

Module  
**10**

IEEKMA4116  
Edition 1

# Entrepreneurship, Creativity and Innovation

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## Introduction

This module discusses two topics, namely entrepreneurship, creativity, and innovation. Entrepreneurship has an important role in economic growth. Schumpeter, an economist from Harvard University, believes that entrepreneurship can encourage creative destruction (creativity that destroys old, established models), creates new added value, and drives economic growth. Studies conducted by McKinsey show that entrepreneurial growth is driven by three important factors, namely (1) a thriving entrepreneurial ecosystem, (2) entrepreneurial funding from the start to a critical point for take-off, and (3) entrepreneurial culture. The business start-up rate can explain 36% of the variation in economic growth. Countries with higher levels of these three variables (ecosystem, funding, and entrepreneurial culture) have higher levels of entrepreneurial intensity. Data from the Central Bureau of Statistics (BPS) shows that the number of Indonesian entrepreneurs is still far less compared to other countries. The ratio of entrepreneurs to the total population for the United States is 12%, Japan is 11%, China is 10%, Singapore is 7%, Malaysia is 5%, and Indonesia is 3.1%.

Closely related to entrepreneurship are innovation and creativity. Innovation and creativity are the engines driving entrepreneurship. Not only that, innovation and creativity are needed to keep the company afloat and grow. Some organizations have started to take a structured approach to drive innovation. For example, one company conducted a study on failed and successful start-ups.. The study shows that successful start-ups make many changes before they are established. With this information, the company developed a rule, according to which the start-up it funded had to make at least one change.<sup>1</sup> The company took a disciplined approach to encourage innovation.

This module consists of two learning activities. Learning Activity 1 discusses entrepreneurship, while Module 2 discusses innovation and creativity. Learning Activity 1 discusses the differences between managers and entrepreneurs, the characteristics of entrepreneurs, and the variables that influence entrepreneurial growth. The entrepreneurial process starts with business ideas and opportunities. Several obstacles hinder the realization of new businesses. There are several ways to become an entrepreneur, such as building a new company, buying an existing company, or buying a franchise. This learning activity also discusses the difference between entrepreneurship and intrapreneurship, an entrepreneur working in a certain organizational environment. The last section discusses social entrepreneurship.

Learning Activity 2 discusses creativity and innovation in organizations. Creativity is the ability to generate new ideas. To generate added value, creativity needs to be transformed into innovation in the organization. Some types of innovation are discussed in this learning activity. This learning activity also discusses the stages of innovation in the organization. In the final section, we discuss strategies for encouraging innovation within the organization. Some strategies that can use are creating an appropriate reward system, encouraging a culture of innovation, and creating the right organizational structure to encourage innovation.

<sup>1</sup> Donald, S. (2015). *The simple rules of disciplined innovation*. McKinsey.

## Learning Activity

1

# Entrepreneurship

This module discusses the issue of entrepreneurship and innovation. Entrepreneurship can be a driving force for organizational progress. Innovation can also be a driving force for organizational improvement. Entrepreneurship and innovation require individual creativity within the organization. Organizations are interested in the spirit of entrepreneurship, creativity, and innovation. Learning Activity 1 discusses entrepreneurship, while Learning Activity 2 discusses organizational innovation.

Entrepreneurs have an essential role in the economy of society. Austrian economist Joseph Schumpeter (1883-1950) considered economic growth highly dependent on entrepreneurs. Successful entrepreneurs become heroes because they contribute means to the economic development of a society. On the other hand, successful entrepreneurs get quite substantial monetary rewards. For example, Bill Gates, the founder of Microsoft, is one of the wealthiest people in the United States because his company is expanding rapidly. This learning activity discusses entrepreneurship, including its meaning, benefits provided, and the entrepreneurial process.

## A. ENTREPRENEURSHIP

### 1. Definition

The definition of an entrepreneur will be more precise if it is distinguished from the manager of an organization. Entrepreneurs start small businesses, develop businesses to be huge, are agile in taking advantage of opportunities that arise, and dare to take risks. Furthermore, managers enter the organization after growing up, have better managerial skills, can manage resources better, and are aware of risks. In general, a company organization was started by an entrepreneur to become significant. After growing up, organizational problems become increasingly complex, not only about how to take advantage of market opportunities but how to manage complex resources. Entrepreneurs usually need to gain this kind of managerial skills. At that time, a manager was brought in to manage an already large organization. Such journeys can be seen in the journeys of several organizations.

For example, Apple Computer was founded by Steve Jobs and Steve Wozniak. As the organization grew, turmoil brought in a manager from Pepsi Co., John Sculley, who had better managerial skills. In Indonesia, a similar example can be seen, is when Bakrie brought Tanri Abeng to become CEO of Bakrie Brothers.

Entrepreneurs have the initiative to start a production process while managers carry out the production process. The manager coordinates the ongoing production process, which can be described as a continuous activity (continual), while the entrepreneur is a discontinuous phenomenon; that is, he appears to start (initiate) the production process and then disappears until he reappears to start another production process. Entrepreneurs perceive change as usual and healthy. Usually, they only create something new. Still, they are always looking for a change, responding to it, and exploiting it as an opportunity.

Entrepreneurship is a popular topic today, but not so in the past. In the 1960s, the attention of management experts was more focused on large businesses or organizations. Also, economists focus more on demand management, not supply, the field provided by entrepreneurs. The issue of slow-growing productivity has made attention to supply capabilities increase. Some business sectors have higher growth rates than the industry average. This fast-growing business sector is marked by small businesses founded by entrepreneurs who want to change the business world. Attention to entrepreneurship is increasing, and they are on the same level as heroes or statesmen because they significantly contribute to economic development.

## 2. The Significance of Entrepreneurship

Entrepreneurs provide several benefits: increase productivity, increase economic growth, create new technologies, develop new products and services, encourage innovation, create jobs, and help large business organizations.

- a. Increase productivity.

Using the new method, entrepreneurs can increase productivity.

- b. Promote economic growth and create jobs.

Entrepreneurs and small businesses provide employment opportunities that are large enough to contribute to economic growth.

- c. Creating new technologies and creating new products and services.

Many entrepreneurs take advantage of opportunities by creating new products or services. Even if they still maintain the old product, it is a product that has been repaired. Many entrepreneurs also develop new technologies for producing goods. For example, Henry Ford pioneered the mass assembly line for automobiles, and McDonald's popularized the "assembly" line in the fast food business.

- d. Encourage innovation

Although they usually do not invent anything new (they are not inventors), they can develop innovative methods or products. Henry Ford wasn't the first to build

cars, but he pioneered the mass assembly line. Microsoft wasn't the first to create a familiar and easy-to-use operating system; Apple did. But it was Microsoft that popularized such an operating system on PCs.

e. Helping large business organizations.

Large businesses often acquire components from smaller companies that manufacture those components. Large companies do not produce these components because they need to be more efficient at producing small pieces with a small market.

**3. Environmental Variables Affecting Entrepreneurship.**

Entrepreneurship appears significant in society, while entrepreneurship does not show tangible signs in other communities. Several variables drive this, which can be grouped into economic and social variables.

a. *Economic variables*

Entrepreneurship is closely related to economic change. The factors that influence economic development will also affect the outcome of entrepreneurship. Two variables are essential in this case, namely market incentives and the amount of capital in a community. Market incentives allow entrepreneurs to get a fair return, further encouraging entrepreneurship. For example, Henry Ford, William Gates, Andrew Carnegie, and John D. Rockefeller became wealthy through entrepreneurship. The change in the economic system from a centralized approach to a market system is expected to encourage further entrepreneurship. The next thing is the amount of capital in a society. Money is required to run a business. Banks or community savings can determine worth. The higher the people's protection, the higher the expected economic development and the higher the entrepreneurial development. A cross-sectional study shows that the variable influencing economic growth is the proportion of investment to a country's GDP (Gross Domestic Product). Countries with a high proportion have high economic growth. Furthermore, the factors of economic openness and political stability determine the level of investment of a nation.

Countries with open economic systems allow for easier exchange of capital goods. Meanwhile, good political stability causes investment to be carried out continuously and increasingly attracts further foreign investment.

b. *Social variables*

Social factors also influence the development of entrepreneurship. Certain countries, for example, the United States, are very conducive to such products. Because of this, the term "American dream" is often heard, which refers to the dream of the American people to have a successful life. Many business organizations have started as small businesses, and many young entrepreneurs have started their businesses since childhood. Steve Jobs founded Apple at 21, and William Gates founded Microsoft in his early 20s. The following are examples of successful companies in the United States.

**Tabel 10.1**  
**Successful Enterprises in the United States**

Henry Ford	Ford	Massive marketing the car with the Ford Model T.
Charles Merrill	Merril Lynch	Massive share ownership.
Ray Krock	McDonald's	Massive hamburgers.
American Express	Amex	Massive the credit card
William Gates	Microsoft	Popularization of Windows programs for PCs
Sam Walton	Wal Mart	Develop discount retailer
Walt Disney	Walt Disney	Developing animated films (cartoons)
Kohlberg, dkk	KKR	Develop Leveraged Buy Out (LBO) funding techniques.
David Ogilvy	Ogilvy Corp	Develop modern advertising.

*Source:* Gross, 1996

Social factors that can encourage entrepreneurship are an excellent legal or regulatory system and a system that can protect individual rights. A sound legal system includes law or legislation and its implementation (enforcement). An excellent legal system guarantees legal certainty because legal certainty is critical in business calculations. A perfect legal system can also explain why countries like Singapore, Hong Kong, New York, and London have become world financial centers. The country/city has an advanced legal system. Such a system is indispensable for financial transactions. Financial transactions are carried out quickly; transaction execution is carried out verbally, and written evidence is only made later. Financial transactions will never develop if fraud occurs in such a process (because written evidence is made later).

