1. Understanding Entrepreneurship

Teacher edition

Ent-teach

Introduction

Entrepreneurship is a way of thinking; reasoning and acting that is fixated on an opportunity and is driven by great leaders. While inventors create something new, an entrepreneur assembles and then integrates all the resources needed to transform the invention into a viable business. Entrepreneurship results in the development and deployment of value, not just for owners but for all customers and stakeholders. The entrepreneurial process involves all the functions, activities, and actions associated with perceiving opportunities and creating organisations to pursue them. The crucial ingredients for entrepreneurial success are: an outstanding entrepreneur with a first rate management team, and an excellent market opportunity.

This unit seeks to provide a better understanding of entrepreneurship and entrepreneurs. It defines critical concepts and terms. It identifies three types of entrepreneurs. In order to build a profile of the successful and effective entrepreneur, this unit presents and discusses a framework that details the essential characteristics or traits of the entrepreneur. The unit then focuses on the entrepreneurial process. First it presents the **Timmons model**. This model details the key elements in the process, namely opportunity, resources and teams. Next the unit presents a **descriptive model**. This model focuses on the key stages in the entrepreneurial process and discusses each of these in some detail. The unit concludes by presenting a list of some of the factors that contribute to start- up failures.

Learning objectives

When you have successfully completed this unit you will be able to:

- Define key concepts such as ‘entrepreneur’ and ‘entrepreneurship’.
- Determine key characteristics and traits of successful entrepreneurs.
- Explain the entrepreneurial process.
- Describe factors that contribute to new venture failure.

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1. Defining Entrepreneurship

Despite a large number of studies, the definition of ‘entrepreneurship’ and/or an ‘entrepreneur’ continues to generate debate. Simply put, an entrepreneur is someone who perceives an opportunity and creates an organisation to pursue it. Bolton and Thompson (2000) have defined an entrepreneur as *‘a person who habitually creates and innovates to build something of recognised value around perceived opportunities.’*

They acknowledge the ‘person’ may in fact be a team, but one with an entrepreneurial champion at its heart.

- The use of the word ‘habitually’ implies serial behaviour, in other words, the pursuit of more than one opportunity.
- The recognised value can be economic or social. Entrepreneurial behaviour is not necessarily confined to the business world.
- This definition distinguishes between the enterprising person and the entrepreneur. It is arguable that every one of us could, and perhaps should, be more creative and innovative in many things that we do. The impact, however valuable, might well be limited in scope.
- While everyone has the capacity to be creative and innovative in many things that they do, entrepreneurs develop something substantial and significantly different.

Entrepreneurship is about managing the process from opportunity to value creation

An entrepreneur generally seeks to solve a problem that exists in the market. Whether that means developing a better software application, a better optical switching device, or a better medical device, the entrepreneur always identifies a problem or a gap, and then attempts to fill it.

2. Understanding Entrepreneurship

According to Smilor (2001) there are three types of entrepreneurs. These are:

Aspiring Entrepreneurs These entrepreneurs dream of starting a business. They hope for a chance to be their own boss but have not yet left the security of their own employment to venture into the unknown world of a start-up.
Lifestyle Entrepreneurs These have developed a business that fits with their personal circumstances and way of life. The central goal of such entrepreneurs is to earn an income for themselves.
Growth Entrepreneurs These have the desire and ability to grow as fast and as large as possible. They are often referred to as gazelles. They are key job creators.

Table 1: Three types of Entrepreneurs (Smilor 2001)

Bolton and Thompson (2003) offer a framework for defining the entrepreneur, based on six character themes that form the acronym FACETS:

Focus
Successful entrepreneurs pursue the very best opportunities and they avoid chasing after every option. Most successful entrepreneurs limit the number of projects they pursue. They go after a tightly-controlled portfolio of opportunities.

Advantage
People with an entrepreneurial mindset *execute*. In other words, they move forward and don't analyse things to death. They also pursue opportunities with enormous discipline.

Creativity
Creativity is the source of ideas and opportunities. Entrepreneurs passionately seek out new opportunities and are always looking for the opportunity to profit from change and disruption in the way business is done.

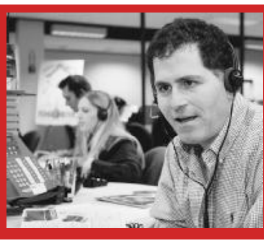
Ego
Ego has six components, split into our inner ego and our outer ego. The inner ego embraces motivation (typically a desire to achieve, to make a difference and maybe to 'leave footprints'), self-assurance and dedication. The outer ego is the entrepreneur's internal locus of control, a desire to be in charge of his or her own destiny. It includes responsibility and accountability and, especially significant, 'courage' – an ability and willingness to deal with setbacks.

