BBM 001/03 Entrepreneurship Development course guide

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Unit 4

BBM 001/03

Entrepreneurship Development

Managerial Issues in Entrepreneurship

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Unit Overview

This unit explores the management and leadership issues entrepreneurs face as they create and establish new ventures. It discusses communication, leadership, competition and change management in entrepreneurship development.

Unit Objectives

By the end of Unit 4, you should be able to:

1. Communicate effectively as an entrepreneur or an intrapreneur (corporate entrepreneur).
2. Describe the leadership styles and types of leadership that can drive a business to success.
3. Distinguish between a good leader and a bad leader based on their characteristics.
4. Explain why competition is one of the driving factors for the success of a business, and why it is unavoidable in entrepreneurship.
5. Describe the factors influencing the competition of businesses and thence use strategies to succeed.
6. Describe and discuss why change is required, the process of change and how to manage change.
7. Describe the factors that influence change and the models for implementing change.

4.1 Entrepreneurial Communication

What is communication?

Entrepreneurs spend most of their time talking and listening to other people. To be able to communicate well, entrepreneurs should know about the barriers to communication and how to overcome them. The main communication barriers are conflicting information, being distracted by the personality of people, the influence of a group of people, non-verbal communication, emotions, noise and distance. Effective ways to overcome these barriers are to use feedback, face-to-face communication, the appropriate channel, reinforcement, direct and simple language, and by reducing noise. It is also vital to adjust to the perception of the receiver. Entrepreneurs should apply good listening skills to receive information and to get on better with other people.

Communication is a process that involves the exchange of information, thoughts, ideas and emotions. Communication happens everywhere and it is very important in entrepreneurship because an entrepreneur needs to communicate with various stakeholders for various reasons. Communication is a process that involves a sender who encodes and sends a message, which is then carried via the communication channel to the receiver, who decodes the message, processes the information and sends an appropriate reply via the same communication channel. Most definitions say that communication is the process of using symbols to transfer the meaning of information. It is also said that communication is the understanding not of the visible but of the invisible and hidden. These hidden and symbolic elements set in culture give meaning to the visible communication process.

Styles of communication

There are four basic communication styles:

1. **The dominant communicator**

   Entrepreneurs who are dominant communicators tend to "run people over" in interpersonal conversations. Dominant communicators often believe they are never wrong, their opinions are more important than those of others, and people who disagree with them are either disloyal or misinformed. These misguided beliefs often lead to maladaptive behaviours such as public criticism of others, blaming others when problems arise, acting bossy and negative, using verbally aggressive and threatening language, showing a lack of appreciation for the accomplishments of others, interrupting others and even finishing their sentences or dismissing new ideas without listening to their rationale.

2. **The passive communicator**

Passive communicators tend to turn people off by being indirect and meek in their interpersonal communication. Entrepreneurs who are passive communicators often believe that they should not express their true feelings, create controversy or disagree with others.

They often think that other people's opinions are more important than their own. These beliefs often lead to maladaptive behaviours such as remaining quiet even when being treated unfairly, asking for permission unnecessarily, frequently complaining rather than acting and delegating personal choice to others. Passive communicators retreat from interpersonal conflict and accept directions without question. Passive communicators create frustration and mistrust because they do not know where they stand. They create the presumption that they lack the courage to be a leader. They also hinder open communication.

3. **The passive-aggressive communicator**

The entrepreneurs who are passive-aggressive communicators tend to believe that they should "go behind people's backs" instead of dealing with people directly. They appear to agree with others when they really do not agree. They make sarcastic remarks and take subtle digs at others. They send critical messages via e-mail and copy others. They hold grudges, value "getting even" and sabotage others behind their backs (i.e. spreading negative gossip). Passive-aggressive communicators refuse to help others and often give others "the silent treatment."

Passive-aggressive communicators cause increased factionalism and favouritism in an organisation. They increase negative gossip or "back stabbing", creating an environment of low interpersonal trust. Their actions often lead to diminished job performance, increased uncertainty, job dissatisfaction and increased staff turnover.

4. **The empathic communicator**

Unlike the previous three styles, the empathic communicator interacts effectively with others to maintain healthy, long-term relationships. Companies with numerous empathic communicators are likely to have more healthy organisational cultures. Empathic communicators generally believe that personal opinions and the opinions of others are important, and that the process of coming to a decision — not just the outcome — is important. They think acquiring input from others boosts morale and generally leads to better decision-making.

These beliefs often lead to desirable behaviours, such as communicating expectations instead of demands. The focus tends to be on proactive and action-oriented conversation, with stated and realistic expectations.

Empathic communicators increase the perception of autonomy or personal control in a company, and motivate people to achieve and "go beyond the call of duty" for the company. They foster an improved sense of appreciation and respect, which in turn leads to increased levels of interpersonal trust, respect, honesty and openness. The end result is enhanced organisational communication, higher morale and better performance.

Activity 4.1

What kind of communicator are you in regards to communication styles?

Types of communication channels

The two types of communication channels are verbal communication and non-verbal communication.