Culture also influences entrepreneurship. The United States has the characteristics of a society that encourages individual achievement, which is conducive to fostering innovation. Other nations, such as Japan, place more emphasis on group decisions. Some experts consider this kind of culture not conducive to entrepreneurship. Other experts say that business-government cooperation is quite effective in encouraging Japanese business. Research also shows that groups tend to make riskier decisions than individuals, and this courage promotes entrepreneurship.

Social mobility can also affect entrepreneurship. People who have high mobility can increase entrepreneurial efforts. For example, the Indian society has certain classes (castes). Even though today, the caste is no longer as strong as it used to be, in the village, this caste is still felt. Entrepreneurs tend to underdevelop in such societies. But Indians living in the United States saw vast opportunities and excellent mobility. As immigrants, they can also see better opportunities than those who are already established in the United States. Indians in the United States have a higher level of entrepreneurship than Indians in India.

#### 4. Psychological and Sociological Factors of Entrepreneurship

Many experts try to identify the characteristics of entrepreneurs that differentiate them from non-entrepreneurs. The following sections will discuss these characteristics.

##### a. *Psychological and sociological factors*

The characteristics of an entrepreneur align with what David McClelland described when talking about motivation theory (motivation will be discussed further in the chapter on a basis). According to McClelland, humans have the following three types of stimulation.

- 1) *Need-for-Achievement atau n-Ach*
- 2) *Need-for-Affiliation atau n-Aff*
- 3) *Need-for-Power atau n-Pow*

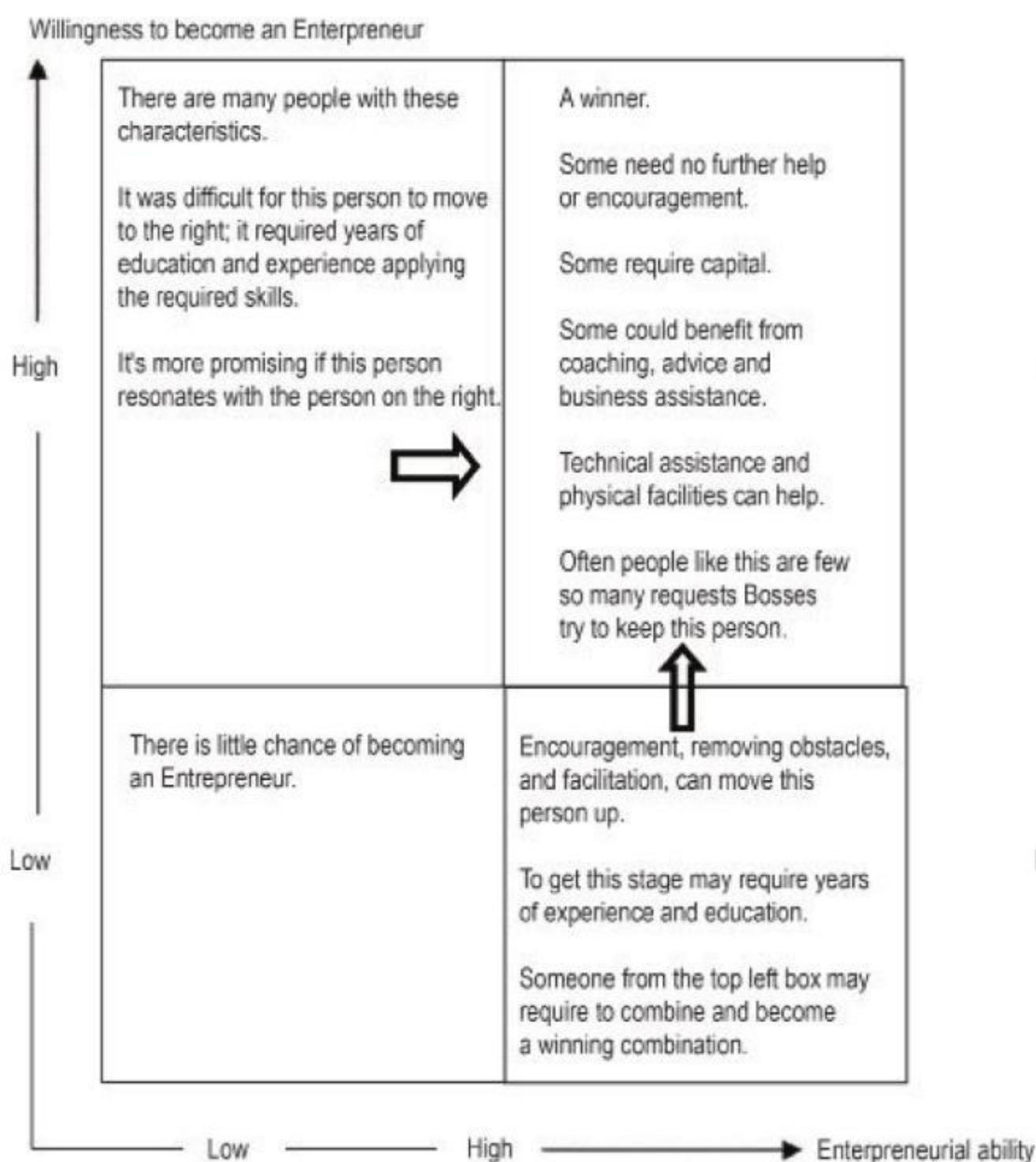
Entrepreneurs have a high need for achievement; they like to set goals that are not too difficult but not too easy. They want to take risks that encourage more worthy endeavors. They differ from gamblers, who like to take risks beyond their calculations. McClelland even experimented with trying to inject the n-Ach “virus” into a society that didn’t have many entrepreneurs. The injection was made by changing mythical stories from those that needed more conducive to entrepreneurship development; for example, the gods were told to be trading. After a few months, there has been a change in the entrepreneurial behavior of the community; that is, more and more people are willing to trade. Entrepreneurs have a high need for achievement; they like to set goals that are not too difficult but not too easy. They want to take risks that encourage more worthy endeavors. They differ from gamblers, who like to take risks beyond their calculations. McClelland even experimented with trying to inject the n-Ach “virus” into a society that didn’t have many entrepreneurs. The injection was made by changing mythical stories from those that needed more conducive to entrepreneurship development; for example, the gods were told to be trading. After a few months, there has been a change in the entrepreneurial behavior of the community; that is, more and more people are willing to trade.

Thomas Begley and David P. Boyd (1980s) proposed five dimensions that differentiate entrepreneurs from non-entrepreneurs. The five dimensions are as follows.

- 1) The need for achievement. Entrepreneurs have more significant needs for this type than non-entrepreneurs.
- 2) Self-control (locus of control). Entrepreneurs feel that they control their lives well; fate or factors outside themselves do not determine the success of their lives.
- 3) Risk-taking. Entrepreneurs take moderate risks, not too high (like gamblers) nor too low (like passive people).

- 4) Tolerance of ambiguity. Entrepreneurs make decisions based on incomplete or unclear information. Their situation and ability to adapt to conditions of ambiguity are more significant than that of non-entrepreneurs.
- 5) Type-A behavior. Type A is doing more using little time, even though other parties may have objections. Entrepreneurs have a higher level of this kind of behavior.

Supportive attitudes or characteristics are not enough. It takes a unique ability to be a successful entrepreneur. Figure 10.1 below shows the matrix between entrepreneurial ability and the desire to become an entrepreneur. If someone has the will to become an entrepreneur and has the knowledge, he can become a successful entrepreneur. A person like William Gates has both of these things. If he only has the ability but doesn't have the will, he may become a professor or business consultant.



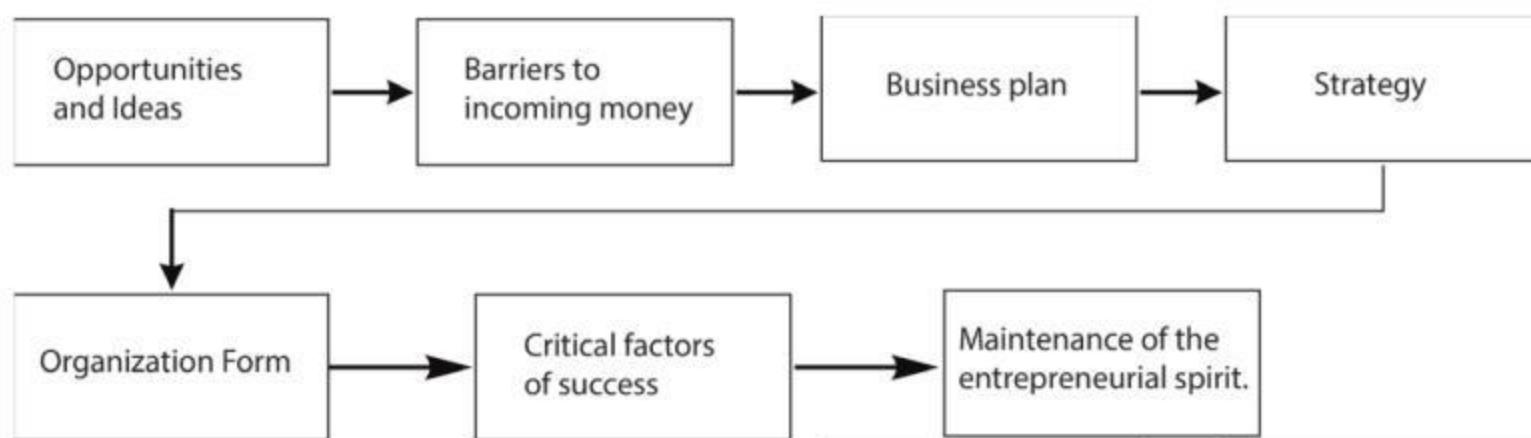
Source: Begley dan Boyd, 1987

Figure 10.1  
Entrepreneurial Willingness and Capability Matrix

From this matrix, the ideal condition is the upper right quadrant, where a person has the will and ability to become an entrepreneur. But such people are not many. People in the upper left or lower right quadrants can be moved towards the upper right quadrant through several ways, such as education or old experience and joining people from other quadrants. At the same time, people from the lower left quadrant have a small possibility of becoming successful entrepreneurs.