Team
An entrepreneur should be able to find and select the right people and build these people into an effective entrepreneur team. According to Bagchi (2006) an 'A' team will be technically competent, have complementary skills, possess the ability to multi-task, have a shared vision, enjoy personal integrity and mutual trust and be able to question each other and disagree, be resilient, and possess a sense of humour. Entrepreneurs should also know when and where help is required and be able to network.

Social
Social influences depend on the nature of the business or initiative, affecting the extent to which it has a community or environmental outlook. The social dimension also affects the culture and style of the organisation and the way employees are treated.

Image 1 lists successful entrepreneurs. All these people started their enterprise while they were in their 20s!


Bill Gates & Paul Allen
Mircosoft


Micheal Dell
Dell Computers


Steve Jobs & Steve Wozniak
Apple Computers


Phil Knight
Nike


Fred Smith
Federal Express


Mark Zuckerberg
Facebook

Image 1: Successful Entrepreneurs

3. The Entrepreneurial Process

Successful high-performance entrepreneurship does not happen by accident. It is designed that way. The Timmons Model of the entrepreneurial process is a good way of explaining how this process occurs.

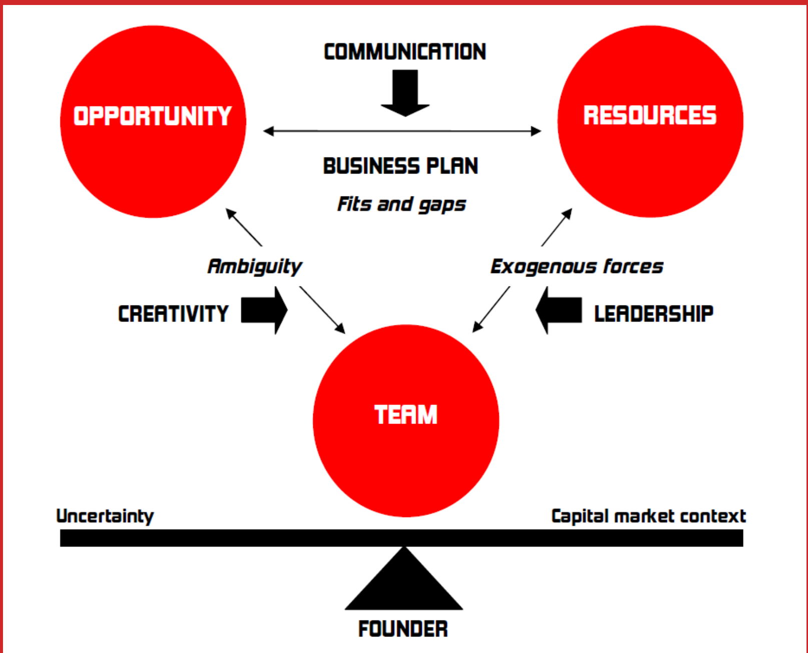


Figure 1: The Entrepreneurial Process (Timmons and Spinelli, 2003)

According to this model, there are three key elements: **opportunity**, **resources** and **teams**. Each of these is presented in more detail below.

Opportunity
The process starts with opportunity, not strategy, resources or planning. Opportunity recognition results from creativity, which is shared by the entrepreneur and the entrepreneurial team. Successful entrepreneurs understand that a good idea does not necessarily equate to a good opportunity. Research suggests that for every 100 ideas presented to investors, less than four get funded. This would suggest that much time and effort is wasted by potential entrepreneurs developing and fine-tuning ideas that have little or no potential. Successful entrepreneurs possess that ability to determine whether serious potential exists and then decide how much time and effort to invest.

Resources
Contrary to popular belief, it is not essential to have all the resources in place from the outset in order to succeed in business. According to Timmons, money follows high-potential opportunities created and led by a strong management team. It seems that there is a shortage of quality entrepreneurs with good opportunities rather than a shortage of money. Successful entrepreneurs are notoriously prudent when it comes to spending scarce cash. They are also considered to be very creative in their ability to marshal and gain control of resources.

Team
Much has been written about the importance of a grade A entrepreneurial team. A grade A team will have relevant technical experience and a good track record, and the motivation, commitment and determination to excel. They will also be creative and adaptive, and possess good communication and leadership skills.

If you analyse all of this you can see that value creation results from integration of opportunity and efficient use of resources. Therefore it is the combination of people, opportunity and resources coming together at a particular time which may determine the probability of success.

Another way to better understand the entrepreneurial process is to view it from a descriptive approach. Such an approach identifies the key stages in the entrepreneurial process. An example is provided in Table 2. Each of these stages must be effectively managed in order to optimise the process. The remainder of this module addresses each of these elements in more detail.

