BBM 001/03 Entrepreneurship Development course guide

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Unit 1

BBM 001/03

Entrepreneurship Development

Overview of Entrepreneurship

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Contents

Unit 1 Overview of Entrepreneurship

Course overview 1

Unit overview 3

Unit objectives 3

1.1 Fundamentals of entrepreneurship 5

Evolution of the concept of entrepreneurship 5

Definition of entrepreneur 7

Definition of entrepreneurship 8

Nature and characteristics of entrepreneurship 8

Distinction between entrepreneur and manager 9

Why does society need entrepreneurs? 10

Contributions of entrepreneurs 10

Different types of business structures 12

1.2 Personalities of entrepreneurs 17

Characteristics of entrepreneurs 17

Qualities of a successful entrepreneur 19

Functions of an entrepreneur 20

What motivates people to become entrepreneurs? 22

Women entrepreneurship 24

Social entrepreneurship 24

About your business idea 25

Developing a business idea 26

1.3 Enterpreneurs and creativity 29

The concept of creativity 29

Types of creative behaviour 30

How to develop creativity 31

Innovation and entrepreneurship 32

Need for achievement (achievement motivation) 32

Entrepreneurial competencies 32

Meaning of entrepreneurial competencies 32

Personal Entrepreneurial Competencies (PEC) 33

Summary of Unit 1 35

Suggested answers to self-tests 37

References 41

Course Overview

Welcome to Entrepreneurship Development. You have made a wise decision to embark on this course, and we are certain that what you will learn will help you start up your own business. Any aspiring business person has to come to terms with basic concepts associated with a business. Throughout this course, we intend to discuss concepts like "entrepreneurship", "entrepreneur", "enterprise", "the business idea", and factors that influence your intention to start up a business.

While preparing the contents for this course, we took special measures to ensure that you would be able to relate to the different concepts introduced. In addition, we have kept the language as simple as possible to ensure clear understanding of the content. The activities that have been integrated throughout the units will enable you to gradually and systematically gather information and the right "ingredients" to be able to write up your business plan: the most important tool that will support your efforts to start up your own small business.

By the end of this course, you should be able to:

1. Assess whether or not entrepreneurship is for you.

2. Create awareness of the entire process of starting up a small business.

3. Acquire competency in strategic business planning prior to starting up a small enterprise.

4. Create awareness to the importance of business planning, market research and knowledge for the successful entrepreneur.

5. Assist small business owners in growing their businesses in a systematically planned manner.

6. Foster your personal growth and encourage continuing professional development.

Unit Overview

You decided to take this course because you want to become an entrepreneur. This means you want to start and run your own business in your community. You may already have a great business idea … or not … but you know you want to work for yourself, follow your own ideas and be independent. You may also have aspirations to grow your business and provide employment opportunities in your own community.

Whereas the idea of entrepreneurship may sound exciting, it may not necessarily be for everyone. There are number of questions you need to ask yourself to determine whether or not you should go ahead with your great idea. In this unit, you will explore what it takes to be an entrepreneur and the personal characteristics that are important for entrepreneurs to succeed.

Unit Objectives

By the end of Unit 1, you should be able to:

1. Explain how entrepreneurship can impact your life and the life of your family.

2. Identify key personal characteristics that are fundamental to becoming a successful entrepreneur.

3. Assess your own personal characteristics as they relate to successful entrepreneurship.

4. Identify key entrepreneurial skills that are fundamental to successful entrepreneurship.

5. Describe your own entrepreneurial skills and strategies for complementing the skill set necessary for successful entrepreneurship and business sustainability.

6. Develop an innovative, creative and curious mindset that is always on the lookout for opportunities.

1.1 Fundamentals of Entrepreneurship

Evolution of the concept of entrepreneurship

This section should spark your interest in entrepreneurship. Entrepreneurship is not a new phenomenon in any society or country. It started when humans realised the importance of societal living. The word "entrepreneur" was first used by the economist Richard Cantillon in the year 1725. Another economist who was famous through his research on entrepreneurship in the early 18th century was J.B. Say. Since then, various entrepreneurship theories and concepts have emerged and most of these theories include the perspectives of sociology, psychology and other fields. One of the main contributions of sociology to the field of entrepreneurship was made in the book Protestant Ethics and the Spirit of Capitalism, which was written by Max Weber in 1905. The field of psychology also contributed significantly to the field of entrepreneurship in the 1960s.