## B. ENTREPRENEURSHIP PROCESS

The entrepreneurial process consists of several stages. Image 10.2 summarize the entrepreneurial process model. The entrepreneurial process starts from the emergence of an opportunity, which can be realised into a bigger business. Then, after the organization loses its entrepreneurial spirit because it gets bigger, the entrepreneurial spirit needs to be nurtured.



Source: Arranged by the Author

Figure 10.2  
Entrepreneurship Process

### 1. Opportunities and Ideas

Entrepreneurship starts from the existence of business opportunities that entrepreneurs can see. The opportunity can come from environmental changes or the entrepreneur's foresight in seeing an opportunity. For example, the rebuilding of Japan after the end of World War 2 and East Germany after the unification process with West Germany is a good business opportunities. Sometimes opportunities and ideas come when the entrepreneur is still working for an organization. Sam Walton had the idea of a discount retailer (offering low prices) while still working at retailer Ben Franklin. Executive Ben Franklin rejected his idea. Ray Kroc saw the future of McDonald's when he was still working as a milk shaker salesman. Fast service at fast food owned by the McDonald brothers made him interested in developing this idea further. The idea for a wet wipes company arose after a wet wipes salesman saw a wet wipes factory going bankrupt, even though wet wipes were still needed. Supply shortages prompted him to set up a wet "wipes" factory. Often business ideas arise because of an urgent situation. A food business arose because of a strong desire to support his family. Sometimes the

idea comes as a hobby. A mother wants to comfort her child. Then he created the Bernie doll, which later became entertainment for his neighbours and rapidly developed into a favourite small child doll.

## 2. Formal Business Plan

A **formal Business Plan** is a document prepared to set up a business. Large business organizations commonly use such a business plan. Small businesses are also increasingly encouraged to develop such business plans due to requirements from banks or potential funders. Such plans help entrepreneurs in terms of planning. Large organizations require not only long hours and hard work but planning and coordination. The form and format of a business plan can vary. If submitted to a bank or potential funder, the business plan will likely take the form of a company feasibility study, accompanied by supporting documents. Feasibility studies allow potential lenders to evaluate the prospects and risks of a business. The feasibility study can be done alone or by an outside consultant.

## 3. Barriers to Entry

Even with an idea, a prospective entrepreneur will not just enter the business world. Many obstacles arose. The idea owned may need to be implemented or practical enough (workable). Or they are still tied to the current company or organization or don't have the will to stand independently. Another cause is the lack of market knowledge, the lack of ways to market, or the network and information that is less supportive. Another possibility is not finding a skilled workforce and not having sufficient capital; artificial obstacles, such as government regulations or associations (cartels), limit the number of members who can enter the market. The phenomenon of association is quite common in Indonesia. Another obstacle is that being an entrepreneur is seen as having a low social status (fieldwork while working in an office).

## 4. Strategy to Enter the Market

Entrepreneurs can enter the market in three ways (1) by building a company, (2) by buying an existing company, and (3) by franchising.

### a. Building a new company

Building a new company has both advantages and disadvantages. Some of the advantages are: starting from scratch so that morale is still fresh. Build a network from scratch so it can be free from the shackles of the existing network. The disadvantages of starting a new company include high uncertainty, unclear information, a long time to set up a business, and difficulty obtaining cheap enough funds with favourable terms. Banks usually prefer businesses that are already running because the information already exists. New businesses are more suitable to be funded by venture capital or investment means. By inclusion, business risk can be shared between the investor and the new business. At the same time, investors are willing to take higher risks because they want

higher income. The profit is obtained from dividends plus the increase in share price (the difference between the value of the shares at the time they were sold and at the time they were purchased).

*b. Buying an existing company*

Buying an existing company has advantages, including being faster, taking advantage of existing and established business networks, information already available so that analysis can be carried out more easily, and obtaining profitable funding. The negative sides of this alternative include being shackled to the existing network (if the network is unprofitable), a lack of fresh ideas, and inheriting existing problems from the purchased company.

*c. Franchising*

Franchising is an increasingly popular form of business. Franchising is a licensing agreement between a central company and a dealer (franchisor) who exercises the license. Two parties are involved in this kind of business contract: the franchisor and the franchisee. The franchisor holds a certain name/brand, while the franchisee runs a business using that brand/name. The fast-food McDonald's is the most popular example of this form of franchising. The main company (franchisor) allows the dealer to use the name/product/service according to the following agreement.

Table 10.2  
Agreement in Franchise

<i>Franchisor Agree To</i>	<i>Franchisee Agree To</i>
1. Gives an exclusive sales territory to franchisee.	1. Running the business according to the rules and procedures offered by the franchisor.
2. Provide training and management assistance.	2. Make the minimum investment as required by the franchisor.
3. Provide merchandise to franchisees at competitive market prices.	3. Pay royalties to the franchisor with a certain amount.
4. Advise franchisees regarding location and building design.	4. Build or lease business facilities as required by the franchisor.
5. Offer financial and management assistance or advice to franchisees.	5. Purchase standard materials from suppliers or the franchisor by the agreement.

The central company provides support in several ways: (1) site selection, (2) building plans and designs, (3) equipment purchases, (4) production processes, (5) selection of employees, (6) advertising. While after running, the central company can assist dealers in terms of (1) accounting, (2) consulting, (3) operation inspection, (4) promotion, (5) quality control, (6) legal advice, (7) research, (8) acquisition of raw materials.

Franchising has its advantages mainly because of the help and advice from the central company and the use of an established name. Sometimes the central company provides financial assistance. With such advantages, franchising is a business with a little risk due to a need for more knowledge about managing a franchise business, which a central company can assist. The negative side of franchising is mainly the existence of restrictions or conditions from the central company. To guarantee standardized services or products, the central company will try to uniform the services of all its franchises. Franchisees usually also have to do business (e.g. buy raw materials) from a central company or a designated supplier. This limits the franchisee's freedom. However, there are some instances where area freedoms can still be exercised, for example, local promotion. These franchises tend to be expensive because they have to hand over some of the profits to the central company.

## 5. Form of Organization

After the entrepreneur enters the market, the entrepreneur can choose from several forms of organization: sole proprietorship, firm or partnership, which can consist of active and passive partnerships, and corporation. Each has advantages and disadvantages of each.

### a. *Individual business*

This type of business is the simplest because it does not require formal procedures. The liability of the self-employed person is not limited to personal wealth. If the owner dies, the business will end. The business can be sold/transferred at any time, while the capital usually comes from the founder personally. Individual business management is free because a particular division does not supervise it.

### b. *Firm or partnership*

The firm is a combination of several people who become partners. If there is a partner who only supplies capital, and does not interfere in operational management, then the partner is called a passive partner. The partner's liability is unlimited, which extends to personal wealth. The firm can also stop or dissolve with the death of one partner or a decision to stop one of the partners. The partner sells his share to an outside party upon the other's agreement. The firm's management is free because a particular institution or body does not supervise it. The capital comes from partners.

### c. *Company*

This type of business is the most complex but has a greater opportunity to develop because it can utilize larger capital. Capital comes from shareholders, and liability is limited only to the paid-up capital. In bankruptcy, the liability does not extend to personal wealth. The company's age can be agreed to unlimited or determined for a certain period, depending on what is stated in the Articles of Association. Shares can be sold or traded on the Stock Exchange for those that go public. The company's management

is overseen by the Board of Commissioners or a similar body, which usually represents the shareholders. Shareholder investment is carried out by depositing share capital or buying shares.

## 6. Critical Success Factors

Once a small business is running, entrepreneurs must be careful of factors that can cause business failure. The risk of small business failure is quite large, as shown in Table 10.3 below.

**Table 10.3**  
Percentage of Business Failure Based on Age

Business Age	Percentage
5 years or less	55,7%
6 - 10 years	22,4%
more than 10 years	21,9%

It can be seen that businesses with a younger age have a higher probability of failure compared to businesses with a longer age.

Many factors can cause small business failure. The following table 10.4 summarizes the factors causing the failure.

**Table 10.4**  
Reasons for Small Business Failure

### Poor Capital Structure

1. Lack of capital to purchase capital goods and equipment.
2. Lack of capital to utilize inventory items sold at quantity discounts or other discounts.

### Using Outdated Business Tools and Methods

1. Need to implement inventory control.
2. Unable to perform credit control.
3. Inadequate accounting records.

### Absence of Business Planning

1. Inability to detect and understand market changes.
2. Inability to understand changing economic conditions.
3. Need to prepare a plan for an emergency or unexpected situations.
4. Inability to anticipate and plan for financial needs.
5. Personal Qualification Lack of business knowledge Unwilling to work too hard
6. Unwilling to delegate duties and authority Inability to maintain good relations with consumers

For comparison, the following table shows the causes of business failure for more general categories (not limited to small businesses).

**Table 10.5**  
**Causes of Business Failure**

Cause	Percentage
Lack of operational experience.	15,6%
Lack of managerial experience	14,1
The unbalanced experience between finance, production, and other functions.	22,3
Incompetent management.	40,7
Deviance	0,9
Disaster Oversight	0,9
Another reason is unknown	1,9
Amount	3,6
	100%

It can be seen that lack of experience in managerial and operational areas, the imbalance between functions, and incompetent management is the cause of business failure. These factors are factors that can be controlled, while elements that cannot be controlled only cover a small part of business failure. Thus, if the business is carefully planned and executed, the possibility of failure can be reduced.