1. **Verbal communication**

   Verbal communication comprises oral and written communication. Oral communication refers to spoken communication. Oral communication can either be carried out face-to-face or over the phone or on the Internet. Spoken conversations are influenced by voice modulation, pitch, volume and also the speed and clarity of speech. The other type of verbal communication is written communication. Written communication can be in the form of reports, memos, letters and email. The effectiveness of written communication depends on the style of writing, vocabulary used, grammar, clarity and precision of language.

2. **Non-verbal communication**

   Non-verbal communication is the overall body language of the person who is speaking. It includes body posture, facial expressions, hand gestures and other body movements. Facial expressions play a major role in communication since the expressions on a person's face say a lot about his or her mood. Gestures like a handshake, a smile or a hug can convey emotions. Non-verbal communication can also be in the form of pictorial representations, signboards, photographs, sketches and paintings.

Activity 4.2

What kind of communication do you use during meetings at work or with your study mates?

Directions of communication flow

The four directions in which communication can travel are: downward, upward, lateral or horizontal, and diagonal.

1. **Downward**

   Downward communication involves communication from the higher to the lower levels of an organisation so that the organisation's leadership can communicate goals, strategies or role expectations. Such communication can also be in the form of symbols, labels and posters, which require no feedback.

2. **Upward**

   Upward communication flows from the lower levels to the higher levels of an organisation. For example, this direction of communication flow occurs when there is a need to communicate problems, results or suggestions to upper management. Upward communication can be performed using suggestion boxes and feedback surveys.

3. **Horizontal**

   Horizontal communication occurs between people at the same level in an organisation. It involves, for example, coordination of activities with peers, dissemination of useful information from one department to another (for example, sales forecasts from the marketing department to the production department). Horizontal communication facilitates the linking of different areas of expertise and this may encourage innovation.

4. **Diagonal**

   Diagonal channels may potentially cause conflict within an organisation as they involve communication between the lower levels of one department to a higher level in another. For example, if an accounting department employee communicates directly with the director of marketing, this may cause friction between the employee and the director of accounting as the employee has gone around his or her own superior.

Activity 4.3

Describe two examples of verbal communication and non-verbal communication for each of the directions of communication flow in an organisation.

How to improve communication

Confidence is often the first thing that the entrepreneur should demonstrate during communication with various parties. Confidence is the energy that tells the world that you are a self-assured and self-reliant entrepreneur. It is a key component of being an effective communicator. Confidence is not arrogance. Arrogance is about self-importance whereas confidence is about making others feel important while retaining a high level of self-respect. Entrepreneurs need a high level of confidence to succeed.

Entrepreneurs also need to send clear messages. Messages should be clear in the entrepreneur's own mind before they are sent. If the thinking behind a message is a little vague or if the objectives are unclear, then that is exactly how the message will be communicated and received. Entrepreneurs must try to understand the people that they communicate with. This understanding will help entrepreneurs to select the best style, channel, vocabulary, volume, sentence structure, content, format and timing in order to communicate successfully with them.

It is also important for an entrepreneur to know when to keep quiet. Some subjects should not be matters of public discussion. These include the entrepreneur's feelings about company policy and difficulties that they have with people in the company. It is also important to keep confidential any personal problems customers bring to you and anything anyone tells you in confidence.

Entrepreneurs also need to increase face-to-face communication in the organisation. Only when communication is largely face-to-face will it stand any real chance of being effective. A meeting is the place where stakeholders can meet face-to-face with entrepreneurs to discuss common problems and where entrepreneurs can get feedback from their employees.

Entrepreneurs should encourage their employees to provide honest and complete information about their work performance, even if it is unfavourable. It is good for entrepreneurs to provide positive feedback to their employees by using praise more often than criticism, and publicly recognising their contributions and accomplishments.

Holding effective meetings

Some entrepreneurs do not know how to use meetings to communicate important information such as a change in policy. For instance, if the entrepreneur has already reached a particular decision, it is not appropriate to call a meeting and manipulate subordinates into reaching the same decision. Subordinates may begin to realise that their input is useless and may resent time spent at such meetings. It is better for an entrepreneur to call a meeting to announce that a certain decision has been taken and then involve the team in its implementation. Effective meetings require that entrepreneurs take an inventory before and after each meeting to see that they have the correct inputs and have applied the appropriate process. These inputs and processes are listed in **Table 4.1** below.

Inputs	Processes
• Clarifying the objective and distributing necessary data and background information prior to the meeting. • Having a meeting room that promotes teamwork. • Having all team members present. • Inviting non-members who have specific contributions to make.	• Getting relevant information before moving to action. • Supporting, initiating and maintaining productive behaviours and reducing counterproductive behaviours. • Managing time effectively. • Applying appropriate questioning techniques and summarising methods during the meeting

Table 4.1 Inputs and processes of effective meetings

Self-test 4.1

1. Describe what "communication" is and what can be done to improve communication.

2. Discuss the inputs and processes of an effective meeting.

4.2 Leadership

What is leadership?

An entrepreneur plays multiple roles. Among those roles are manager, administrator and leader. The organisation will be highly respected when there is faith in the abilities of the entrepreneur who is also acting as a leader. Employees will look towards their leaders for a number of things. During times of drastic change, employees will expect effective and sensible planning, as well as confident and effective decision-making from their leaders. Leaders should have the ability to challenge their people to confront long-held assumptions, reframe problems and to motivate them to think in innovative ways. Leaders are made, not born; anyone can become a leader if they are willing to learn how to be one.