Entrepreneurs recognise a viable idea for a product or service and transform the idea into reality. They will synergise resources, such as money, people, machinery, location, networking and information, to undertake the business venture. Although they expose themselves to financial and social risks, the returns from their venture may make them successful people who enjoy unlimited income. Thus, entrepreneurs are known as individuals who have special qualities in managing their own lives and their businesses.

The word "entrepreneurship" became widely used in Malaysia following the implementation of the New Economic Policy 1970. However today's entrepreneurial rules and the characteristics of entrepreneurs are different compared to those found in the early days of entrepreneurship in Malaysia.

Below is a brief history of entrepreneurship;

1. **Early Ages**

   The earliest definition of the entrepreneur as a go-between is Marco Polo. He tried to establish trade route to the Far East. He used to sign a contract with a venture capitalist to sell his goods. The capitalist was the risk bearer. The merchant adventurer took the role of trading. After his successful selling of goods and completing his trips, the profits were shared by the capitalist and the merchant.

2. **Middle Ages**

   The term entrepreneur was referred to a person who was managing large projects. He was not taking any risk but was managing the projects using the resources provided. An example is the cleric who is in charge of great architectural works such as castles, public buildings, cathedrals etc.

3. **17th Century**

An entrepreneur was a person who entered into a contractual arrangement with the government. to perform a service or to supply some goods. The profit was taken (or loss was borne) by the entrepreneur.

4. **18th Century**

It was Richard Cantillon, a French Economist, who applied the term entrepreneur to business for the first time. He is regarded by some as the founder of the term. He defined an entrepreneur as a person who buys factor services at certain prices with a view to sell them at uncertain prices in the future.

5. **19th Century**

Entrepreneurs were not distinguished from managers. They were viewed mostly from the economic perspective. He takes risk, contributes his own initiative and skills. He plans, organises and leads his enterprise.

6. **20th Century**

During the early 20th century Dewing equated the entrepreneur with business promoter and viewed the promoter as one who transformed ideas into a profitable business. It was Joseph Schumpeter who described an entrepreneur as an innovator. According to him, an entrepreneur is an innovator who develops untried technology.

7. **21th Century**

Research Scientists De Bone pointed out that it is not always important that an individual comes up with an entirely new idea to be called an entrepreneur, but if he is adding incremental value to the current product or service, he can rightly be called an entrepreneur.