## 7. Maintaining the Entrepreneurial Spirit

If the organization becomes more extensive, there is a tendency for the organization to become more bureaucratic and less creative. In such an organization, there are two types of behaviour or culture: entrepreneurial and organisational. Entrepreneurial behaviour has several questions, such as the following, “Where are there business opportunities? How to take advantage of this opportunity? How to seize this opportunity? What resources and how is the structure that can take advantage of this opportunity?” Meanwhile, organizational behaviour is more like that of a manager by asking the following questions, “What resources do I control? What structure determines the link between the organization and its market? What opportunities are right based on the resources I have? How can I minimize the factors that can reduce my performance?” Table 10.6 summarises the differences between the two types of culture.

Entrepreneurship is driven by perceived opportunity. The pressure experienced is the loss of opportunity due to environmental changes. On the other hand, organizational behaviour is operated or controlled by existing resources and tries to find appropriate options. Pressure comes from social contracts with colleagues or subordinates, control systems, and evaluation of organizational achievements.

To encourage the entrepreneurial spirit in an organization, intrapreneurship needs to be developed. Intrapreneurship is an entrepreneur who works in an organization to create specific products or services. Intrapreneurship is expected to be able to carry out a task creatively, different from other organizational members. To support intrapreneurship, you can be accompanied by an expert in product management. Product managers better understand existing organizations, can remove administrative barriers,

and can translate innovations into successful commercial products. In this case, support from top management is also required. Top management can provide or allocate the necessary resources to make the innovation happen, overriding organizational politics that can hinder the innovation process. Commitment from top management is essential, but often ultimate management commitment is just words without any real action. This kind of situation does not support the creative process in an organization.

**Tabel 10.6**  
**Administrative Culture and Entrepreneurship**

	Characteristic Entrepreneurial Focus	Pressure Entrepreneurial Focus	Characteristic Administrative Focus	Administrative Focus Pressure
Strategic Orientation	Driven by the perception of opportunity.	<ul style="list-style-type: none"> <li>Missing opportunities</li> <li>Technological, economic, social and political changes</li> </ul>	Driven by controlled resources	<ul style="list-style-type: none"> <li>Social contract</li> <li>Achievement measurement criteria</li> <li>Planning systems and cycles</li> <li>Acknowledge that there are many components</li> </ul>
Commitment to Seize Opportunity	Revolutionary with a short duration	<ul style="list-style-type: none"> <li>Action orientation</li> <li>Decision making with a narrow window</li> <li>Accept reasonable risks</li> <li>Few decision components</li> <li>Lack of predictable resource requirements</li> <li>Lack of control</li> </ul>	Evolutionary, with long duration	<ul style="list-style-type: none"> <li>Strategic alternative negotiations</li> <li>Reduce risk</li> <li>Coordination with existing base</li> <li>The need to reduce risk</li> </ul>
Resource Commitment	Multiple stages, with minimal exposure at each stage.	<ul style="list-style-type: none"> <li>Social demand for proper use of resources</li> <li>Competition from overseas</li> <li>Demand for more efficient use of resources</li> </ul>	Single stage, with total commitment to a decision	<ul style="list-style-type: none"> <li>Incentives compensation</li> <li>Turnover manager</li> <li>Capital budgeting system</li> <li>Capital planning system</li> </ul>

	Characteristic Entrepreneurial Focus	Pressure Entrepreneurial Focus	Characteristic Administrative Focus	Administrative Focus Pressure
Resource Control	Episodic use or lease of resources (when the opportunity arises)	<ul style="list-style-type: none"> <li>• Increased resource specialization</li> <li>• Longer resource life than requirements</li> <li>• Risk of being out of date</li> <li>• Inherent risk in the identified opportunity</li> <li>• Inflexibility on a permanent commitment to resources</li> <li>• Out of control coordination of key resources</li> <li>• Challenge to hierarchies</li> <li>• Employees' desire for freedom</li> </ul>	Ownership or use of required resources	<ul style="list-style-type: none"> <li>• Status power and monetary rewards</li> <li>• Activity coordination</li> <li>• Measures of efficiency</li> <li>• Inertia and change costs</li> <li>• Industrial structure</li> <li>• The need for clear delineation of authority and Responsibility</li> <li>Organizational culture</li> <li>• Reply system</li> <li>• Management theory</li> </ul>

Source: Howard H. Stevenson and David E. Gumpert, "The Heart of Entrepreneurship", Harvard Business Review, March-April 1985

### *Social Entrepreneurship*

Social entrepreneurship is becoming increasingly popular. Social entrepreneurship tries to combine the concept of profit with social. More specifically, social entrepreneurship uses business logic (profit) to solve social, cultural and environmental problems. In this way, problem-solving can be carried out sustainably. For example, suppose there is a problem of poverty in an area. How to solve this problem? One way is for the government to provide monthly subsidies to the poor. However, up to a certain point, the government will run out of funds, so that the assistance will stop. Is there a more sustainable way? There may be. For example, there is a supermarket that helps community empowerment. The supermarket encourages the manufacture of local products and then helps provide sales shelf space for these products. If the product is sold, the community will get income. In this way, the problem of poverty can be solved more sustainably. Social entrepreneurship can help with poverty, health, and community development.

Social entrepreneurship is increasingly needed because the need for social services is increasing due to several reasons: (1) the needs of marginalized groups, such as the disabled, unemployed, poor people, and women in villages, (2) chronic unemployment,

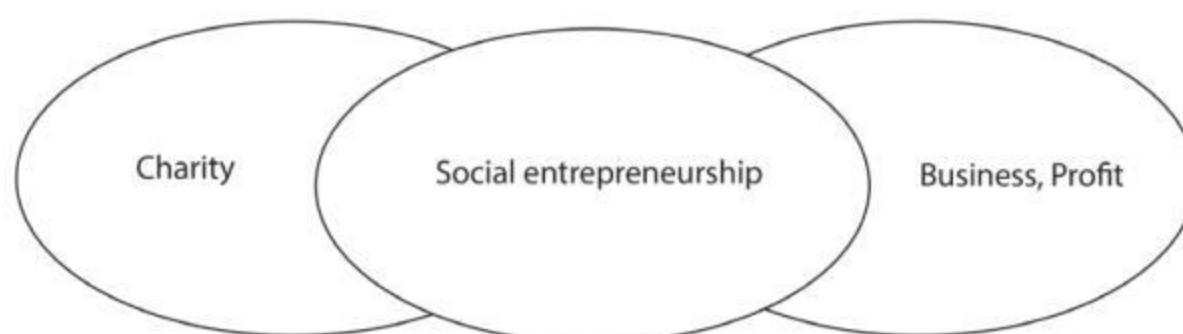
poverty systematic and structural, (3) inadequate health, HIV/AIDS, terrorism, natural disasters, (4) increasing public service costs, (5) insufficient government funds or social funds. These conditions require special attention.

Market and government failures further exacerbate this condition. The pure market mechanism relies on the invisible hand mechanism to set the market towards equilibrium. For example, a hidden hand mechanism will guide companies into the area, offering products if a site is underserved. The space will be served, while the company will benefit. If the hands-on mechanism works (for example, the area is too poor, with no purchasing power, so the space becomes economically unviable), the government must intervene. The government can provide subsidies so that companies are willing to enter the area. If the government cannot intervene, for example, due to limited funds, then social entrepreneurship is expected to be able to help with this problem.

One well-known example of entrepreneurship is Grameen Bank. The Bank is a microfinance bank founded in 1976 in Bangladesh by Muhammad Yunus. The Bank provides loans to the poor without collateral. The Bank grew rapidly from 2003-2007; in January 2011, the number of bank debtors (borrowers) reached 8.4 million, and 97% of borrowers were women. In 2017, the Bank had 2,600 branches with 9 million borrowers, and the rate of return was 99.6%. This success has inspired similar projects in more than 64 countries worldwide. In 2006, Muhammad Yunus won the Nobel Peace Prize.

Grameen Bank was founded on a solid social foundation. The Bank believes that people have unlimited potential; by releasing creativity and initiative, they can overcome their poverty. The shallow level of bad loans (less than 1%) is based on the technique of using joint responsibility (solidarity lending). These loans are given to small groups of several members. Each member is encouraged to provide support to other members. If one member is stuck, all group members will be blocked. They can not borrow from the Bank.

The social entrepreneurship pattern is a hybrid (combination) of profit-motivated businesses with charitable designs. Image 10.3 below shows that social entrepreneurship stands in the middle of a profit-oriented business with charity activities.



Source: Arranged by the Author

Figure 10.3  
Social Entrepreneurship Hybrid Pattern

The following table 10.7 further describes the hybrid pattern. The combined design uses a combination of mechanisms and market prices with charitable activities mechanisms.

**Table 10.7  
Social Entrepreneurship Hybrid Pattern**

Motives, Methods, Objectives, Key Stakeholders	Mission Driven by Social Values Attract Donations	Combined Motives Mission Driven by Social and Economic Values	Profit Motivation Mission Driven by Economic Value
Beneficiary (Buyer)	Pay nothing	Pay a subsidized price, or a mix.	Paying at market price.
Capital	Donations and donations	Donations, or a combination of profit-oriented and social capital	Market oriented capital
Labor	Volunteer	Salaries are lower than the market or a combination of volunteers and salaried employees.	Salary according to the market
Supplier	Donation	Special discounts or a combination of market prices and donations.	Using market prices.

From a broader perspective, social entrepreneurship is often considered the fourth form of business: profit orientation, charity work, government, and social entrepreneurship. Table 10.8 below explains further the differences between the four forms of activity.