Leadership is the process of inspiring individuals to give their best to achieve a desired result. It is about getting people to move in the right direction, gaining their commitment and motivating them to achieve their goals. Leadership is a reciprocal process. Any aspect of the leader, group member or setting can influence and be influenced by every other variable in the system. Leadership is a fluid, dynamic process involving continual adjustments.

Leadership is often a transformational process. The transformational leader increases group members' motivation, confidence and satisfaction by uniting them and changing their beliefs, values and needs. It is a cooperative process of legitimate influence rather than sheer power. In a small group, for example, the individual who influences others the most is often designated the leader. The right to lead is, in most instances, voluntarily conferred on the leader by some or all members of the group. Leadership is also an adaptive, goal-seeking process, for it organises and motivates group members' attempts to attain personal and group goals.

Characteristics of a good leader

We need to be able to identify the characteristics of a good leader. A good leader:

1. Shows consideration towards subordinates, understands their problems and difficulties, and shows them the right direction.

2. Assigns someone to be the person-in-charge when needed, especially in stressful and risky situations as this will ensure clear responsibility and organisation.

3. Allows subordinates to control their work environment, provides them with empowerment and opportunities for participation, autonomy and control.

4. Inspires subordinates to see a higher meaning in the workplace.

5. Provides intellectual stimulation and training so that subordinates will be more competent.

6. Is charismatic.

7. Challenges the process. A good leader does not accept the usual processes and procedures just because these are standard practices. He or she will try to challenge and improve processes and procedures.

8. Inspires a shared vision among subordinates. Instead of imposing values, he or she will try to communicate values in a way that can be beneficial for the subordinates.

9. Enables others to act. A good leader empowers people instead of micromanaging people.

10. Models his or her ways. He or she is a pioneer and does not shy away from setting up new ways of working.

11. Is a great motivator. He or she can relate to followers and inspires confidence in them.

Characteristics of a bad leader

Let us now look at the characteristics of a bad leader. A bad leader:

1. Does not show any consideration towards subordinates, and does not try to understand subordinates' problems and difficulties. He or she leaves subordinates unclear about the direction of the organisation.

2. Never makes any organisational arrangements and does not provide subordinates with opportunities for participation, autonomy and control.

3. Uses only a transactional approach towards subordinates.

4. Uses a laissez-faire style of leadership that does not respond to subordinates and does not monitor their performance and career path.

5. Is not respected and has no charisma.

6. Tends to be threatening.

7. Is indecisive.

8. Refuses to listen to the people around him or her.

9. Keeps power for himself or herself.

10. Refuses to learn or change.

Activity 4.4

Describe the characteristics of a leader you know of. Discuss why she or he is a good or bad leader.

Types of leadership skills

According to Yukl (1994), four types or categories of managerial leadership skills have been identified:

1. **Technical skills** — proficiency in the use of quantitative and qualitative methods, processes, tools and equipment.

2. **Interpersonal skills** — emotional expressivity, sensitivity and control, social expressivity, political sensitivity, control and manipulation, effective communication and persuasiveness.

3. **Conceptual skills** — anticipation of changing trends and opportunities, diagnostic analysis of problems, integrative prognosis of ongoing improvement and/or problem resolution, proficiency in the conceptualisation of complex and ambiguous relationships, creativity in idea generation and articulation, and sound logical reasoning.

4. **Administrative skills** — being effective, firm working style, prioritisation skills, operational obligations, efficient and timely processing of information, rapid routine decision-making, constant monitoring of performance, solid control of financial resources and sharp attention to detail.

Besides the four types of managerial leadership skills, the behaviour of managerial leaders can be separated into two major types: **task-centred behaviour** that initiates structure and **relationship-centred behaviour** that focuses on consideration.

Decision-making styles can also be classified into four groups:

1. **The autocratic style** — the leader is responsible for problem solving and makes decisions using the information available at the time and then tells his or her followers.

2. **The consultative decision style** — the leader shares problems with relevant followers, confers with them individually in order to gain input and then sells the decision to followers. The decision may or may not reflect the followers' input.

3. **The participative decision style** — problems are shared between leaders and followers; this style facilitates group involvement in problem analysis. The final decision will be either the result of a majority vote or consensus.

4. **The delegative decision style** — followers have the right and power to identify and analyse problems, and to make and carry out their own decisions, but they will keep their leader informed.

Activity 4.5

Discuss with your colleagues or study partners what kind of decision-making style will be most effective for entrepreneurs. Do not forget that not all entrepreneurs are in the same business, so you might want to point out which style is most suitable to what sector/type of business.

Styles of leadership

Different leaders adopt different styles. These styles are described below:

1. **Charismatic**

   Charismatic leaders rely on their personality, inspirational qualities and "aura". They are often visionary leaders who are achievement orientated, calculated risk takers and good communicators. Non-charismatic leaders rely mainly on their know-how (authority goes to the person who knows), their quiet confidence and analytical approach to dealing with problems. The following table shows the differences between the behavioural characteristics of non-charismatic and charismatic leaders.