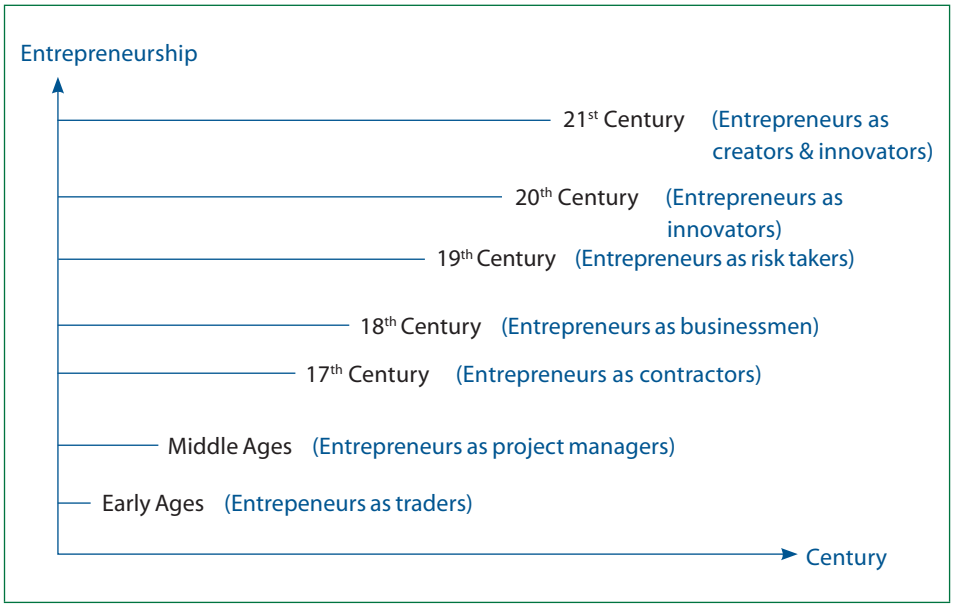

Figure 1.1 Timeline of entrepreneurship evolution

Activity 1.1

By obtaining information from the Internet and combining it with what you have read in this section, write a brief summary of the history of entrepreneurship. At the end of the summary, describe what you think will be the most likely scenario for entrepreneurs in the 21st century.

Definition of entrepreneur

An entrepreneur is ordinarily called a businessman. He is a person who combines capital and labour for the purpose of production. He organises and manages a business unit assuming the risk for profit. He is the artist of the business world. In the words of J.B. Say, "An entrepreneur is one who brings together the factors of production and combines them into a product". He made a clear distinction between a capitalist and an entrepreneur. Capitalist is only a financier. Entrepreneur is the coordinator and organiser of a business enterprise. Joseph A Schumpeter defines an entrepreneur as "one who innovates, raises money, assembles inputs and sets the organisation going with the ability to identify them and opportunities, which others are not able to fulfil such economic opportunities". He further said, "An entrepreneur is an innovator playing the role of a dynamic businessman adding material growth to economic development".

Definition of entrepreneurship

In the words of Stevenson and others, "Entrepreneurship is the process of creating value by bringing together a unique package of resources to exploit an opportunity." According to A.H. Cole, "Entrepreneurship is the purposeful activities of an individual or a group of associated individuals undertaken to initiate, maintain or organise a profit oriented business unit for the production or distribution of economic goods and services". All activities undertaken by an entrepreneur to bring a business unit into existence are collectively known as entrepreneurship. It is the process of changing ideas into commercial opportunities and creating values. In short, entrepreneurship is the process of creating a business enterprise. According to the literature, the definitions of entrepreneurship are as shown in **Table 1.1** below.

Source	Definition
(Knight, 1921)	Profits from bearing uncertainty and risk.
(Schumpeter, 1934)	Carrying out of new combinations of products/services, new sources of raw material, new methods of production, new markets and new forms of firms.
(Cole, 1969)	Purposeful activity to initiate and develop a profit-oriented business.
(McClelland, 1961)	Moderate risk taking.
(Casson, 1982)	Decisions and judgments about the coordination of scarce resources.
(Gartner, 1985)	Creation of new firms.
(Stevenson, Roberts and Grousbeck, 1989)	The pursuit of opportunity without regard to resources currently controlled.

Table 1.1 The various definitions of entrepreneurship

Nature and characteristics of entrepreneurship

Features of entrepreneurship are summarised as follows:

1. It is a function of innovation.
2. It is a function of leadership.
3. It is an organisation building function.
4. It is a function of high achievement.
5. It involves creation and operation of an enterprise.
6. It is concerned with unique combinations of resources that make existing methods or products obsolete.

7. It is concerned with employing, managing, and developing the factors of production.

8. It is a process of creating value for customers by exploiting untapped opportunities.

9. It is a strong and positive orientation towards growth in sales, income, assets, and employment.

Activity 1.2

Define "entrepreneur" and "entrepreneurship" in your own words.

Distinction between entrepreneur and manager

Often the two terms namely entrepreneur and manager are considered synonymous. However the two terms have different meaning. The major points of distinction between the two terms are presented in **Table 1.2**.

Points	Entrepreneur	Manager
1. Motive	Main motive of an entrepreneur is to start a venture of his personal gratification.	Main motive of a manager is to render services in an enterprise already set by someone else.
2. Status	Owner	Servant
3. Risk	Assumes risk and uncertainty.	Manager does not bear any risk involved in enterprise.
4. Rewards	Profits which are highly uncertain and not fixed.	Salary which is certain and fixed.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of the customers. Hence he acts as innovator/change agent.	A manager simply executes plans prepared by the entrepreneur.
6. Qualification	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk bearing ability etc.	A manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

Table 1.2 Distinction between entrepreneur and manager

Why does society need entrepreneurs?

