

BMET5103 ENTREPRENEURSHIP

Topic 2

Getting Started in Entrepreneurship

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Summary

Learning Objectives

1. Explain the meaning and concepts of entrepreneurship and entrepreneurs;
2. Describe the historical perspectives of entrepreneurship;
3. Identify the rewards and challenges of being an entrepreneur and the main reasons why people become entrepreneurs;
4. Discuss the ten common myths about entrepreneurship;
5. Differentiate entrepreneurs and traditional managers; and
6. Identify the latest entrepreneurs trend.

2.0 Introduction



"Experience taught me a few things. One is to listen to your gut, no matter how good something sounds on paper. The second is that you're generally better off sticking with what you know. And the third is that sometimes your best investments are the ones you don't make."

- Donald Trump, real estate and entertainment mogul

2.1 Who is an entrepreneur?

- Definition of “entrepreneur”
- The word “entrepreneur” was derived from the French
 - “entre” (to enter) and
 - “prendre” (to take),and in a general sense applies to any person who intends to start a new business venture or embarks on setting up a new business opportunity.

2.1 Who is an entrepreneur?

- Other definitions of “entrepreneur”:
 - ✓ [Allen K., \(2001\)](#) – defines entrepreneur as someone who creates new opportunity in the world of business and assembles the resources necessary to successfully exploit that opportunity money, people and organisation.
 - This is very much reflecting that entrepreneurial activities lies on the basis of creation and discovery of opportunities. The role of exploring these opportunities relies on the agency called “entrepreneur”
 - ✓ [Kuratko and Hodgetts \(2003\)](#) defines and relates entrepreneurship to the functional role of entrepreneurs and include coordination, innovation, uncertainty bearing, capital supply, decision making, ownership and resource allocation.

2.1 Who is an entrepreneur?

- Other definitions of “entrepreneur”:
- **Joseph Schumpeter** (founding father of innovation) (1934) argued that entrepreneur causes rather than facilitates economic development.
 - He justified that the true entrepreneur is no longer portrayed as the purveyor of market forces or the adjustment process given a new set of demand or supply conditions.
 - Schumpeter (1934) clearly emphasises that the true entrepreneur bears no financial risk.
 - The act of entrepreneurship according to him is distinct from investment and the ownership of capital. He also believes that entrepreneur is an innovator.

2.1 Who is an entrepreneur?

- Other definitions of “entrepreneur”:
- Israel Kirzner (1973) researched the issues of entrepreneur as risk-bearer together with leadership and alertness
 - emphasised that it is the alertness and superior perception of entrepreneurs which cause factors of production to be reallocated towards an equilibrium condition.
- Kirzner (1973) also argues that the ownership of capital is not necessary to provoke its movement or change of application.
- He later introduces the notion of the pure entrepreneur by saying that pure entrepreneur is “a decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities” (Kirzner , 1979).

2.1 Who is an entrepreneur?

- Other definitions of “entrepreneur”:
- **Binks and Vale (1990)** reconciled the views on which considers that the entrepreneur must be a capitalist by definition and suggested that they may be able to influence the allocation of capital without owing it themselves.
- Some common themes in the definitions entrepreneur emerge - including
 - risk-takers,
 - risk-bearer,
 - opportunity creator,
 - opportunity discoverer,
 - Innovator, and
 - capital supply.

2.2 Why become an Entrepreneur

- People become an entrepreneur for many reasons, including.
 - attracted to the perceived independence and freedom to make their own decisions, and exert greater control over their own business venture.
 - believe that building their own business organisation can provide them with opportunities for sustained growth, success and mobility.
 - believe that having their own business could provide them with the flexibility they seek in their lives. Thus, entrepreneurship activities are full of rewards and challenges.
- Figure 2.1 shows the rewards and challenges of being an entrepreneur.¹⁰

2.2 Why do we need Entrepreneurship?

Figure: Rewards of being an entrepreneur



2.2 Why do we need Entrepreneurship?

Figure: Challenges of being an entrepreneur



2.3 Nature and development of entrepreneurship

- The existence of many different and useful approaches to describe and to analyse entrepreneurship is an interesting point to discuss.
- These approaches tended to fall within three main streams of research:
 - the results of entrepreneurship,
 - the causes of entrepreneurship and
 - entrepreneurial management (Stevenson and Jarillo, 1991).