	Non-charismatic leader	Charismatic leader
Relation to status quo	Essentially agrees with status quo and strives to maintain it.	Essentially opposed to status quo and strives to change it.
	Goal is not too different from status quo.	Idealised vision that is highly different from status quo.
Likeableness	Shared perspective makes him/her likable.	Shared perspective and idealised vision makes him/her a likable and honourable hero worthy of identification with and imitation.
Trustworthiness	Disinterested advocacy in persuasion attempts.	Disinterested advocacy by incurring great personal risk and cost.
Expertise	Expert in using available means to achieve goals within the framework of the existing order.	Expert in using unconventional means to transcend the existing order.
Behaviour	Conventional, conforming to existing norms.	Unconventional or counter-normative.
Environmental sensitivity	Low need for environmental sensitivity to maintain status quo.	High need for environmental sensitivity for changing status quo.

Articulation	Weak articulation of goals and motivation to lead.	Strong articulation of future vision and motivation to lead.
Power base	Position power and personal power (based on reward, expertise and liking for a friend who is a similar other).	Personal power (based on expertise, respect and admiration for a unique hero).
Leader-follower relationship	Egalitarian, consensus seeking, or directive. Nudges or orders people to share his/her view.	Elitist, entrepreneurial and exemplary. Transforms people to share the radical changes advocated.

Source: Adapted from Conger and Kanungo (1987)

2. **Autocratic**

Autocratic leaders impose their decisions, using their position to force people to do as they are told. This is a leadership style where one person dictates the outcome and the rest have no contribution to it whatsoever. The leader has less concern for his or her followers and refuses to see them as individuals with unique skills. Instead, to this leader they are tools to get a job done. This type of leadership is demonstrated when the leader tells subordinates what the leader wants done and how the leader wants it done, without getting advice from the subordinates. It tends to lead by authority. It is extensively used in the military where there is a strict hierarchy of authority. It is, however, not limited to the military, as many business firms are led by autocratic leadership. In such firms, the decision-making is centralised and is controlled by one or a few persons in the firm. Many family-owned companies in Malaysia exhibit this style of leadership.

3. **Democratic**

Democratic leaders encourage subordinates to participate in decision-making. Organisational democracy is where democratic principles are applied to a business context. It is not about everyone voting but about everyone having a voice. It is about operating out of freedom, not fear; peer-to-peer, not paternalism; humility and resolve instead of ego; transparency and not secrecy; fluid networks, not hierarchy (WorldBlu 2011). People do not understand how to implement this style of leadership in a company mainly because business leaders tend to hate having less control. In actual fact, they are just giving up the illusion of control. However, a democratic company is not for everyone. Employees need to have a high degree of self-knowledge and confidence in order for such a style of leadership to work.

4. **Transactional**

Transactional leaders trade money, jobs and security for compliance. The leader/member relationship is a form of social exchange; leaders and group members trade their time and energy in exchange for valued monetary and social rewards.

5. **Transformational leadership**

Transformational leadership rests on a foundation of legitimate values. Transformational leadership involves dramatic changes in an organisation in the aspects of vision, mission, norms and objectives. In transformational leadership, there are four types of leadership behaviours related to entrepreneurial leadership. It is important to understand each type of behaviour in order to apply the transformational leadership approach. The behaviours are:

a. **Idealised leadership** — This is the behaviour that arouses followers to feel a powerful identification with and strong emotions towards the leader. The leader is recognised by followers as a role model and is respected.

b. **Inspirational motivation** — A leadership behaviour that models high entrepreneurial values as an example and includes communication of an inspiring entrepreneurial vision. It also promotes powerful symbols to arouse greater efforts and a feeling of belonging. The leader must be able to motivate followers and have his or her ideas and intentions understood among the followers.

c. **Individualised consideration** — The behaviour of the entrepreneur who provides coaching, support and encouragement to specific followers, and who listens to followers' concerns. Clear guidance and facilitation will demonstrate the concern of the leader, and this will give followers a better understanding of their roles and develop strong relationships among them. Individualised consideration is displayed when leaders pay attention to the developmental needs of followers, and support and guide the development of their followers.

d. **Intellectual stimulation** — A behaviour that influences followers to view entrepreneurial problems from a new perspective. The leader must provide sufficient information and knowledge, usually through training, to intellectually stimulate his or her followers. Training is important because it increases awareness and competency. Intellectual stimulation is displayed when the leader helps followers to become more innovative and creative.

Transformational leadership as an effective communicator

As you will learn in a later section of this unit, change is unavoidable in an organisation. Change is not possible unless people are willing to help. Getting the word out about necessary changes is the key. Speeches and newsletters help communicate the vision, but the most powerful medium is the behaviour of the strategic leaders in the firm. Very visible leaders must behave in ways that are consistent with the vision. Being motivational through communication is something that transformational leaders do constantly, not just at the occasional meeting to rally employees or to introduce a new initiative. Motivation comes through in all of the leader's conversations and communications, both internally with employees and externally with stakeholders and the wider community. Transformational leaders are able to "touch" people throughout their organisation and beyond. These leaders communicate with people in ways that are very personal and meaningful. They are also in touch with people's feelings and emotions in a sensitive and understanding fashion.

