and manage a business venture (project) along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses

# Nature and Development of Entrepreneurship (cont.)

- Being an entrepreneur today:
  - Involves creation process.
  - Requires devotion of time and effort.
  - Involves rewards of being an entrepreneur.
  - Requires assumption of necessary risks.
- Entrepreneurial action - Behavior in response to a judgmental decision under uncertainty about a possible opportunity for profit.

# Table 1.1 - Aspects of the Entrepreneurial Process

Identify and Evaluate the Opportunity	Develop Business Plan	Resources Required	Manage the Enterprise
<ul style="list-style-type: none"> <li>• Opportunity assessment</li> <li>• Creation and length of opportunity</li> <li>• Real and perceived value of opportunity</li> <li>• Risk and returns of opportunity</li> <li>• Opportunity versus personal skills and goals</li> <li>• Competitive environment</li> </ul>	<ul style="list-style-type: none"> <li>• Title page</li> <li>• Table of Contents</li> <li>• Executive Summary</li> <li>• Major Section               <ol style="list-style-type: none"> <li>1. Description of Business</li> <li>2. Description of Industry</li> <li>3. Technology Plan</li> <li>4. Marketing Plan</li> <li>5. Financial Plan</li> <li>6. Production Plan</li> <li>7. Organization Plan</li> <li>8. Operational Plan</li> <li>9. Summary</li> </ol> </li> <li>• Appendixes (Exhibits)</li> </ul>	<ul style="list-style-type: none"> <li>• Determine resources needed</li> <li>• Determine existing resources</li> <li>• Identify resource gaps and available suppliers</li> <li>• Develop access to needed resources</li> </ul>	<ul style="list-style-type: none"> <li>• Develop management style</li> <li>• Understand key variables for success</li> <li>• Identify problems and potential problems</li> <li>• Implement control systems</li> <li>• Develop growth strategy</li> </ul>

# The Entrepreneurial Process

- Opportunity identification - The process by which an entrepreneur comes up with the opportunity for a new venture.
- Market size and the length of the window of opportunity are the primary bases for determining risks and rewards.
- Window of opportunity - The time period available for creating the new venture.
- Business plan - The description of the future direction of the business.

# How Entrepreneurs Think

- Entrepreneurs in particular situations may think differently when faced with a different task or decision environment.
- Given the nature of their decision-making environment, entrepreneurs need to sometimes:
  - Effectuate (thinking for opportunity creation)
  - Be cognitively adaptable.
  - Learn from failure.

# How Entrepreneurs Think (cont.)

- Causal process (Cause & Effect)
  - Starts with a desired outcome.
  - Focuses on the means to generate that outcome.
- Effectuation process
  - A way of thinking for opportunity identification and new venture creation for entrepreneurs.
  - Starts with what one has (who they are, what they know, and whom they know).
  - Selects among possible outcomes.
- Entrepreneurial mind-set involves the ability to rapidly sense, act, and mobilize, even under uncertain conditions.

# How Entrepreneurs Think (cont.)

- Cognitive adaptability describes the extent to which entrepreneurs are:
  - Dynamic, flexible, self-regulating and engaged in the process of generating multiple decision frameworks focused on sensing and processing changes in their environments and then acting on them.
- It reflects in an entrepreneur's metacognitive (thinking about thinking) awareness.



# How Entrepreneurs Think (cont.)

- Achieving cognitive adaptability
  - Comprehension questions – Aids understanding of the nature of the environment before addressing an entrepreneurial challenge.
  - Connection tasks – Stimulates thinking about the current situation in terms of similarities and differences with situations previously faced and solved.
  - Strategic tasks – Stimulates thoughts about which strategies are appropriate for solving the problem (and why) or pursuing the opportunity (and how).
  - Reflection tasks – Stimulates thinking about their understanding and feelings as they progress through the entrepreneurial process.

# How Entrepreneurs Think (cont.)

- Entrepreneurs who are able to increase cognitive adaptability have an improved ability to:
  - Adapt to new situations.
  - Be creative.
  - Communicate one's reasoning behind a particular response.

# How Entrepreneurs Think (cont.)

- Learning from Business Failure
  - Uncertainty, changing conditions, and insufficient experience can contribute to failure among entrepreneurial firms.
  - An entrepreneur's motivation is not simply from personal profit but from:
    - Loyalty to a product.
    - Loyalty to a market and customers.
    - Personal growth.
    - The need to prove oneself.

# How Entrepreneurs Think (cont.)

- Loss of a business can result in a negative emotional response from the entrepreneur.
- It can interfere with:
  - Entrepreneur's ability to learn from the failure.
  - Motivation to try again.

# How Entrepreneurs Think (cont.)

- Recovery and Learning Process
  - Emotional recovery from failure happens when thoughts about the events surrounding, and leading up to the loss of the business, no longer generate a negative emotional response.
  - Primary descriptions of the process of recovering are:
    - Loss-orientation.
    - Restoration-orientation.

# How Entrepreneurs Think (cont.)

- Loss-Orientation

- Involves working through, and processing, some aspect of the loss experience and, as a result of this process, breaking emotional bonds to the object lost.
- This process gradually provides the loss with meaning and eventually produces a changed viewpoint.
- Involves confrontation, which is physically and mentally exhausting.
- Characterized by feelings of relief and pain that wax and wane over time.

# How Entrepreneurs Think (cont.)

- Restoration-Orientation
  - Based on both avoidance and a proactiveness toward secondary sources of stress arising from a major loss.
  - Involves suppression, which requires mental effort and presents potentially adverse consequences for health.
  - Provides an opportunity to address secondary causes of stress.
  - May reduce emotional significance of the loss.

# How Entrepreneurs Think (cont.)

- A Dual Process for Learning from Failure
  - The dual process of oscillating between the loss-orientation and restoration-orientation enables a person to:
    - Obtain the benefits of each.
    - Minimize the costs of maintaining one for too long.
  - This dual process speeds the recovery process.



# How Entrepreneurs Think (cont.)

- Practical implications of the dual process:
  - Knowledge that feelings and reactions being experienced are normal.
  - Realizing that psychological and physiological outcomes caused by the feelings of loss are “symptoms” can reduce secondary sources of stress.
  - There is a process of recovery to learn from failure, which offers some comfort that current feelings of loss will eventually diminish.
  - Recovery and learning process can be enhanced by some degree of oscillation.
  - Recovery from loss offers an opportunity to increase one’s knowledge of entrepreneurship.

# Ethics and Social Responsibility of Entrepreneurs

- Entrepreneurs usually develop an internal ethical code.
- Personal value systems tend to be influenced by:
  - Peer pressure.
  - General social norms in the community.
  - Pressures from their competitors.
- Business ethics - The study of behavior and morals in a business situation.

# Role of Entrepreneurship in Economic Development

- Innovation is depicted as a key to economic development.
  - Product-evolution process - Process through which innovation is developed and commercialized.
  - Iterative synthesis - The intersection of knowledge and social need that starts the product development process.

# Role of Entrepreneurship in Economic Development (cont.)

- Three types of innovation:
  - Ordinary - New products with little technological change.
  - Technological – New products with significant technological advancement.
  - Breakthrough – New products with some technological change.

# Figure - Product Evolution