1

Assess Interest
What are my interests?
What am i passionate about?
What am i good at?
Do i want to be an entrepreneur?

2

Recognise an opportunity
Establish goals for the business
Search for ideas
Convert an Idea to an opportunity
Evaluate the idea and opportunity

3

Analyse the market
Define product/service offering
Segment the market
Analyse competition
Target potential customers

4

Generate and manage the finance
Source personal and/or equity funding
Manage the money
Develop financial statements

5

Protect intellectual property
Understand how is intellectual property is protected
Determine the criteria for qualification and acceptance
Manage the process from idea to patent

6

Manage the venture
Implement the business plan
Monitor performance
Manage risk

7

Harvest the venture
Identify suitable exit strategy
Evaluate offers
Make a business attractive to potential purchasers

Table2: A Descriptive Model of the Entrepreneurial Process (Cormican 2008)

4. New Venture Failure

Clearly there are many factors that promote and also many which impede entrepreneurial success. The causes of failure have been widely researched and can vary considerably. Some causes will be external to the organisation and outside the founder's influence or control. Others will be internal to the venture and ultimately within the control of the founder, managing team and organisation. Some of the common causes of failure within the project management process in most organisations are synthesised and distilled into the following categories:

Founder
Most ventures require a team of people with complementary skills. A venture with a single founder is often seen as a vote of no confidence in the business. It probably means that the founder was not able to persuade any of his colleagues or friends into starting the company with him. In addition, a group of founders who do not share the same vision and disagree over strategies and expectations is a recipe for ruin.

Unoriginal idea
Many technologies developed are merely bland imitations of some existing product or service. In other words, they do not have a unique selling proposition. Successful start-ups normally originate from some specific, unsolved problem the founders identified.

Marginal niche
It is not good business practice to focus on a niche market that is too narrow and vague, in the hope of avoiding competition. The target market must be large enough for repeat business. It should also be a growing market and not already saturated with competing products and technologies.

Inflexibility
In some fields the way to succeed is to have a vision of what you want to achieve, and to hold true to it no matter what setbacks you encounter. Starting start-ups is not one of them. When starting a new venture you need to be flexible and adapt to wherever the market takes you.

High burn rate
Burn rate is a measure for how fast a company will use up its capital. When all the funds are exhausted, the company will either have to find additional funding or close down. The classic way to burn through money is by hiring a lot of people.

Poor investor management
As a founder, you have to manage your investors. While investors often bring experience and useful insights to the business, they should not be allowed to take over the company. Always remember, if investors had sufficient vision and capability to run the companies they fund, they would have started them themselves.

Lethargy
The most common type of venture failure is the one that doesn't do much of anything, the one that never got anywhere and was gradually abandoned. Half-hearted efforts will never succeed. Successful new ventures require passion, determination and a lot of hard work.

Review

This unit focused on defining and explaining the concept of entrepreneurship. It defined critical terms and identified **three types of entrepreneurs**:

- **Aspiring** entrepreneurs
- **Lifestyle** entrepreneurs
- **Growth** entrepreneurs

The unit described the **characteristics of successful entrepreneurs** based on the acronym FACETS:

- Focus
- Advantage
- Creativity
- Ego
- Team
- Social

It then focused on the entrepreneurial process, looking first at the **Timmons model** and then at a **descriptive model.**

Finally, the unit outlined factors that contribute to failures in new ventures.

- Single founder
- Unoriginal idea
- Marginal niche
- Inflexibility
- Insufficient funds
- High burn rate
- Poor investor management
- Lethargy

Self-Assessment Questions

1. What is entrepreneurship?

2. What are the primary traits and characteristics of successful entrepreneurs?

3. Identify a successful entrepreneur
   - How did the entrepreneur create value?
   - How did the entrepreneur use the resources around him/her to satisfy needs or solve problems?

4. Determine the key causes of failure in new ventures. In your opinion, which of these factors is the most important?

Answers to Self-Assessment Questions

1. Entrepreneurship is about managing the process from opportunity to value creation.

2. Primary traits of successful entrepreneurs include (but are not limited to) (a) the ability to implement and execute ideas (b) the relentless pursuit of good opportunities, (c) creativity, (d) motivation, self-assurance and dedication, (e) the ability to select a good team of people with complementary skills and talents and (f) the ability to network.

3. There is no set answer to this question.

4. Some of the causes of failure in new ventures include (a) poor team of people, (b) inflexible leader, (c) laziness (d) poor market definition, (e) poor idea, (f) insufficient funds, (g) poor money management and (h) poor investor management. These are listed in order of relative importance.

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Supplementary Reading

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