An entrepreneur who acts as a transformational leader prepares to motivate his or her employees to do better than expected in three ways. First, the leader raises their consciousness about the importance of certain outcomes such as high productivity or efficiency. Second, the leader shows the value of the outcomes by concentrating on the benefits to the entire work team rather than on personal interest. Third, the leader raises employees' need levels so that they will value challenges, responsibility and growth.

Leaders build confidence among their employees by helping them increase their competence and giving them the freedom to take initiatives. They apply appropriate discipline to the process by carefully selecting the new venture, using the appropriate strategy and managing failure.

Self-test 4.2

1. Describe the four types of leadership skills defined by Yukl (1994).

2. Classify the different styles of leadership and describe "transformational leadership" in detail.

3. What are the common characteristics found in a good leader?

4.3 Culture of Competition in Entrepreneurship

Entrepreneurs and competition

Entrepreneurship is invariably associated with competition, as entrepreneurs are after a limited number of customers. Consumers can choose from a variety of similar products that are available in the marketplace and entrepreneurs need to compete to gain customers. Therefore, entrepreneurs should learn to accept competition as part of entrepreneurial culture.
When an individual decides to become an entrepreneur, having to face competition is inevitable. This competition is even more obvious when the business that the entrepreneur is involved in does not require a lot of capital, a high level of skills and complicated management systems. Some of the competitors that an entrepreneur might have to face include:

1. Those who produce products that are similar in shape, usage and presentation, and who use similar marketing techniques.

2. Those who produce substitute goods for the products produced by the entrepreneur.

3. Those who modify the products produced by the entrepreneur in terms of the products' design, usage and presentation, or who modify the marketing technique used by the entrepreneur.

Knowing who your competitors are will enable you to produce products or services that are differentiated from those offered by competitors.

The importance of competitive strategy

Frequently, entrepreneurs neglect the reality of competition for their new venture, believing that their product or service has no close substitutes and that their success will not attract other entrepreneurs. This is not the case. The various companies involved in a certain industry will always try to compete with each other, and the company that is the most competitive has the advantage over the others in the fight to survive.

The competitive strategy used by a company is based on its strengths and the opportunities within the industry that it is involved in. The competitive strategy is used by a company to gain the trust of customers in its products. Once this trust is gained, the customer will usually be loyal to the company's products even when there is a price increase or when a new substitute product becomes available. In addition, a competitive strategy will also strengthen the position of the company in the industry. Hence, any major change in the business environment such as an

economic downturn, changes in customers' tastes and demographic changes will not adversely affect the development of the company.

Factors influencing competition

As was mentioned earlier, competition is inevitable for entrepreneurs. They must be prepared to face their competitors by increasing their knowledge, experience and skills. They have to realise that there are five significant factors that influence competition within an industry. The factors are:

1. **Competition among existing companies**

   Existing companies in an industry tend to compete against each other. Among the competitive strategies adopted by the companies that fall into this category are price cuts, new product innovation, advertising, customer credit services and aggressive promotional campaigns.

2. **Entrance of new companies into the industry**

   The entrance of new companies into the industry means that there is an increase in the types of products available in the market. However, if the consumer demand for these products does not increase, the new companies will have to compete in order to gain market share. That is why new companies usually have to reduce prices or improve their product offerings through value-added programmes in order to gain a foothold in the market.

3. **Bargaining power of customers**

   In a competitive industry, customers have the power to influence the price of a certain product. Customers usually have their own reasons for using the bargaining power that they have. Besides being sensitive to the price of the product, they are usually also sensitive to the quality of the product as well.

4. **Bargaining power of suppliers**

   Suppliers have their own unique characteristics, which enable them to influence the situation in the market. For example, a big company with advanced technology, expertise and a large amount of capital will usually be able to produce high quality products at a lower cost. These high quality, low-cost products attract customers and make them give priority to the company's products. Therefore, the companies that have the ability to pull down the prices of goods also have the power to force other companies to follow their lead.

5. **Competition from substitute goods**

   Substitute goods are a threat to existing products in the market. This happens when the substitute goods have the advantages of lower cost, durability and/or other characteristics or abilities over existing products.

Strategy to compete: The culture of competition

Entrepreneurs should always try to make sure that their products or services are at the top of the consumers' choice list. The strategies that can give them an advantage over their competitors are:

1. **Determine business focus**

   This strategy requires entrepreneurs to determine the direction and objective of their business. They need to know the market segment classification for their products or services. Effective market segmentation will enable them to:

   a. Better focus on customer needs.

   b. Promote new product ideas.

   c. Develop an effective marketing mix strategy.

   d. Allocate marketing resources to different products depending upon segment attractiveness.

   At the same time, they also need to understand what their targeted customers actually want and then take all the necessary actions to fulfil these demands. In addition, entrepreneurs should always make sure that the products and services they produce are aligned with their strengths so that the products become part of the company's identity.

2. **Care for customers**

   Once their current products and services have found a place in the hearts of customers, entrepreneurs should continue the effort to improve and create new products and services in order to maintain customers' confidence in the company. At the same time, they should also provide continuous attention and support to their customers and be sensitive to all their complaints.