**Table 10.8  
Patterns of Social Entrepreneurship in a Broader Perspective**

	Private sector	Socially responsible business	Enterprise (social entrepreneurship)	Charity	Government
Source of income	Company revenue and sales.			Company revenue and sales.	Tax
Destination	Personal goals			social goals	
Ownership	Private ownership			social ownership	
				Public ownership	

The private sector is based on profit motives. The company was founded to make a profit. Profits are obtained from the sale of the company. Socially responsible businesses and social entrepreneurship also use sales as a source of income. Charitable activities use donations and donations as a source of income. Meanwhile, the government uses taxes as a source of income. The goals of the private sector are private, while social entrepreneurship has social plans. The table above illustrates a spectrum of activity, ranging from the private sector, socially responsible businesses, social entrepreneurship, and charitable activities to the government.

Entrepreneurship is a concept that became increasingly popular starting in the 1980s and then gained momentum in the 2000s. However, the idea of social entrepreneurship is still relatively new. In most countries, the ecosystems that support social entrepreneurship, such as regulations, accounting systems, capital markets, etc., still need to be completed. Because social entrepreneurship combines the profit and charity sectors, the current legal regulations still need to be prepared to accommodate this combined pattern. Currently, more legal rules regulate the profit sector. The charity sector is relatively less 'regulated', let alone the industry combined. The government may need help to handle, for example, taxation and funding sources. For example, there are successful social entrepreneurs selling products and also accepting donations and donations. How to treat the sector? Profits and donations are obtained by entrepreneurship.

With the development of digital technology, social entrepreneurship is also experiencing changes. For example, the sector can use a crowdsourcing model to fund activities. Social entrepreneurs can create an internet-based web showcasing existing social projects that need funding. Then, investors open the web and start selecting activities considered appropriate to fund. These investors can then place funds in the social entrepreneur. This pattern relies on many investors, even with small capital. However, after adding up, significant money will be obtained. This model is different from the venture capital model. Venture capital is usually supported by one or two very wealthy people (often called angels) who place their funds in venture capital. Venture capital then places its funds in start-up businesses.

As social entrepreneurship is still relatively new, the sector faces several challenges. First, the industry is trying to overcome relatively new problems; more research is needed. Issues such as overpopulation, poverty, health, and business, are relatively new. In conventional business, the work pattern is clear: offering products or services and making a profit. In social entrepreneurship, the issue becomes more blurred. How to make sales out of poverty? Such problems are more challenging to work on. Second, investors still need to be more enthusiastic about social entrepreneurship projects. Workers in for-profit activities are paid higher compared to workers in social entrepreneurship. Because of this, social entrepreneurship finds it challenging to maintain a good workforce.

Social entrepreneurship is a relatively new concept. With the development of experience, ecosystems and networks (government and private sector), scope and scale of business, entrepreneurship can develop into an efficient, effective and sustainable business.



### Exercise

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To understanding of the material above, please complete the following exercise!

You want to start a new business. You want to be an entrepreneur. Write down business ideas that you can work on, starting from a new business idea or using a franchise as your business. Then evaluate each of these alternatives. Choose 2-3 alternatives that are most feasible, including from your funding point of view.

### *Key Ideas for Exercise Answer*

Read the entrepreneurial process section. Carefully read the contents of the area. Then, coupled with your knowledge through newspapers, magazines, or your surroundings, evaluate the feasibility of the alternatives you write.



### Summary

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Entrepreneurs are often distinguished from managers. Entrepreneurs start new businesses, while managers run existing businesses. Entrepreneurs have the initiative to start a business from scratch, are quick to take advantage of opportunities, and dare to take risks. Meanwhile, managers have good managerial skills and are careful to take risks. Entrepreneurship has several benefits, such as increasing productivity, encouraging innovation, creating jobs, and helping large organizations. Entrepreneurship is influenced by environmental variables and psychological/sociological factors. Conducive economic, social and political variables can encourage the growth of entrepreneurship. From a psychological perspective, entrepreneurs have high n-Ach characteristics, high self-control, dare to take risks, usually make decisions based on unclear or incomplete information, and have high type A behaviour.

Entrepreneurship starts from ideas and business opportunities that entrepreneurs see. Several obstacles hinder the realization of new businesses. In creating a business, entrepreneurs can build a new company, buy an existing company, or buy a franchise. The form of business chosen can be an individual business, a firm, or a limited liability company. If the business is already running, the entrepreneur needs to be careful of the factors that can cause business failure. If the organization is large, the entrepreneurial spirit tends to weaken. Therefore this spirit needs to be maintained. Intrapreneurship is an entrepreneur who works in a specific organizational environment. Intrapreneurship is expected to encourage an entrepreneurial spirit in large organizations.

Social entrepreneurship is an activity that uses profit-oriented logic to solve social, health and environmental problems. For example, to overcome poverty, social entrepreneurship guides the poor to make products, then looks for distribution channels and helps market them. The results of product sales can reduce poverty. This way, poverty alleviation does not need to use donations or endowments. Donations or endowments are limited in value. Poverty alleviation with social entrepreneurship can be done continuously.

### SOME TERMS

n-A Franchise Entrepreneur

n-B ch

*Locus of control*

type A behavior

Matrix of will and ability

Entrepreneurial process

Formal Business Plan

Social entrepreneurship

Individual Business

Business

Company

Entrepreneurial culture

Administrative culture

*Intrapreneurship*

Grameen Bank



### Formative Test 1

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Choose the correct answer!

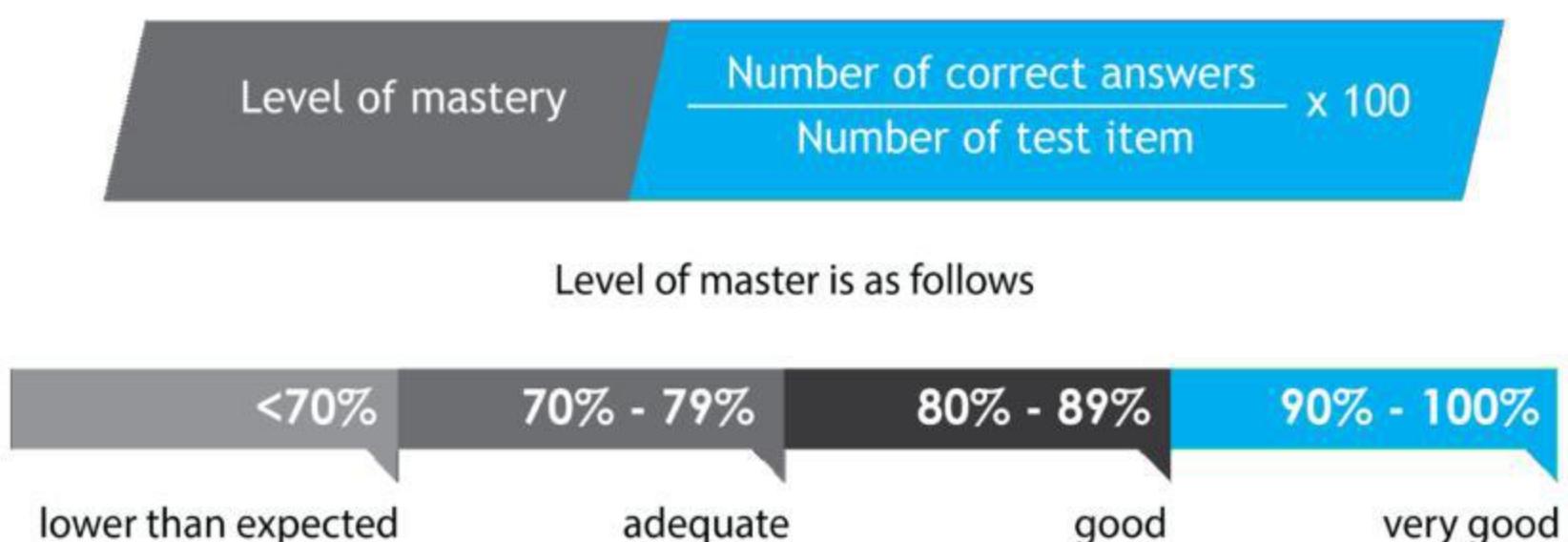
- 1) Economists who argue that entrepreneurs have an essential role in driving the economy of society are ....
  - A. Joseph Schumpeter
  - B. Adam Smith
  - C. John Maynard Keynes
  - D. Peter Drucker
  
- 2) The following variables do not encourage the entrepreneurial spirit, is ....
  - A. market incentives
  - B. dream of success
  - C. the proportion of public investment is low
  - D. clear legal system
  
- 3) The following factors determine the level of investment of a country, is ....
  - A. population
  - B. economic growth
  - C. country location
  - D. political stability

- 4) According to McClelland, entrepreneurs are highly motivated to meet the needs of ....
- achievement (*need-for-Achievement or n-Ach*)
  - is affiliated (*need-for-Affiliation or n-Aff*)
  - gain power (*need-for-Power or n-Pow*)
  - all correct
- 5) A business run through a license agreement is called ....
- acquisition
  - rent
  - contract
  - franchise
- 6) The form of organization in which several people become partners is called ....
- individual business
  - firm
  - company
  - cooperative
- 7) Entrepreneurs who work in an organization to develop specific products or services are called ....
- entrepreneur*
  - extrapreneurs*
  - interpreuners*
  - intrapreneurs*
- 8) The biggest cause of business failure is ....
- oversight
  - disaster
  - lack of operational experience
  - incompetent management
- 9) The following is an example of social entrepreneurship, is ....
- CSR fund from Unilever
  - Mandiri Bank
  - Grameen Bank
  - government assistance

## 10.24 Entrepreneurship, Creativity and Innovation

- 10) The following are the characteristics of social entrepreneurship, namely using ....
- A. social logic for *profit*
  - B. donations to solve social problems
  - C. social issues to maximize profits
  - D. economic approach to solving social problems

Use key answers for Formative Test 1 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.