Entrepreneurship creates wealth and reduces unemployment. Entrepreneurs contribute to industrialisation as well as to economic growth; they improve living standards and tax revenues from their enterprises contribute to a nation's treasury. Not surprisingly, governments have been spending considerable sums of money trying to create entrepreneurs. There are four main reasons why entrepreneurs are important to society:

1. They use the factors of production such as land, capital, technology, information and human resources to produce new products and services.

2. They identify opportunities from the environment and increase activities that are beneficial to society when they pursue these opportunities.

3. They select the best approach to use the factors of production in order to minimise waste in their entrepreneurship activities.

4. They benefit future generations by providing better infrastructure and a better environment.

Contributions of entrepreneurs

The society which has the most entrepreneurs usually emerges as the most successful society. This is because an entrepreneur is an individual who is creative, dynamic and innovative. Entrepreneurs contribute to society in many ways. Among their contributions are:

1. **Developing new markets**

   In the modern concept of marketing, markets are people who are willing and able to satisfy their needs. In economics, this is called effective demand. Entrepreneurs are resourceful and creative. They can create customers or buyers for their products and services. This makes entrepreneurs different from ordinary businessmen who only perform the traditional functions of management like planning, organising, coordinating and controlling. New markets can only be developed if entrepreneurs manage to fulfil customers' needs and wants in ways that will lead to customer loyalty.

2. **Discovering new sources of materials**

   Entrepreneurs are not satisfied with existing sources of materials. They realise that their firm's resources are limited and that this leads them to compete with others to ensure resource availability. They are innovative and creative in discovering new sources of materials for the survival of their firm. In business, those who can develop new sources of materials enjoy a comparative advantage in terms of supply, cost, customer loyalty and quality.

3. **Mobilising capital resources**

   Entrepreneurs are the organisers and coordinators of the major factors of production. The factors of production are capital, labour, equipment and land. They properly mix these factors of production to create goods and services. Entrepreneurs seek to attract resources in a competitive marketplace. They put these resources to higher-value uses, as determined in the marketplace. Entrepreneurs have the initiative and self-confidence to accumulate and mobilise capital resources for new businesses or for business expansion.

4. **Introducing new technologies, new industries and new products**

   Aside from being innovators and reasonable risk-takers, entrepreneurs take advantage of business opportunities, and transform these into profits. In doing so, they introduce something new or something different. Such entrepreneurial spirit has greatly contributed to the modernisation of the economy. Every year, new technologies and new products are introduced by entrepreneurs. All of these are intended to satisfy human needs in a more convenient and pleasant way. New technologies enable them to diversify their products to serve diverse human needs and wants.

5. **Creating employment**

   The biggest employer in most countries is the private business sector. Millions of jobs are provided by factories, service industries, agricultural enterprises and the numerous small-scale businesses. Such massive employment has multiplier and accelerator effects in the whole economy. More jobs mean more people with incomes. This increases demand for goods and services, which in turn stimulates production. More production generates more employment.

Activity 1.3

Name and outline one recent positive change in society that was the result of entrepreneurship in the business sector that you are familiar with. In addition, explain what would be the cost of not having such a change in society.

Different types of business structures

There are two different types of business structures:

1. **Sole trader**

   A sole trader, also called sole proprietorship, is the simplest form of business organisation. You can start the business on your own using your own money, without having to set up a complicated legal structure. However, to get recognised and to be able to do business legally, you will need to register your business at the Registrar of Companies (ROC) or at any equivalent government body. All the income earned through the business is yours but you have to pay income tax.

   The legal constraint for the sole trader however, is that you have **unlimited liability**, that is, you are the only person responsible for all the debts of the business. In case of bankruptcy, you will be liable for the business' debts and therefore your creditors may claim all your private property.

   Advantages

   a. It is relatively cheap to operate and easy to start.

   b. Does not require formal accounting record-keeping. Taxes are usually paid through the personal income tax.

   c. All the profit is yours.

   d. You are your own boss.

   e. You do most of the work.