3. **Appreciate employees**

In addition to caring for their customers, entrepreneurs should also treat their employees as assets that need to be guided and developed. The employees, on the other hand, should be prepared to share in the company's vision and mission. Entrepreneurs must respect that employees contribute their knowledge, skills and expertise to the company. Employees should receive an assured income while the entrepreneurs bear the risk caused by price fluctuations in consumer markets. Entrepreneurs should be prepared to compensate employees appropriately and in a timely fashion for their contributions. Finally, entrepreneurs should be sensitive to signs of employee dissatisfaction, such as high absenteeism, high turnover rate, vandalism and a high percentage of scrap, and take steps to reduce dissatisfaction. If entrepreneurs do the above, their employees will know that they are valued by the company.

4. **Reduce waste**

Waste can cause companies to lose their competitive advantage. Therefore, entrepreneurs have to make sure that all resources are fully utilised and the habit of considering waste as an enemy is developed. Before taking any action or making any decision to use resources, careful and systematic planning should be carried out. Further, any action or decision on the use of resources should be based on the 4Rs, namely Reduce, Reuse, Recycle and Remove.

5. **Emphasise on quality**

An important weapon in competing is not to compromise with anything that can affect quality. Hence, entrepreneurs should make the emphasis on quality part of the organisational culture in their firms. They need to identify the source of errors, ensure that production is done correctly the first time, obtain immediate feedback regarding employees' performance, and be prepared to give moral and financial support to any quality improvement initiative from their employees.

6. **Show personal commitment**

Entrepreneurs should build a personality that shows that they can be trusted and that they will always deliver on their promises.

7. **Quick to take action**

Entrepreneurs must be fast in grabbing opportunities and handling threats. They should always be searching for opportunities in every aspect of their business and not waiting for them. They have to be proactive in modifying products or services whenever necessary, improving product usage, increasing their market share and developing new product distribution strategies. In short, they have to be a leader and not a follower.

8. **Reduce bureaucracy**

Simplifying organisational procedures, policies and rules will definitely help efforts to compete. Entrepreneurs should not get tied down by the status quo, red tape and bureaucracy, since this will make things difficult for both the entrepreneurs and the people who deal with them. They also need to encourage creativity among their employees so that they can introduce new and more efficient procedures to replace inefficient ones.

9. **Do not depend too much on technology**

The importance of technology in helping entrepreneurs to compete is undeniable. Therefore, they should know how to combine available technologies with the expertise in their organisation and be sensitive to technological changes so that they benefit from being early adopters of new technology. Even so, entrepreneurs should be cautious and sensible when taking decisions to adopt new technologies. Even when a new technology is implemented, entrepreneurs should have a contingency plan ready, just in case something should go wrong with it.

10. **Always measure performance**

Entrepreneurs should not feel satisfied with the success that has been achieved thus far. Complacency will make them lose their competitiveness and they might also lose sight of what is important. To prevent this from happening, entrepreneurs should continuously measure their organisation's performance, and from time to time measure the strength and weaknesses of their competitors. They should also always measure the level of customers' acceptance of their products.

Activity 4.6

Find (from the Internet) at least three models for analysing competitors.

Self-test 4.3

1. Define the role of competition in entrepreneurship.

2. Discuss the factors influencing competition.

3. Describe strategies that can help an entrepreneur to stand against competitors.

4.4 Entrepreneurship and Managing Change

Definition of managing change

Change is a continuous process in the evolution and development of companies as they strive for a competitive edge in the global marketplace. "Change" means to transform, adapt, rearrange, reorganise or transition. Organisational change means the process by which firms move from the present state to some desired future state to increase their effectiveness and efficiencies.

The pressures on businesses are becoming greater than ever, especially in times of global recession. As such, most firms are facing more turbulent markets, more demanding shareholders and more discerning customers that force entrepreneurs to restructure their businesses. In order for their firms to survive, they need to deliver ever higher levels of quality and service at competitive prices. The increasing pressure to compete, the globalisation of the economy as well as the transition of an industrial economy to a "knowledge-based" service economy, all lead to a higher demand from stakeholders for entrepreneurs to increase their level of performance.

Managing change has two different meanings. It means to make changes in a planned and managed or systematic fashion, which means implementing new methods and systems in an orderly manner. Managing change also means the response to changes over which the firm has little or no control. Examples of such changes are changes in legislation, social or political leadership and the effects of globalisation.

According to Webster's dictionary, change management is a structured process that will cause proposed changes to be reviewed for technical and business readiness in a consistent manner that can be relaxed or tightened to adjust to business needs and experiences. Change management is a structured approach adopted to move individuals, teams or firms from a current state to a different state in the future. It is a systematic approach to dealing with change, both from the perspective of a firm and on the individual level. Change management has at least three different aspects, including adapting to change, controlling change and effecting change. For an entrepreneur, change management means defining and implementing procedures and technologies to deal with changes in the business environment and to gain maximum advantage from changing opportunities.

Hence, change management can be defined as an organised, systematic application of the knowledge, tools and resources of change that provides firms with a key process to achieve their business strategy. All the stakeholders involved must be proficient and open-minded to manage people in the changing firm to achieve the required business outcome, and to realise that the change management and firm's performance are directly proportional within the business environment.