When you attain level of mastery 80% or more, very good, you may continue to Learning Activity 2. Otherwise you have to review the material of Learning Activity 1. Pay attention to parts which you don't master yet.

**Learning  
Activity****2**

# Creativity and Innovation in Organizations

This learning activity discusses creativity and innovation in organizations. Organizations need creative individuals because they can drive organizational progress. Individual creativity only sometimes drives innovation in organizations. Because of that, steps are required to transform individual creativity into innovation in the organization so that an innovative organization is formed. This learning activity is also related to previous learning activities, namely entrepreneurship. Entrepreneurial activity requires creativity and innovation so that fresh ideas always emerge. This learning activity discusses creativity, which is then followed by discussing how to encourage innovation in organizations.

## A. CREATIVITY AND INNOVATION

Creativity can be defined as a person's ability to generate new ideas or combine existing concepts into something unique. There needs to be more than creativity within the organization itself. Creativity in the organization needs to be transformed into something useful, such as new products or work methods, which can add value to the organization. Organizations need to take steps so that individual creativity can bear fruit in innovation. Innovation can thus be interpreted as a new product or work method produced through a process to encourage creativity to become something useful.

### 1. Creative Individual Characteristics

Although researchers have not yet been able to ascertain what variables can create creativity, some variables are considered variables that are driving creativity. Here are some variables that are supposed to encourage creativity.

#### a. *Life background*

Life experiences during childhood and adolescence can influence one's creativity. Usually, creative people are brought up in an environment that values creativity.

*b. Personality*

Certain personalities are often associated with creativity. Usually, creative people have broad interests, an interest in complexity, high energy, high autonomy and freedom, great self-confidence, and confidence that they are indeed creative. Such a personality can encourage one's creativity.

*c. Cognitive ability*

Intelligence is believed to be one of the factors driving creativity. Creative people are smart people. However, intelligent people are only sometimes creative people. Cognitive abilities are related to the ability to think intelligently. Intelligence is characterized by the ability to analyze and synthesize. Analytical ability is the ability to break down a problem into smaller and simpler parts so that it is easy to understand. The ability to synthesize is combining several things into a single whole.

## 2. Creativity Process

The creative process can be described through the following stages: (1) preparation, (2) incubation and enlightenment, (3) verification.

*a. Preparation*

This stage is the beginning of the creative process. The preparation stage can be in the form of formal preparation or informal preparation. For example, today, many scientists, who are also potential innovators, are studying at universities (e.g. taking doctoral programs that teach research). Through these formal classes, they are directed to research specific topics and discover something new. Several other inventors, especially ancient inventors, did not have a proper educational background. Their curiosity and perseverance in interacting with the environment encourage them to research until they find something new. Formal education is expected to accelerate the process of creativity further because prospective innovators can learn more systematically and in a more focused manner, thereby reducing the costs and energy needed to innovate.

*b. Incubation and enlightenment*

At this stage, the knowledge that has been obtained will settle. Our brain will unconsciously continue to process that knowledge. The knowledge that has been acquired is unravelled and connected here and there unconsciously. After going through the incubation process, new ideas or enlightenment will come out on certain occasions, usually not official events. Civilisation is biased out spontaneously quickly. The new idea or culture becomes a candidate for innovation. Some researchers get great ideas outside their laboratory, not when doing research. For example, it is said that Newton discovered the theory of gravity when he ate an apple, and it fell to the ground. Archimedes found the answer to why ships can float in the water while he was bathing in the bathroom.

c. *Verification*

At this stage, the new idea or enlightenment is further tested to test whether the culture is strong and can be further developed into valuable innovations. Many verifications of new ideas are done through experimental testing or scientific testing. Proof can be continued into a product prototype, which can then be tested on the market to see whether the market (consumers) can accept the product. If the market responds positively, the prototype can be developed into a mass-produced product.

## B. ORGANIZATIONAL INNOVATION

### 1. Types of Innovation

Innovations are grouped into several categories, namely (1) radical and small (incremental) innovations, (2) managerial and technical innovations, (3) product and process innovations.

a. *Radical and small innovation (incremental)*

Radical innovation is an innovation that completely changes the current product, process or technology. Incremental innovations are innovations that modify current products, processes or technology. Radical innovation offers very high-profit potential. But radical innovation also comes with high risks and uncertainties. The opposite happened with small innovations. Most innovations that occur fall into the incremental category. An example of radical innovation in science is the theory of Newton or Einstein. These theories radically change the way we see the world. For small innovations, you can see the changes in car models that we often see. For example, Honda or Nissan change their Honda CRV or Nissan Livina brand cars slightly from one model to another.

b. *Managerial and technical innovation*

Technical innovation relates to changes in physical form and performance resulting from specific production processes. For example, early computers used transistors, which turned into integrated circuits. With integrated circuits, computers can be smaller but perform better than old computers. Managerial innovation is related to improvements in the way of producing goods or marketing goods. These innovations do not directly result in changes in physical form. Organizational innovation aims to increase product production and marketing efficiency and effectiveness. For example, a Japanese company launched a Total Quality Management (TQM) program, Just In Time (JIT). TQM aims to improve product quality so that product efficiency increases. JIT is aimed at minimizing inventory, so that inventory costs decrease and will increase efficiency.

c. *Product and process innovation*

Innovation can also be seen in the category of product and process innovation. Product innovation is related to changes in the physical form of the product. While process innovation relates to changes in the way and methods of products or services

are produced. During early-stage product launches, product innovation may feel more important. At this stage, the company has a clear goal: to create products that will sell to the market. Process innovation will probably feel more important when the product has reached the maturity or decline stage. At this stage, companies need more efficient and effective methods of producing and marketing goods. This efficiency and effectiveness will increase margins because product sales are increasingly limited in the maturity and decline stages. Japan is known as a country that is an expert in product innovation. Most Nobel laureates in science (physics, chemistry, etc.) come from the United States. Even though Japan didn't win a Nobel prize, many of the products they produce thrive on the market. For example, in the automotive sector, the brands Toyota, Honda, and Nissan dominate the world car market. In the field of cameras, Canon and Nikon beat US camera manufacturers.

## 2. Innovation Stages

The stages of innovation in the organization include: (1) idea search, (2) idea development, (3) implementation.

### a. *Idea Search*

New ideas can emerge from the environment, consumers, internal, competitors, distributors and suppliers, and others.

#### 1) Environment

New ideas can come from interactions in the company's internal environment. For example, new ideas can emerge from changes in the background. Internet technology prompted Dell to develop a strategy of selling computers directly to consumers using the internet. This method is different from other computer manufacturers using conventional distribution channels, for example, a computer shop. Other computer manufacturers produce computers and then ship them to computer shops. Consumers come to the computer store.

As a consequence, the computer manufacturer must provide computer supplies. Dell took another path, namely the internet. Consumers can enter the Dell website. Then, consumers can choose the specifications they want, for example, Intel Pentium processors, memory, hard drives, monitor width, and so on. When finished with the choice, the price of the computer will be visible on the website. If the consumer agrees, all that remains is to click OK; a credit card payment method is presented. If approved, the consumer clicks OK; the order will be sent to the production department. The computer will be processed immediately, and one or two weeks later, the consumer will be able to receive the computer. That way, Dell can stock up on computer inventory and provide margins to computer distributors. However, this method requires Dell to have good coordination with its suppliers. Amazon also uses the internet to sell books. This strategy differs from traditional bookstores, which must provide a shop building to sell their books.

## 2) Consumer

Consumers are also often the source of new ideas for product innovation. To understand consumer desires, management must encourage the company's front lines (salesmen, distributors) to always listen to consumer wishes. About 28% of new product ideas come from seeing and listening to consumer complaints. This need can be seen from the survey.

## 3) Internal Source

One study found that more than 55% of new product ideas come from within the company. Companies can seek these ideas from official research and development, scientists, engineers, production departments, and salesmen (because of direct contact with consumers). Toyota admits that its employees submit 2 million ideas annually, about 35 suggestions per employee, and more than 85% of them are implemented. Often companies have some excellent ideas but need to learn how to put the product to good use. Interaction with consumers can bring up the idea. For example, in the 1970-the 1980s, IBM was a large company that employed world-class scientists. At that time, IBM could produce scientists who won Nobel prizes for essential discoveries. In the 1990s, IBM experienced a decline in performance as sales of their main product, namely mainframes, experienced a significant slump. The new CEO (Lou Gerstner) encourages IBM scientists to 'talk' to customers to see their needs. Then, IBM seeks to meet consumer needs using existing IBM resources. GPS products (tools for tracking via satellite) were first made and were intended to meet military requirements. The product succeeded in the commercial world because it can fulfil many commercial needs, such as tracking package shipments.

## 4) Competitors

Competitors can also be a source of new ideas. It is estimated that about 27% of new product ideas come from competitors. Companies can buy competitors' products and elaborate on them. For example, the successful Ford Taurus car brand was designed by breaking down 50 of its competitors' models. The acceleration pedal was copied from Audi; the petrol meter was copied from Toyota Supra; the tire system and jack storage imitated the BMW 528i and 400 other attributes. Coca-Cola and Pepsi got their beverage product development ideas after studying their competitor, namely coffee. Coffee is traditionally a drink for breakfast. Consumption of coffee for breakfast: 47% of the total, 21% juice, 17% milk, 7% tea, and 4% soft drinks. Coca-Cola and Pepsi want to shift coffee as a drink for breakfast. Coca-Cola developed a promotion: drink after leaving the house, while Pepsi developed a promotion: refreshing from the daily grind.

5) Distributors and Suppliers

The party closest to the consumer. By listening to their voices, companies can explore further what consumers want.

