

Entrepreneurship

Introduction to Entrepreneurship

Lecture 1

Chapter Objectives

(1 of 2)

1. Explain entrepreneurship and discuss its importance.
2. Describe corporate entrepreneurship and its use in established firms.
3. Discuss the main reasons that people decide to become entrepreneurs.
4. Identify main characteristics of successful entrepreneurs.
5. Explain the ten common myths regarding entrepreneurship.

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Chapter Objectives

(2 of 2)

6. Explain how entrepreneurial firms differ from salary-substitute and lifestyle firms.
 - Discuss the changing demographics of entrepreneurs
 - Identify ways in which large firms benefit from the presence of smaller entrepreneurial firms.
 - Explain the entrepreneurial process.

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Introduction to Entrepreneurship

There is tremendous interest in entrepreneurship around the world

According to the GEM 2005 study, about 330 million people, or 14% of the adults in the 35 countries surveyed, are involved in forming new businesses

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Who is an Entrepreneur?

Entrepreneur is a person who **creates a new business** in the **face of risk and uncertainty** for the purpose of **achieving profit and growth** by identifying **opportunities** and **assembling the necessary resources** to capitalize on those opportunities.

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What is Entrepreneurship?

- Origin of the Word "Entrepreneur"
 - The word was originally used to describe people who "take on the risk" between buyers and sellers or "undertake" a task such as starting a new venture.
 - The "undertake" interpretation of the word has been central to its usage in English.

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History of Entrepreneurship

- The word comes from French word :*Entreprendre*: meaning *go between* or *between taker* or *undertaker*
- 17th century: Person bearing risks of profit (loss) in a fixed price contract with government
- 1725: Richard Cantillon: Entrepreneur is one who buys at certain price and sells at uncertain price, therefore operating at a risk
- 1803: Jean Baptiste Say: Separated profits of entrepreneur from profits of capital provider
- 1934: Joseph Schumpeter: Entrepreneur is an innovator and develops untried technology
- 1964: Peter Drucker: Entrepreneur maximizes opportunity
- 1983: Gifford Pinchot: Intrapreneur is an entrepreneur within an already established organization

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What is Entrepreneurship?

- Difference Between an Inventor and an Entrepreneur
 - An inventor creates something new.
 - An entrepreneur puts together all the resources needed—the money, the people, the strategy, and the risk-bearing ability to transform the invention into a viable business.

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What is Entrepreneurship?

(2 of 2)

- Entrepreneurship Defined
 - Entrepreneurship is the process by which individuals pursue opportunities without regard to the resources they currently control.
 - The essence of entrepreneurial behavior is identifying opportunities and putting useful ideas into practice.
 - The set of tasks called for by this behavior can be accomplished by either an individual or a group and typically requires creativity, drive, and a willingness to take risks.

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Corporate Entrepreneurship (Intrapreneurship)

- Corporate Entrepreneurship
 - Is the conceptualization of entrepreneurship at the firm level.
 - All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial.
 - The position of a firm on this continuum is referred to as its entrepreneurial intensity.

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Corporate Entrepreneurship

Entrepreneurial Firms

- Proactive
- Innovative
- Risk taking

Conservative Firms

- Take a more “wait and see” posture
- Less innovative
- Risk adverse

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How to promote innovation in larger organizations?

- By encouraging Intrapreneurial culture (vs traditional corporate culture)
- By encouraging experimentation – trial and error
- By allocating resources for innovation
- By developing multi disciplinary team
- By fostering “entrepreneurial ventures” to be started by the employees as offshoots
- By introducing a reward system within the organization
- Top management’s commitment a must

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Why Become an Entrepreneur?

There are three primary reasons that people become entrepreneurs and start their own firms



Desire to be their own boss

Desire to pursue their own ideas

Financial rewards

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Why Become an Entrepreneur?

The opportunity to:

- gain control over your own destiny
- make a difference
- reach your full potential
- reap unlimited profits
- contribute to society and to be recognized for your efforts
- do what you enjoy

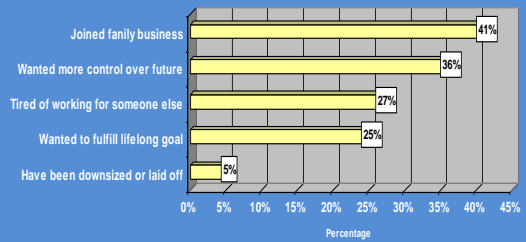
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***But there are costs.....