Scope of change

Depending on the context of the organisation, change may be required in one or more of the following:

1. Workgroup encompassing a local group of workers.
2. Function or department responsible for an operational or staff support area.
3. Business unit responsible for a geographical region or product range.
4. Company encompassing a number of businesses or business units.

The organisation interacts with a host of parties outside of the organisational boundary. The scope of the proposed change may encompass these external areas. The organisation may need to ask one or more of the following to make changes:

1. Customers
2. Suppliers
3. Competitors
4. Regulators
5. Government
6. Society

Object of change

Considering the object of change will help clarify the most suitable approach to the implementation of change. The following may be the objects of your change efforts:

1. Infrastructure — such as buildings or transportation.
2. Systems — such as information, financial, performance and quality management.
3. People — such as number, skill mix and roles.
4. Structure — such as reporting lines and functional boundaries.
5. Culture — such as values, symbols and beliefs.

The object of change will, in many instances, include more than one object. For example, implementing a state-of-the-art information system may involve changes to the financial accounting system, a new building to house the hardware and training staff in the new processes and systems. It may be said that all non-trivial workplace changes eliminate or modify old behaviours or introduce new behaviours.

Frequently, workplace change initiatives that fail are those that focus resources towards building new structures, redesigning processes and restructuring organisational units with little or no attention paid to the human aspect of the change. It is vital that entrepreneurs realise the multidimensional nature of successful change efforts so that they can develop a more sophisticated change management plan that will better anticipate problems.

Managing the change process

Managing change can be thought of as "a structured process for thought, analysis and appropriate action." The management of the change process is general in its application. Different levels of review, control and approval should be established for various changes as classified by type or scope. **Figure 4.1** shows you the steps in the change process, which are described in greater detail below.

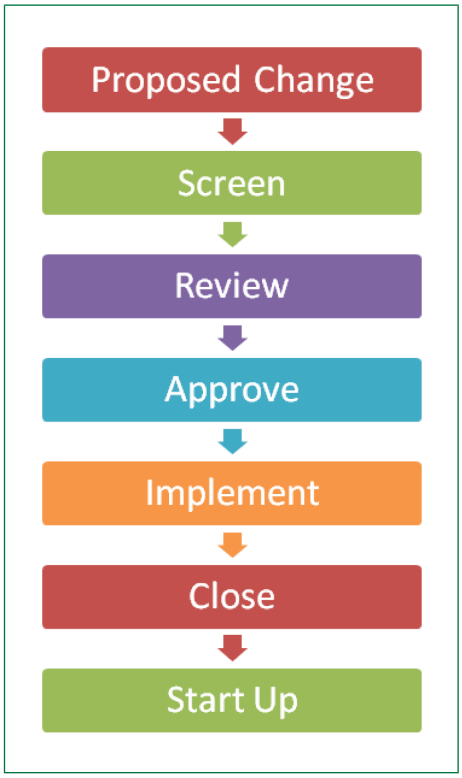

Figure 4.1 The process of management of change

1. Screen

   In this step, a proposed change is initiated and then screened to determine if it:

   a. Is desirable and justified.

   b. Meets the definition of a change that is required.

   c. Has sufficient detail for the reviewers to reasonably understand the purpose, scope and context.

2. Review

   In this step, the change is evaluated, and any issues involving the proposed change are identified and documented. Examples of issues to be raised are consequences and risks, design deficiencies, documentation needs, communications and training requirements.

3. Approve

   In this step, a decision is made as to whether the proposed process of management of change is approved or stopped, or if further review is required.

4. Implement

   In this step, detailed documentation, communication, training and actual work are performed to bring about the change.

5. Close

   In this step, the change is closed because implementation is complete.

Managing change: The roles of the entrepreneur

The management of change is a structured approach adopted to move an entrepreneur from a current state to a different state in the future. For entrepreneurs, managing change means defining and implementing procedures and technologies to deal with changes in the business environment and to profit from changing opportunities. Change will certainly continue to be a constant factor that will determine the success and failure of any entrepreneur. There is no way any of them can avoid change, but the most important thing is to learn to manage change and to face it with an open mind. Change is ever present and as such entrepreneurs have to equip themselves to face it. Otherwise their organisation will not last long and will eventually fade away.

Factors that influence change

There are two main groups of factors that force entrepreneurs to change: external factors and internal factors:

1. **External factors**

   Market pressures such as globalisation, competition, changes in the workforce, the power of consumers (well educated and high expectations for the quality of products and services), social responsibilities, government regulations, shrinking budgets or subsidies, and ethics, can all force entrepreneurs to change. Besides the pressure from the market and society, external forces of change include new technologies, new business models and information overload. These external factors will affect business strategy planning and formulation.

2. **Internal factors**

   Changes in the board of directors or organisational structure, cost consciousness and productivity drives are some examples of the internal factors that influence change. Sometimes, changes take place not because of problems but due to opportunities for better business deals or for expansion.

3. **Create a vision and values**

   Entrepreneurs should create a vision to enable them to see or craft opportunities that other people miss. They should then be able to synthesise available resources to turn their vision into reality. Visionaries have to sell their new ideas and create demand. They need to establish a clear vision of where the organisation will end up and the anticipated outcomes of the change.