2.3 Nature and development of entrepreneurship

- Stream of research in entrepreneurship
 - First stream - includes the effort to examine the impacts and results of entrepreneurship.
 - This further explained entrepreneurship as a key process through which the economy as a whole is advanced.
 - This was pioneered by Schumpeter (1934).
 - Second stream - focused on entrepreneurs. The stream investigates entrepreneurship from the sociological and psychological perspectives. Among the famous authors of this stream are (Collins & Moore, 1964 and McClelland, 1961)

2.3 Nature and development of entrepreneurship

- **Third stream** - examined the entrepreneurial management process. The themes include issues on
 - how to foster innovations within established corporations (i.e. Burgelman, 1983, 1984),
 - starts-ups and venture capital (i.e. Timmons and Bygrave, 1986),
 - organisational life cycles (i.e. Quinn and Cameron, 1983), and
 - predictors of entrepreneurial success (i.e. Cooper and Bruno, 1975; Dollinger, 1984).

2.3 Nature and development of entrepreneurship

- Shane (2003) categorised the division of the field of entrepreneurship into two camps:
 - those who want the field of entrepreneurship to focus exclusively on individuals; and
 - those who want the field of entrepreneurship to focus exclusively on external forces.
- He argued that a large number of entrepreneurship researchers have sought to explain the entrepreneurial phenomenon by identifying those members of society who could be considered “entrepreneurial individuals.”

2.3 Nature and development of entrepreneurship

- Hisrich et. al., (2008) explained that the development of the theory of entrepreneurship can be divided into five stages:

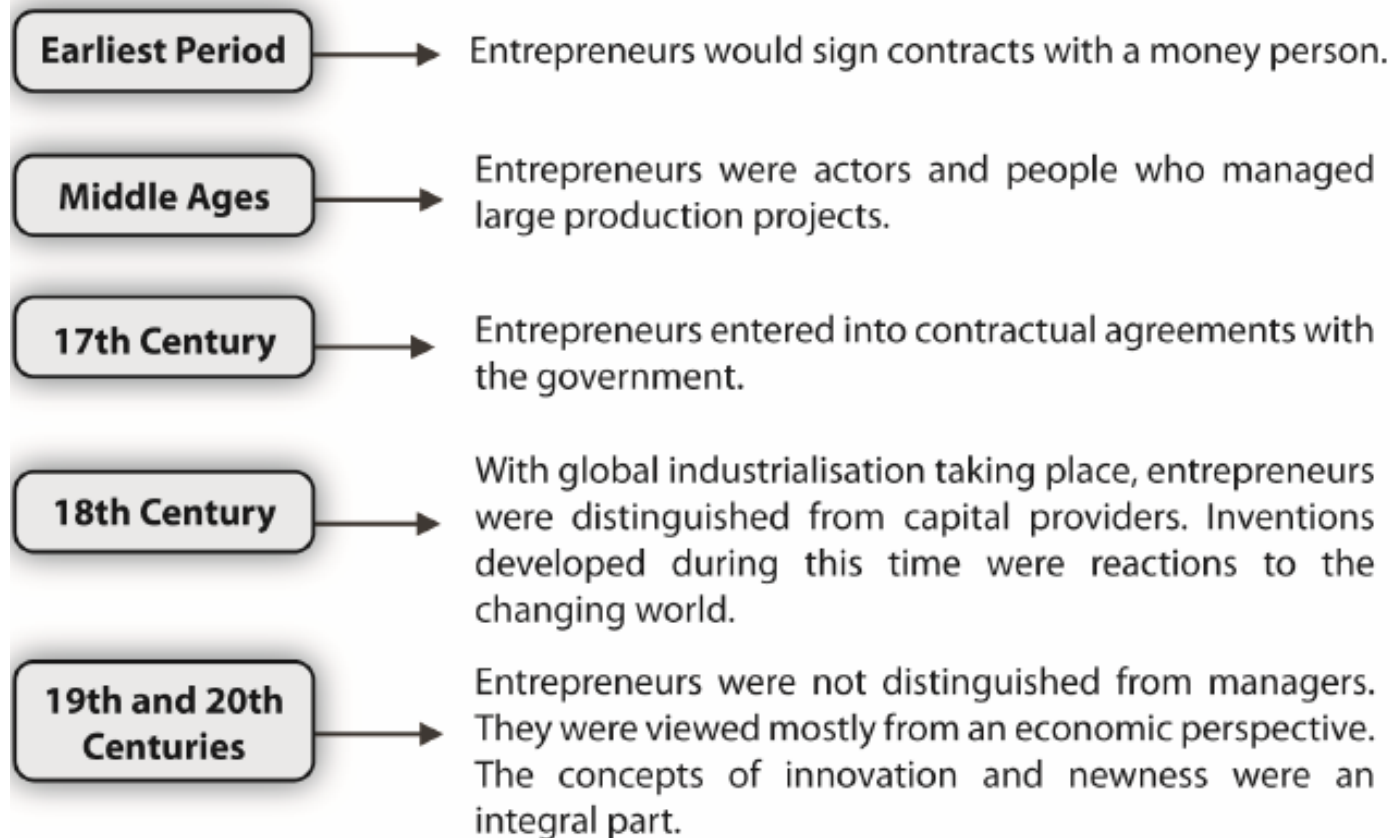


Figure 2.2: Five stages of entrepreneurship development

2.4 Characteristics of successful entrepreneurs

- Schaper and Volery (2004), listed the most common characteristics of successful entrepreneurs as shown in Table 2.1.
 - > Self-confidence
 - > Risk-taking
 - > Flexibility
 - > Independence of mind
 - > Energy and diligence
 - > Hard-word ethic
 - > Creativity
 - > The need for achievement
 - > Internal locus of control
 - > Tolerance of ambiguity
 - > Responsiveness to suggestions
 - > Dynamic leadership qualities
 - > Initiative
 - > Resourcefulness
 - > Good communication skills
 - > Perseverance
 - > Profit-orientation
 - > Perception with foresight

2.5 Entrepreneurship as career: the risk

- Entrepreneurship is the dynamic process of creating incremental wealth.
- The wealth is created by individuals who assume the major risks in terms of equity, time and/ or career commitment, or provide value for some product or service.
- Schaper and Volery (2004) - there are 4 types of risk to be considered before embracing a career in entrepreneurship as illustrated in Figure 2.3.

2.5 Entrepreneurship as career: the risk



Figure 2.3: Four types of risks in entrepreneurship career

2.5 Entrepreneurship as career: the risk

(a) Financial Risks

- Financial risk is the chance that an investment' actual return will be different than expected.
- This includes the possibility of losing some or the entire original amounts of investment.
- Since entrepreneurs usually invest large amount of money to launch a new business, they may have to face a high risk losing all or part of the money invested in their new venture if the entrepreneur goes bankrupt, for example.

(b) Career Risks

- Every career decision involves some measure of risk taking. One of the major concerns for entrepreneurs is whether they will be able to find a job or go back to their old job if their venture fails.

2.5 Entrepreneurship as career: the risk

(c) Social Risks

- Setting up a new business venture is not an easy task. It involves time, effort and energy. As a result, family and social commitments may suffer.

(d) Health Risks

- There is evidence that entrepreneurs experience higher job stress due to the demands and challenges of starting and running a business.
- The various risks stipulated here may also relate to the myths that people perceived about being an entrepreneur.

2.6 Common myths about entrepreneurs

- According to Kuratko and Hodgetts, (2003), there are nine most common myths about entrepreneurs, as illustrated in Figure 2.4.