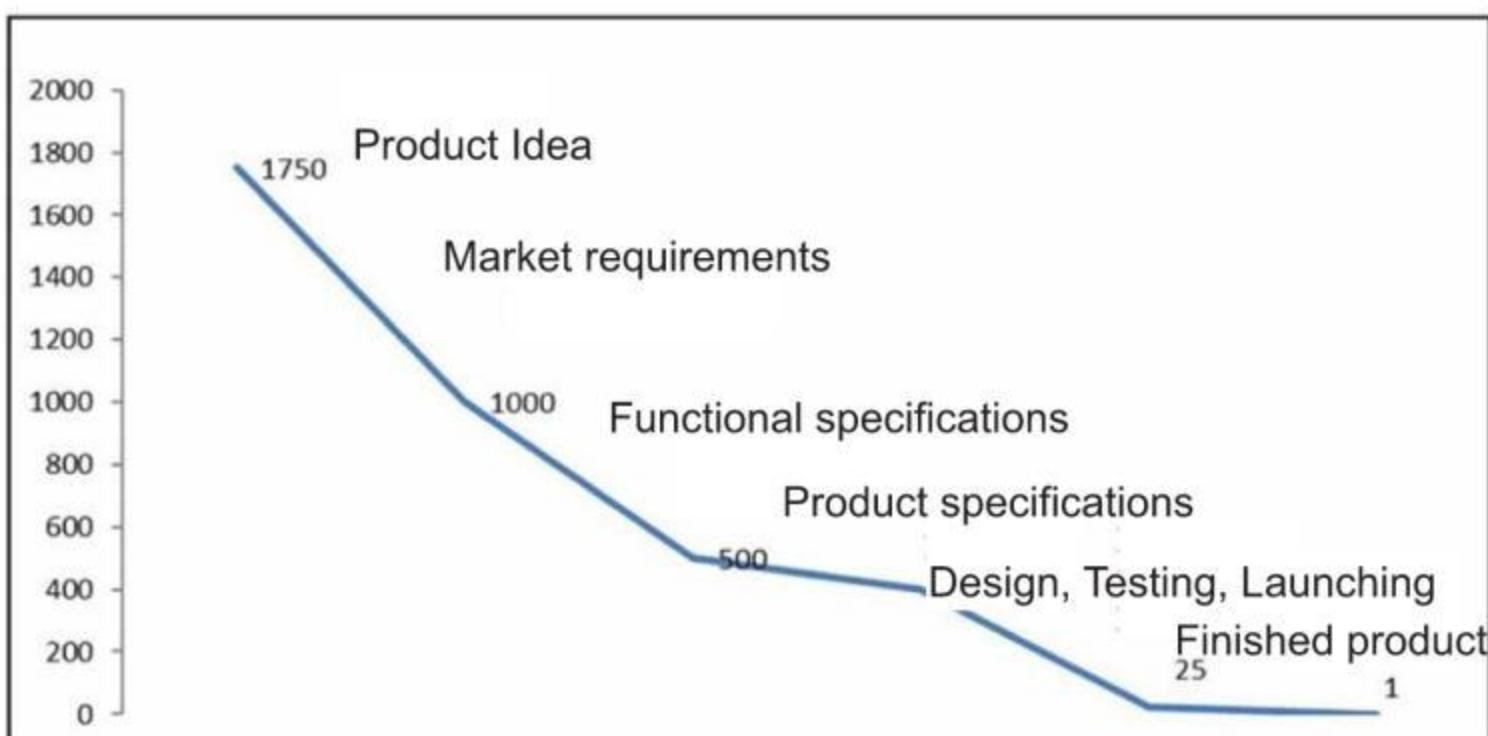
6) Other Sources

Exhibitions, seminars, government agencies, consultants, advertising companies, and universities can be sources of new product ideas. Many Japanese companies have opened subsidiaries in the United States. They have an equally important goal, namely observing technological developments in the United States. Japanese companies also cooperate with major universities in the United States. The critical goal to be achieved is that they can monitor the latest technological developments through existing research at universities in the United States.

*b. Idea Development*

After a new idea emerges, the next stage is to develop the new idea into a natural and working (functional) product. Unlike the previous step, which required more interaction with the outside world, this stage focuses on the internal condition of the company. The culture, processes, values, and specific characteristics of the organization will significantly determine the success of this stage. For example, a bureaucratic organization may slow down the idea development process, reducing the likelihood of success at this stage.

This stage is necessary because not all new ideas are worthy of further development. It is estimated that only one in fifty business ideas is commercially viable. Image 10.4 below shows that of the many new ideas, only one is finally worth launching to the market.



Source: Kotler dan Keller, 2016

Figure 10.4  
Product Idea Journey Process to Finished Product

This stage is carried out to prevent unnecessary expenditure of investment or resources in the future. If studies in this stage are not carried out properly, the company may invest in products that fail in the next step. The costs incurred by the company are significant because of this failure. For example, Ford lost \$350 million on its Edsel car brand. The car was a market failure, losing RCA \$580 million on its video-disc player. Texas Instruments lost \$660 million on its PC line. A company loses a lot because the smokeless cigarette product they develop never makes it into a finished product. After suffering heavy losses, the new company decided not to go ahead with the smokeless cigarette project.

If these companies had done the proper studies at this stage, such a huge loss could have been avoided.

c. *Implementation*

The next stage is the implementation stage. The finished product is released to the market (consumers) at this stage. This stage includes production, market testing, installation, promotion, consulting services, and after-sales service for manufactured products. Like the previous steps, the implementation stage does not guarantee the outcome will always succeed in the market. For example, at 3M, just 60% of new product ideas don't market. Table 10.9 below shows the failure rate in the market.

Table 10.9  
Failure Rate in the Market

- Consumer products: 40%
- Industrial products: 20%
- Services: 18%
- New product success rate: 65%
- Out of 2,500 new products, 90% don't last more than three years

Often investments in new products or new machines result in short-term losses. In the long run, investments in new products or devices are necessary to maintain a company's competitiveness. Therefore, companies must always balance short-term needs (short-term profits) and long-term needs (long-term gains). Investors in the United States are often described as impatient. They evaluate the company's performance quarterly. Pressure from investors who are short-term oriented has caused many US companies to avoid investment activities (buying new machines) because these investment activities will reduce the company's current profits. But as a result, the company's long-term competitiveness will decline due to the lack of investment. This condition contrasts with investors in Japan, who are often described as more patient investors. They only evaluate the company's performance every quarter. But they are willing to wait for the company's long-term performance.

At this stage, coordination and collaboration between related units are essential to increase the success of launching new products. For example, the technical department has to coordinate with the marketing department. The technical department can provide such training if the customer requires specialized training. The finance department may also have to set up a funding scheme if the consumer needs a credit facility to purchase the item. Organizations that have a rigid structure may face problems at this stage.

On the other hand, a more flexible organization is likely to have a higher success rate. In this situation, intensive communication can be done, including informal communication. Managers may need to consider an appropriate organizational structure for this task. For example, a task force or matrix organizational structure might be more appropriate.

### 3. Strategies to Encourage Creativity

Organizations can play a role in encouraging individual creativity. With these organizational efforts, individuals in the organization can become more creative.

#### a. *Reward system*

A suitable compensation system can encourage creativity in the organization. For example, creative individuals, and product innovations, can be rewarded. The award can be in the form of a bonus or promotion. The recognition signals that creativity is valued while increasing individual commitment and enthusiasm always to be creative. Organizations must be careful about punishing failure. If all failures are punished, creativity may be stunted. Individuals will be afraid to innovate. Product innovation has a high level of risk and uncertainty. If individuals are penalized for activities that have risky characteristics, individuals will no longer want to innovate. Individuals will seek a safe path only. Failure deserves punishment, but only when failure results from individual error or carelessness. Failure to innovate should not be punished.

#### b. *Encouraging a culture of innovation*

Organizations should always encourage a culture of innovation. Organizations need to accept change and tolerate mistakes or failures. Individuals are expected to learn from their mistakes or failures. Organizations also need to encourage interaction because intensive interaction can promote innovation. Organizations need to encourage autonomy in individual organizations. Independence can inspire creativity. Organizations need to avoid policies that can stifle innovation. For example, policies like these tend to stifle innovation: organizations are suspicious of new ideas, impose a strict bureaucracy on innovation, perceive problem identification as a sign of failure, calculate everything (challenging to spend on innovation), information is not allowed to flow freely, subordinates asked to find their solution on the grounds of the need for delegation, management felt they knew everything. These policies tend to be unproductive in encouraging innovation.

c. *Using the right organizational structure*

The proper organizational structure can drive innovation. For example, the organizational structure of a task force could work as a team. The task force is taken from some personnel within the company to address specific problems. The group members can communicate intensively and focus on solving particular problems. Innovation is expected to emerge through such a work structure. The matrix structure can also encourage innovation. The system is a combination of functional structure and product structures. Intensive interaction between operating personnel and product personnel are expected to generate innovation.

**Table 10.10**  
Summary of Factors Driving and Constraining Innovation

Innovation Driving Factors	Innovation Inhibiting Factors
A reward system that compensates for successful innovation Accepts change Tolerance for failure or mistakes Intensive intra-organizational interactions Autonomy within the organization Task forces and matrix organizations for specific tasks (e.g. new product launches)	Punishment for innovation New ideas is suspect Strict bureaucracy Identification of problems is seen as a sign of failure. Everything related to innovation is calculated, so funds are complex. Managers feel they know best. The information does not flow freely.



### Exercise

To understand of the material above, please complete the following exercise!

Attention to your working or study conditions. Write down any deficiencies or dissatisfaction that can correct. Once you've written a large enough list, narrow it down to about 2-3 fixes. Analyze whether can implement the 2-3 proposed improvements or not?

#### *Key Ideas for Exercise Answer*

Read Learning Activity 2, especially the innovation stages section. Understand the passage. The discussion in that section, coupled with your knowledge, can be used to answer the exercise.