   Entrepreneurs are very clear on their purposes, goals or objectives and why these are set. They use this clarity of perception to carefully plan the journey towards the objectives so that their employees are willing to "travel" along with them. They also have the ability to transform current realities into desired future realities by creating:

   a. New ways of seeing and doing things.

   b. New and more effective ways of organising things.

   c. New products and services that both meet people's usual needs and needs that they did not previously know they had.

   d. New directions in places that others have not yet seen.

   e. Resources where things have looked barren or non-existent.

f. New ways of looking at the work of others and applying their methods to get through barriers in their (the entrepreneurs') own work.

4. **Communicating and engaging**

Entrepreneurs should be able to "touch" people throughout their interaction with them. This is in the sense of communicating with them in ways that are meaningful and sensitive to their feelings and emotions. Entrepreneurs need to communicate the company's mission to their employees in order to make them better understand what is expected from them. With effective communication, employees will work together as a team to achieve the company's goals, continuously improve service and quality, and develop abilities and skills. Day-to-day business activities will occur without the energy drain associated with frustration, conflict, suspicion, blame and false commitments.

5. **Empowering others**

This step includes getting rid of obstacles to change such as unhelpful structures or systems. Through empowerment, entrepreneurs give employees the responsibility and authority to make decisions regarding their own jobs. People are then held accountable for their decisions and in return share the rewards and failures that result from the decisions.

Entrepreneurs need to trust their employees by empowering them and also by celebrating short-term wins. Such celebrations are important because the actual success of the change process may take a long time and as such, short-term wins may serve as a boost to the morale of the employees, so that they will continue striving for the ultimate aim. Entrepreneurs must also be able to consolidate gains so that they will be able to justify the benefits of change, not only to the organisation but to their employees as well. In order to create confidence, people who contribute towards the success of change must be recognised and rewarded. To make sure that empowerment is successful, the entrepreneur must serve in a linking and coordinating role.

6. **Noticing improvement and energising**

Entrepreneurs should encourage participation and share resources, power and information. They should energise employees so that they exceed the expected target. Employees must be rewarded for improvements that they make. Entrepreneurs should implement a system for recognising and rewarding employees for their participation in the change process.

7. **Consolidating**

   To ensure that complacency does not set in among employees and that the ultimate goal of the change effort is realised, entrepreneurs need to consolidate any gains in the change effort by regularly reiterating the goal of the change and the plan for making the change.

8. **Institutionalising new approaches**

   Once a planned change is successfully implemented, entrepreneurs should ensure that everyone understands that the new behaviours and innovative approaches are required mechanisms which lead to corporate success. The new approaches need to be institutionalised; that is, they should be incorporated into the organisational system or culture.

Activity 4.7

1. Describe and discuss the impact of change on employees, employers, the business, the market and the entrepreneur.

2. Giving examples, briefly explain what kind of changes could occur in the macroeconomic environment of a business.

Self-test 4.4

1. Discuss the change management process. Support your answer with examples.

2. Describe the impact of technological change on entrepreneurship. Give examples where appropriate.

Summary of Unit 4

Summary

In this unit, you have learnt managerial issues in entrepreneurship in the context of communications, leadership, competition and change. You would have realised that knowledge of the 3Cs, namely communication, competition and change, are vital for any successful entrepreneur, as is knowledge of leadership. You have learnt the various styles of communication and leadership. You have come to understand that competition is an unavoidable reality and you now know to handle competition. You would also now appreciate the importance of managing change effectively. Change is inevitable; whether an entrepreneur capitalises on it or suffers from it, depends on the entrepreneur's attitude towards change and his or her preparations to handle it.

Suggested Answers to Self-tests

Feedback

Self-test 4.1

1. You need to understand what "communication" is. Then think about how an entrepreneur can communicate better. By being more outgoing? By being more sympathetic with employees or by being more aggressive? Justify your answers.

2. See **Table 4.1**.

Self-test 4.2

1. You should describe technical skills, interpersonal skills, conceptual skills and administrative skills.

2. You should describe idealised leadership, inspirational motivation, individualised consideration and intellectual stimulation.

3. A good leader should be charismatic, considerate, inspirational and trusting.

Self-test 4.3

1. Competition is a healthy aspect of entrepreneurship if it is not too fierce. Competition forces entrepreneurs to be innovative in their offerings.

2. You should discuss market share, business growth, socioeconomic factors, technological advances and government policies/ incentives.

3. There are a number of possible strategies. One is to set your prices at the most competitive level. Another is to make sure your products or services are so good that your customers will not defect to your competitor. Read about the strategies of Virgin Atlantic Airways.

Self-test 4.4

1. You should outline a step-by-step approach to management of change. You can provide examples from your workplace if your organisation has gone through a change. This can be a change of management team, a merger with another organisation or a takeover by another organisation.

2. Technological change can mean new forms of businesses will appear — at the same time many existing forms of businesses may disappear. The insurance industry provides us with an example of technological change. In the past, insurance agents were in every town or district. However, now that we can buy insurance online, most of those local insurers have disappeared. New online businesses that provide comparison services between insurance providers have appeared in the market.

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