INTRODUCTION TO ENTREPRENEURSHIP

Timeframe:	Minimum of 40 hours
Learning Outcomes:	• Examine the advantages and disadvantages of entrepreneurship • Interrogate the principles of an intrapreneur • Evaluate an entrepreneurial process • Evaluate the capital requirements, assets, revenue and costs of a new venture • Evaluate the contribution of innovation and leadership • Critically evaluate entrepreneurial employment opportunities • Critically evaluate opportunities • Evaluate business risks • Evaluate the personal characteristics and skills required of an entrepreneur to facilitate the successful start-up and operation of a new venture.
Additional sources to consult:	• Blank, S. 2013, 'Why the Lean Start-Up Changes Everything,' *Harvard Business Review*, May 2013 edition. • Chen, H., and Miao, J. 2010, 'Entrepreneurial Finance and Nondiversifiable Risk', *Review of Financial Studies,* http://rfs.oxfordjournals.org/content/23/12/4348.short. • Dimov, D. 2010, 'Grappling with the Unbearable Elusiveness of Entrepreneurial Opportunities,' Unpublished paper, University of Baylor, http://dimodimov.me/wordpress/wp-content/uploads/2012/01/ETP_2011_Dimov.pdf. • Fairbrothers and Gorla, 2012, 'What exactly is social entrepreneurship?' http://www.forbes.com/sites/greggfairbrothers/2012/05/28/what-exactly-is-social-entrepreneurship/ (accessed 13 May 2013). • Forbes.com, '13 Types of insurance a small business owner should have', http://www.forbes.com/sites/thesba/2012/01/19/13-types-of-insurance-a-small-business-owner-should-have/ (accessed 12 August 2012). • Grossman, V. 2009, 'Entrepreneurial Innovation and Economic Growth,' *Journal of Macroeconomics*, http://unifr.ch/makro/assets/files/publications/entreprenurial_innovation_and_economic_growth.pdf. • Klein, P.G. 2011, 'Opportunity and the Entrepreneur', *Ludwig von Mises Institute*, http://mises.org/daily/5676/ (accessed 3 January 2013). • Panousi, V. 2010, 'Financial Integration, Entrepreneurial Risk and Global Dynamics', http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1960018 (accessed 12 August 2012). • Schlesinger, C.F., Kiefer, F., and Brown, P.B. 2012, 'New Project? Don't Analyse – Act',

	Harvard Business Review. March 2012 edition. • Schumacter, Kowalik and Gerling, 2010, 'Entrepreneurial risk, choice and credit market equilibria', http://ideas.repec.org/p/fip/fedkrw/rwp10-13.html (accessed 12 August 2012). • Schumpeter, J.A. 2000, 'Entrepreneurship as Innovation', *Entrepreneurship: The Social Science View*, 51-75, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1512266 (accessed 17 August 2012). • Thau, B. 2012, 'An Insider Shares Mark Zuckerberg's 6 Secrets for Success', http://www.dailyfinance.com/2012/02/07/an-insider-shares-mark-zuckerbergs-6-secrets-for-success/ (accessed 29 May 2013). • Urban, B. 2011, *The Entrepreneurial Mindset*, Chapters 2, 3, 4 & 6. • Zhao, H., and Seibert, S.E. 2006, 'The Big Five Personality Dimensions and Entrepreneurial Status: A Meta-Analytical Review', *Journal of Applied Psychology*, 2, 259-271. http://www.olim.org/wiki/uploads/Articles/ZhaoSeibert2006Big5andEMetaAnalysis.pdf.
Multimedia:	• Hoffmann, R. 2011, 'Entrepreneurs will create the future', http://www.youtube.com/watch?v=tmNmOlx1w-A (accessed 27 May 2013). • Steve Note, 2010, 'Steve Job's advice for entrepreneurs', [video] http://www.youtube.com/watch?v=gxo2rGr7Yfg&feature=related, (accessed 20 August 2012).
Section overview	This section introduces the student to entrepreneurship by looking at the definitions and approaches to this vast field. While calculated risk is considered to be one of the defining features of entrepreneurship, it is reviewed in correlation with innovation in order to assess how entrepreneurship functions according to a constant assessment of the risk continuum. This continuum separates entrepreneurship from other areas of business. Other factors that distinguish entrepreneurship from traditional organisations are also provided so that entrepreneurship as a distinct type of business can be clarified. Part of making this distinction is analysing what types of businesses are considered entrepreneurial. These types of businesses are discussed. These businesses may be categorised into three economic sectors, which are briefly mentioned. The process of entrepreneurship is then reviewed so that the student can acquire a broad understanding of the business cycle. Whatever field the entrepreneur chooses to operate within, he/she will be the driver of his/her organisation and so the distinctive characteristics of successful entrepreneurs are then reviewed. This includes assessing personality theories, which could account for the way the entrepreneur acts. As the entrepreneur is a leader within his/her organisation, the two types of entrepreneurial leadership are then examined. As the study guide shows, the leader's importance is reinforced by the role of human and social capital, which are defined and explored further. Before embarking on the entrepreneurial venture, some of the advantages and disadvantages of entrepreneurship are given to provide insight into the positive and negative aspects of entrepreneurship.

Defining Entrepreneurship

By its very nature, entrepreneurship eludes clear definition. It encompasses a large scope of activities and personalities, a fact that is clear when one views the wide range of people and projects associated with entrepreneurship as indicated in **Table 1**. This is why, although entrepreneurship is arguably one of the oldest forms of business dating back to ancient times, it is not a term that is easily defined (Urban, 2011a: 2).