- Uncertainty of income
- Risk of losing your entire invested capital
- Long hours and hard work
- Lower quality of life until the business gets established
- High levels of stress
- Complete responsibility

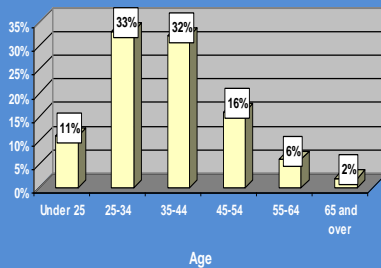
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Why Entrepreneurs Went into Business



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Owner Age at Business Formation

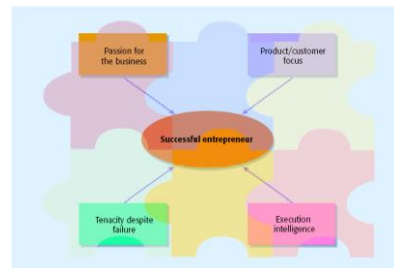


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Characteristics of Successful Entrepreneurs

(1 of 3)

Four Primary Characteristics of Successful Entrepreneurs



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Characteristics of Successful Entrepreneurs

(2 of 3)

- **Passion for the Business**
 - The number one characteristic shared by successful entrepreneurs is a passion for the business.
 - This passion typically stems from the entrepreneur's belief that the business will positively influence people's lives.
- **Product/Customer Focus**
 - A second defining characteristic of successful entrepreneurs is a product/customer focus.
 - An entrepreneur's keen focus on products and customers typically stems from the fact that most entrepreneurs are, at heart, craftspeople.

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Characteristics of Successful Entrepreneurs

(3 of 3)

- **Tenacity Despite Failure**
 - Because entrepreneurs are typically trying something new, the failure rate is naturally high.
 - A defining characteristic for successful entrepreneurs is their ability to persevere through setbacks and failures.
- **Execution Intelligence**
 - The ability to fashion a solid business idea into a viable business is a key characteristic of successful entrepreneurs.
 - The ability to translate thought, creativity, and imagination into action and measurable results is the essence of execution intelligence.

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Common Myths About Entrepreneurs

(1 of 10)

- **Myth 1: Entrepreneurs Are Born Not Made**
 - This myth is based on the mistaken belief that some people are genetically predisposed to be entrepreneurs.
 - The consensus of many studies is that no one is "born" to be an entrepreneur; everyone has the potential to become one.
 - Whether someone does or doesn't become an entrepreneur is a **function of the environment, life experiences, and personal choices**.

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Common Myths About Entrepreneurs

(1 of 10)

Although no one is "born" to be an entrepreneur, there are common personality traits and characteristics of successful entrepreneurs

- Achievement motivated
- Alert to opportunities
- Creative
- Decisive
- Energetic
- Has a strong work ethic
- Is a moderate risk taker
- Lengthy attention span

- Optimistic disposition
- Persuasive
- Promoter
- Resource assembler
- Self-confident
- Tenacious (Persistent)
- Tolerant of ambiguity
- Visionary

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Common Myths About Entrepreneurs

(2 of 10)

- **Myth 2: Entrepreneurs Are Gamblers**
 - A second myth about entrepreneurs is that they are gamblers and take big risks. The truth is, most entrepreneurs are **moderate risk takers**.
 - The idea that entrepreneurs are gamblers originates from two sources:
 - Entrepreneurs typically have jobs that are less structured, and so they face a more uncertain set of possibilities than people in traditional jobs.
 - Many entrepreneurs have a strong need to achieve and set challenging goals, a behavior that is often equated with risk taking.

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Common Myths About Entrepreneurs

(3 of 10)

- **Myth 3: Entrepreneurs Are Motivated Primarily by Money**
 - While it is naïve to think that entrepreneurs don't seek financial rewards, money is rarely the reason entrepreneurs start new firms.
 - In fact, some entrepreneurs warn that the pursuit of money can be distracting.