## Summary

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This learning activity discusses creativity and innovation in organizations. Organizations need creative individuals because they can advance the organization. Creativity is the ability to generate new ideas. Creativity needs to be turned into innovation in the organization. Several types of inventions include radical and incremental innovation, managerial and process innovation, and technical and product creation. The stages of innovation in the organization include (1) idea search, (2) idea development, and (3) implementation. Can extract a new idea from the environment, competitors, consumers, and the company's internal sources. The new idea needs to be processed further in the idea development stage. Can extract new ideas from natural products. The final stage of the innovation process is implementation. At this stage, a natural product that has been made (e.g. a prototype) is released to the market. If this stage is successful, innovation in the company will produce tangible results that will contribute to the company. Organizations need to drive innovation. There are several strategies to encourage innovation in organizations, such as creating appropriate reward systems, promoting a culture of innovation, and creating the proper organizational structure to encourage innovation.

### SOME TERMS

Innovation culture	Technical innovation
Implementation	Cognitive Ability
Incubation	Creativity
Innovation	Idea search
Managerial innovation	Enlightenment
Product innovation	Idea development
Process innovation	Reward system
Radical innovation	Verification
Innovation bit by bit (incremental)	



## Formative Test 2

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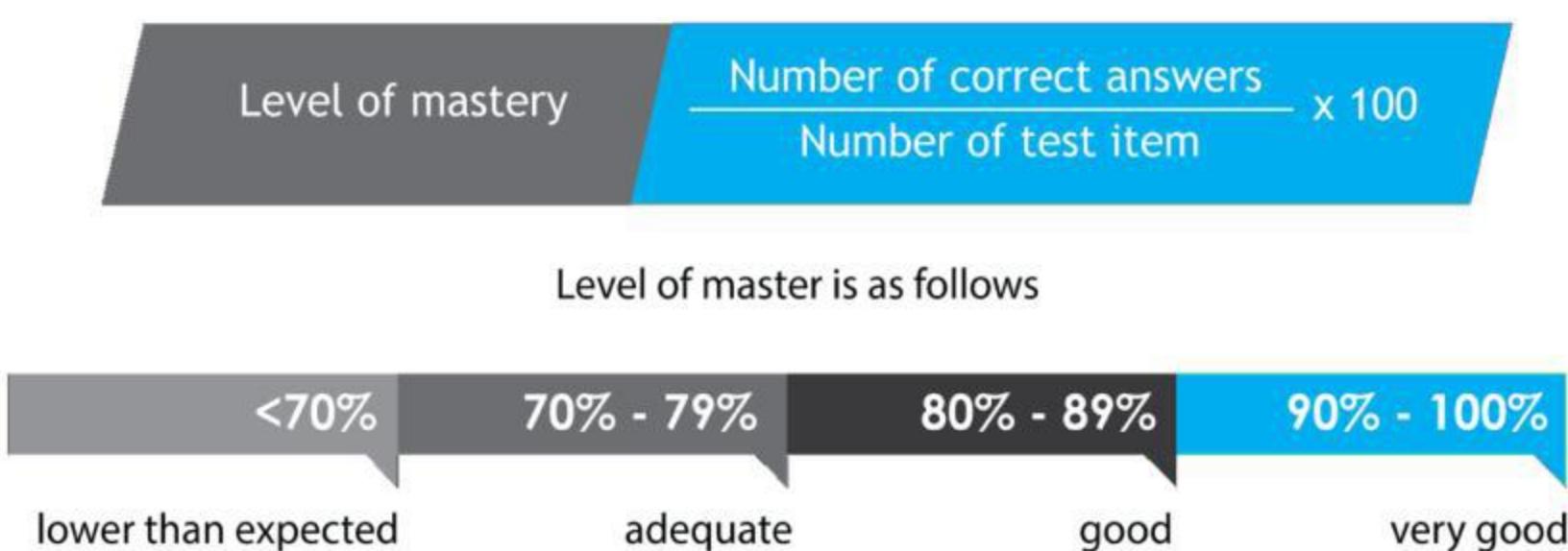
Choose the correct answer!

- 1) Here are the characteristics of creative people in general, is ....
  - A. grew up in an environment that values obedience and adherence to existing norms
  - B. have broad interests and an interest in complexity
  - C. come from a rich family
  - D. have below average intelligence

- 2) The ability to break down problems into smaller and simpler parts is ....
- A. analytical ability
  - B. synthesis ability
  - C. genius
  - D. strategic capabilities
- 3) The stage of creativity where the knowledge obtained settles, and new ideas can emerge from time to time, called ....
- A. preparation
  - B. verification
  - C. incubation
  - D. implementation
- 4) Innovation by adding new features to a product is more appropriately categorized as innovation ....
- A. radical
  - B. managerial
  - C. process
  - D. incremental
- 5) The following are examples of managerial innovation, namely ....
- A. product changes
  - B. total quality management
  - C. adding a new machine
  - D. integrated circuit
- 6) Here is a source of new ideas, is ....
- A. competitors
  - B. environment
  - C. seminar
  - D. all correct
- 7) The idea development stage is necessary because ....
- A. all new ideas can be forwarded into products
  - B. all new products will be successful in the market and provide profit for the company
  - C. companies can avoid investment costs for failed products
  - D. companies need to turn all new ideas into new products because it will maximize company profits

- 8) The following are examples of efforts to encourage innovation, namely ....
- A. penalize failed innovations
  - B. encourage interaction
  - C. encourage a culture of blaming each other to be more creative
  - D. encourage a tight bureaucracy so that discipline towards innovation increases

Use key answers for Formative Test 2 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.



When you attain level of mastery 80% or more, very good, you may continue to the next module. Otherwise you have to review the material of Learning Activity 2. Pay attention to parts which you don't master yet.

**Case****Today's Coffee Franchise**

Santi is considering a coffee franchise today. Santi wants to be an entrepreneur but has yet to gain business experience. The family also doesn't do business. The franchise option is a reasonable alternative. The funds provided by Santi are between IDR 100 million – IDR 500 million. Of the many franchises she was eyeing, Rani chose the current coffee franchise, namely Gaya Coffee. Several current coffees have been established, including Kopi Kenangan, Lain Hati, Janji Jiwa, Eleven, Awor, and dozens of other copies.

Today's coffee targets especially young people with a new lifestyle, such as students doing assignments or students who like to drink coffee and hang out with their friends. The coffee business model does not provide a place but relies more on buying coffee online, such as Gojek or Grab.

Santi has already contacted the management of Kopi Gaya. Some steps to become a franchisee is (1) location search, (2) contract signing, (3) payment, (4) preparation (2 weeks), (5) delivery (1 week), (6) training, and (7) opening. Location search is the most challenging stage. The ideal location is a busy location, close to the centre of the crowd (e.g. a large campus) or in a mall with lots of traffic. Kopi Gaya says that the location factor will determine 80-90% of the success of this business. Finding a strategic location is undoubtedly challenging. The more strategic the location will be more expensive the rent. Buying a shop or land and building it yourself will be very expensive. Such an alternative could cost IDR 1.5 billion and above.

Kopi Gaya provides an overview of the financial condition of the franchise. Initial capital reached IDR 105 million. It is coupled with other costs, with an estimate of around Rp. 40 million, the total money needed is Rp. 150 million. If renting a shop, rent is usually paid in advance. Shophouse rental ranges from IDR 40-60 million per year. The following calculations assume that the rent is IDR 6 million per month. Kopi Gaya provides three estimates to describe sales: low, medium, and high. From the information obtained by several coffee sellers, Santi, sales of coffee today can generate a variety of turnover, ranging from IDR 20 million per month to IDR 200 million per month. Considering the dozens of coffee shops that exist, of course, there are some coffees with far less turnover than Santi needs to learn. Santi must be wary of less turnover than expected.

## Financial Projection

Initial Capital	Low	medium	High
Complete package (equipment + brand license)		75.000.000	
Standard booth cost estimate (not including logos)		30.000.000	
total capital (not including rental deposit)		105.000.000	
Estimated Sales (1 Month)			
Average sales per day (cup)	70	100	150
Average nominal transaction/day	20.000	20.000	20.000
Number of days in one month	30	30	30
Total sales (1 month)	42.000.000	60.000.000	90.000.000
COGS (37% of selling price)	15.540.000	22.200.000	33.300.000
Operating costs			
Employee salary (3 people x IDR 2.5 million)	7.500.000	7.500.000	7.500.000
Rent	6.000.000	6.000.000	6.000.000
Electricity	1.000.000	1.000.000	1.000.000
Internet	150.000	150.000	150.000
Etc	1.000.000	1.000.000	1.000.000
<i>Fixed royalty fee</i>	1.500.000	1.500.000	1.500.000
Total operating costs	17.150.000	17.150.000	17.150.000
<i>net profit</i>	9.310.000	20.650.000	39.550.000
<i>Break even point</i> (months)	9	5	3

The table above shows that the return on investment can be achieved within three months, according to optimistic estimates. With the mushrooming of the coffee shop business today, Santi thinks about how this business will continue in the long term. Some business models have a specific life cycle. For example, a multi-flavoured milk restaurant established in 2010 became very popular in the 2010s. In 2018, the shop closed. The business cycle time reaches eight years.

### Discussion Questions

- What preparations should Santi make? Evaluation.
- How to choose a location? What is your suggestion for Santi?
- What is your recommendation?

## Answer Key to Formative Test

### *Formative Test 1*

- 1) A
- 2) C
- 3) D
- 4) A
- 5) D
- 6) B
- 7) D
- 8) D
- 9) C
- 10) D

### *Formative Test 2*

- 1) B
- 2) A
- 3) C
- 4) D
- 5) B
- 6) D
- 7) C
- 8) B

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