Myth No 1: Entrepreneurs are Doers, Not Thinkers

Myth No 2: Entrepreneurs are Born, Not Made

Myth No 3: Entrepreneurs are Always Inventors

Myth No 4: Entrepreneurs are Academic and Social Misfits

Myth No 5: Entrepreneurs Must Fit the “Profile”

Myth No 6: All Entrepreneurs Need Is Money

Myth No 7: All Entrepreneurs Need Is Luck

Myth No 8: Ignorance Is Bliss for Entrepreneurs

Myth No 9: Entrepreneurs Seek Success But Experience High Failure Rates

2.7 Entrepreneurs vs Traditional managers

- Researchers argue that entrepreneurs are often different in mindset from traditional managers, who are generally charged with using the existing resources to make existing businesses run well.
- The roles of entrepreneurs and traditional managers are not necessarily incompatible, but entrepreneurs are seldom patient enough to be good managers.
- Entrepreneurs and traditional managers both carry different criteria's with them. This is explained in Table 2.2

2.7 Entrepreneurs vs Traditional managers

Table 2.2: Comparison between Entrepreneurs and Traditional Managers

Criteria	Entrepreneurs	Traditional Managers
Primary Motives	Independence, opportunity to create and money.	Promotion and other traditional corporate rewards i.e. office, staff, reputation, power.
Time Orientation	Survival and achieving 5-10 years growth of business.	Short-term – meeting quotas and budgets, weekly, monthly, quarterly, and the annual planning horizon.
Activity	Direct involvement.	Delegates and supervises more, than direct involvement.
Risk	Moderate risk takers.	Careful.

2.7 Entrepreneurs vs Traditional managers

Table 2.2: Comparison between Entrepreneurs and Traditional Managers

Criteria	Entrepreneurs	Traditional Managers
Status	Not concerned about status symbols.	Concerned about status symbols.
Failures and Mistakes	Deals with mistakes and failures.	Tries to avoid mistakes and surprises.
Decisions	Follow dream with decisions.	Usually agree with those in upper management positions.
Who Serves	Self and customers.	Others.
Family History	Entrepreneurial small business, profesional.	Family members worked for large organisations.
Relationship with Others	Transaction and deal making as basic relationship.	Hierarchy as basic relationship.

2.8 Latest entrepreneur's trends

What are the latest entrepreneur's trends?

(a) Technological Advancement

- Various technological advancements in entrepreneurial settings has created changes in the way people operate their businesses.
- Entrepreneurs today have embarked in e-commerce and mobile commerce activities to remain competitive in the global free market economy.

(b) Going Global

- To remain competitive in business, it is no longer sufficient for them to solely rely on the local market.
- The need to explore the international or export markets remains vital to the sustainable growths of any ventures.

2.8 Latest entrepreneur's trends

(c) Quality Products and Value Added Services

- Entrepreneurs without doubt need to adhere to the set of widely accepted quality standards.
- These may include the production processes and customer service deliveries. The trends of JIT and TQM standards are a must nowadays.
- Besides that, entrepreneurs are currently facing greater challenges and are required to introduce more innovative and value added services to more demanding customers.

2.9 Summary

- The definition of an entrepreneur has evolved over time as the surrounding economic structure has become more dynamic and complex.
- Entrepreneurship as debated by many scholars is the process where an individual or group of individuals uses organised and systematic efforts to pursue opportunities to create value and growth by fulfilling wants and needs through innovation and uniqueness, irrespective of what resources the entrepreneur currently has.
- The rewards of being an entrepreneur include having a high degree of independence, use of variety of skills and talents, financial rewards and so on.
- The challenges of being an entrepreneur include having to give full commitment by working long hours, being a risk taker, having little financial security and facing lots of stress.
- Today's world is different from what it used to be. Entrepreneurs today need to update themselves with the changing of economic situation, have much more intensive knowledge and be more alert in the dynamic market.