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Common Myths About Entrepreneurs

(4 of 10)

- Myth 4: Entrepreneurs Should Be Young And Energetic
 - The most vibrant age range for early stage entrepreneurial activity is 25 to 34 years old.
 - While it is important to be energetic, investors often cite the strength of the entrepreneur as their most important criteria in making investment decisions.
 - What makes an entrepreneur “strong” in the eyes of an investor is experience, maturity, a solid reputation, and a track record of success.
 - These criteria often favor older rather than younger entrepreneurs.

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Common Myths About Entrepreneurs

(5 of 10)

- Myth 5: Entrepreneurs are Doers, Not Thinkers
 - Although true entrepreneur tends towards actions, they are also thinkers and are often very methodical
 - They plan their moves very carefully

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***Common Myths About Entrepreneurs

(6 of 10)

- Myth 6: Entrepreneurs are always Inventors
 - Many inventors are entrepreneurs but all entrepreneurs are necessarily not inventors
 - E.g. Ray Kroc founder of McDonalds

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Common Myths About Entrepreneurs

(7 of 10)

- Myth 7: Entrepreneurs are Academic and Social Misfits
 - A belief due to some business owners having started successful enterprises after dropping out of high school or quitting a job
 - Historically educational and social organization did not recognize entrepreneurs they abandoned them as misfits in the corporate giant world
 - But things have changed and entrepreneurs are no longer misfits but rather viewed a hero – socially, economically and academically as a professional

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Common Myths About Entrepreneurs

(8 of 10)

- Myth 8: Entrepreneurs must fit the “Profile”
 - A standard entrepreneurial profile is hard to compile
 - The environment, the venture itself, and the entrepreneur have interactive effect, which results in many different types of profiles

Def: “Entrepreneur is a person who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by **identifying opportunities and assembling the necessary resources to capitalize on those opportunities**”

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Common Myths About Entrepreneurs

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- Myth 9: All Entrepreneurs need is Luck
 - Being at “*the right place at the right time*” is always an advantage”
 - But “*Luck happens when preparation meets opportunity*” is an equally appropriate adage
 - What appears to be LUCK really is preparation, determination, desire, knowledge and innovativeness

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Common Myths About Entrepreneurs

(10 of 10)

- Myth 10: Ignorance is Bliss for Entrepreneurs
 - The myth that too much planning and evaluation lead to constant problem – *too much analysis leads to paralysis* – does not hold up in today's competitive world
 - Identifying strengths & weakness, setting up clear timetable with contingencies for handling problems and minimizing with careful strategy formulation are key factors of successful entrepreneur
 - Careful planning – not ignorance of it – is the mark of an accomplished entrepreneur

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!!!Economic Impact of Entrepreneurial Firms

(1 of 2)

- Innovation
 - Is the process of creating something new, which is central to the entrepreneurial process.
 - Small entrepreneurial firms are responsible for 55% of all innovations in the U.S.
- Job Creation
 - In the past two decades, economic activity has moved in the direction of smaller entrepreneurial firms, which may be due to their unique ability to innovate and focus on specialized tasks.

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Economic Impact of Entrepreneurial Firms

(2 of 2)

- Globalization
 - Today, over 97% of all U.S. exporters are small businesses with fewer than 500 employees.
 - Export markets are vital to the U.S. economy and provide outlets for the sale of U.S. produced products and services.



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Entrepreneurial Firms' Impact on Society and Larger Firms

- Impact on Society
 - The innovations of entrepreneurial firms have a dramatic impact on society.
 - Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us in new ways.
- Impact on Larger Firms
 - Many entrepreneurial firms have built their entire business models around producing products and services that help larger firms become more efficient and effective.

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Nine Deadly Mistakes of Entrepreneurship

- Management incompetence
- Lack of experience
- Undercapitalization and poor cash management
- Lack of strategic management
- Weak marketing effort
- Uncontrolled growth
- Poor location
- Lack of inventory control
- Inability to make the "entrepreneurial transition"

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Putting Failure Into Perspective

- Failure is a natural part of the creative process.
- Failures are simply stepping stones along the path to success.
- The "secret" to success is the ability to fail *intelligently*, learning why you failed so that you can avoid making the same mistake again.

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How to Avoid the Pitfalls

- Know your business in depth.
- Prepare a business plan.
- Manage financial resources.
- Understand financial statements.
- Learn to manage people effectively.

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