TABLE 1: EXAMPLES OF ENTREPRENEURS

Entrepreneur:	Entrepreneurial Organisation:
Mark Shuttleworth	Thawte and Ubuntu Linux (RSA)
Robin Chan	XPD Media (China)
Jacques-Antoine Granjon	Vente Privée (France)
Arminio Fraga	Gávea Investimentos (Brazil)
Oskar Hartmann	Kupivip.Ru (Russia)
Mark Zuckerberg	Facebook (USA)
Bill Gates	Microsoft (USA)
Oprah Winfrey	Harpo Inc. (USA)
Steven Spielberg	Dreamworks (USA)
Uyanda Mbuli	Diamond Face Couture (RSA)
Tokyo Sexwale	Mvelaphandra Holdings (RSA)
Soichiro Honda	Honda (Japan)
Jamie Oliver	Fifteen (UK)
Bunker Roy	Barefoot College (India)
Herman Mashaba	Black Like Me (RSA)

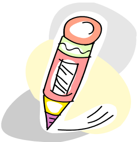
For the purpose of simplicity, one could divide entrepreneurship into the following categories (Urban, 2011a):

- A process
- A field of study
- A way of life

Entrepreneurship as Process

The basic understanding of entrepreneurship is that it is an activity performed by an entrepreneur.

Consider the following definitions of an entrepreneur:



'An individual who takes initiative to bundle resources in innovative ways and is willing to bear the risk and/or uncertainty to act.' (Hisrich, Peters and Shepherd, 2010:6)

An entrepreneur 'is someone who specializes in taking judgmental decisions about the coordination of scarce resources.' (Casson, 2003:20)

'Today, an entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these efforts.' (Kuratko, 2008:4)

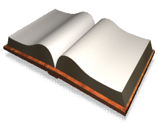
Combining these definitions, we might conclude that the entrepreneur is a businessperson who takes risks by using limited resources in innovative ways for profit.

But before continuing, it is important to clarify that risk in this context does not equal recklessness. Entrepreneurial risk is based on a calculated evaluation of possible return.

Urban (2011a: 131) identifies four areas of risk:

- Financial risk
- Career risk
- Family and social risk
- Psychological risk

Familiarise yourself with the concept of entrepreneurial risk by reading the following articles:



- Schumacter, Kowalik and Gerling, 2010, 'Entrepreneurial risk, choice and credit market equilibria', http://ideas.repec.org/p/fip/fedkrw/rwp10-13.html (accessed 12 August 2012).
- Panousi, V. 2010, 'Financial Integration, Entrepreneurial Risk and Global Dynamics', http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1960018 (accessed 12 August 2012).
- Chen, H., Miao, J. and Wang, N. (2010) 'Entrepreneurial Finance and Nondiversifiable Risk.' *Financial Studies,* http://rfs.oxfordjournals.org/content/23/12/4348.short (accessed 12 August 2012).

Managing and reducing business risks

Risk involves a combination of four different types of managerial activities. According to Atreya (2010), this is a process of preserving the earning power of the business and conserving the assets by minimising the effect of accidental losses.

These four strategies are acceptance, reduction, elimination and transfer and are illustrated in the figure below:

FIGURE 1: FOUR STRATEGIES FOR MANAGING AND REDUCING BUSINESS RISKS

Acceptance	• There is nothing much that the entrepreneur can do about certain risks. It is just beyond their control, or the cost of eliminating a particular risk is too high.
Reduction	• The entrepreneur is able to introduce some systems and processes to reduce certain risks
Elimination	• This is the ideal scenario although not often achievable unless the risk is totally under the control of the entrepreneur
Transfer	• Transferring the risk away from the business is a useful strategy. Insurance is one method used often to transfer risk

(Adapted from C.A., 2008)

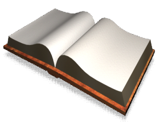
Insurability of small business risks

As not all risks are insurable, there are certain prerequisites that the entrepreneur needs to comply with for insurability to occur:

- The rate of loss must be predictable
- The possibility of the loss being suffered by the majority of the insured simultaneously must be likely
- The loss must be definite
- The specific loss must be fortuitous
- Insurance must be economically feasible

Insurance can be seen as a method designed to manage risks that are already present, with the aim of neutralising existing risk.

Read more about the types of insurance a business should have in the following article:



- Forbes.com, '13 Types of insurance a small business owner should have', http://www.forbes.com/sites/thesba/2012/01/19/13-types-of-insurance-a-small-business-owner-should-have/ (accessed 12 August 2012).

Risk continuum

In estimating risk, entrepreneurs may use the U-shaped risk equation (correlation of risk with innovation as shown in **Figure 2**). This is dependent on the type of innovation being undertaken.

Innovation

Following Joseph Schumpeter, Peter Drucker defined entrepreneurship as ‘the practice of systematic innovation’ (Kariv, 2011:24). The strength of the entrepreneur, Drucker argued, lies in his/her ability to create something new. While Drucker saw innovation as designing a completely new product, you might consider the proposition that there are in fact four types of entrepreneurial innovation:

- **Discontinuous innovation** (a ‘breakthrough’ product or service which meets a need that has not previously been met, for example the personal computer or cell phones in the late 1980s; usually have a disruptive impact on established buyer behaviour patterns);
- **Dynamically continuous innovation** (a substantial improvement to current products or services, for example the laptop or android phones; some disruptive effect);
- **Continuous innovation**; (changes to a product that continue constantly to enhance a product or service, for example a longer battery life for a laptop computer and the introduction of new software for smart phones; little or no disruptive effect); and
- **Imitation** (using the innovations of other companies to inspire a product or service development, for example when Apple introduced the iPad, other companies such as Samsung, subsequently introduced their own type of portable tablet device).

(Adapted from Morris, Kuratko and Covin, 2010:68)