   Disadvantages

   a. You have NO limited liability.

   b. All the risk is yours.

   c. Challenging to take sick leave or holiday time.

   d. You may not have all the skills to launch a business on your own.

2. **Partnership**

A partnership is, in essence, a sole trader but having the ownership shared between partners. A partnership should have a partnership agreement (a legal document) drawn up to show the rights and responsibilities of all the partners, as well as each one's share in the business. There may also be "sleeping partners" — that is those who own a share of the business but are not involved in the day-to-day running of the business. A partnership also has unlimited liability. Partnerships are common in professions such as accountancy and law.

In terms of legal structure, a partnership can be incorporated into a firm. There are two main categories of firms:

a. **Private limited company**

A private limited company is one where the liability is limited, that is, the liability is limited to the value of the total shares issued for the business. This means that any debts are debts of the company and not of the individual owners. So, in case the company faces financial difficulties, creditors can only sue up to that amount and cannot sue for the personal property of the share holders.

A limited company has to be registered legally, and the legal document must include a Memorandum and Articles of Association. There need only be one director and they have to prepare annual accounts and submit them to the government body responsible for the registration of companies. Private limited companies can range significantly in size. They may consist of a small family-based business or they could be large multi-national companies. The shares of a private limited company can only be sold privately, that is, they cannot be offered for sale in a stock exchange for instance.

Advantages

i. Partners have limited liability.

ii. Easier to raise larger sums of capital to start up or grow the business.

iii. More flexible than Public Limited Companies, which you are going to study next.

iv. Opportunities for bringing in more skills.

Disadvantages

i. You can only sell shares privately.

ii. Not very flexible if expansion becomes possible.

iii. More legal formalities than sole traders .

b. Public limited company

Like a private limited company, the ownership in a public limited company is determined by the total number of shares issued. However, the key difference is that these shares can be freely bought by anyone on a stock exchange. Ownership is therefore open to anyone who wants to buy shares. Public limited companies have legal requirements in that they have to produce annual reports and accounts and file them with the government body acting as registrar of companies.

There are various other requirements to forming a public limited company, including:

i. It must have at least two directors.

ii. It must have a fully qualified Company Secretary.

Advantages

i. You have limited liability.

ii. It is easier to have access to finance.

iii. More funds are available for investment.

Disadvantages

i. You have to publish annual financial statements that provide a "picture" of the financial situation of the company. Others, e.g., auditors, have to look at your books to check for transparency in all accounting procedures.

ii. Greater need to conform to legal procedures.

iii. Depending on the percentage of share ownership, owners might lose control of the enterprise.

Self-test 1.1

1. Briefly explain how entrepreneurship has evolved over the centuries. What do you think is the major difference between entrepreneurship in the 19th century and the 20th century? Justify your answer.

2. Discuss what motivates people to become an entrepreneur.

1.2 Personalities of Entrepreneurs

Characteristics of entrepreneurs

The ability to adapt management practices and business models to take advantage of the rapidly changing global economic environment is a quality that every successful entrepreneur must possess. The Malaysian government has vested considerable energies and financial aid for the acculturation and education of the countries next generation of entrepreneurs. There are some unique and highly innovative individuals who stand above the rest, and who are lauded for the ways in which they have brought their companies to the pitch of international prosperity. These entrepreneurs, a number of which are found here, are most often cited as role models among young and old Malaysian professionals alike.

Personality is the nature of an entrepreneur that will influence his or her interaction with the environment. It involves the behaviour patterns, manner of thinking and emotional maturity that is shown by the entrepreneur. The characteristics of entrepreneurs are:

1. **Self-confidence**

   An entrepreneur who is confident about his or her own capacity and self-potential in implementing entrepreneurship activities has the following strengths:

   a. Experience acts as a guide to venturing into future business activities.

   b. Benefits from the experiences of others.

   c. Willingness to develop skills, capability and knowledge with full confidence, along with being able to accept mistakes as part of the learning process.

   However, overconfidence in entrepreneurship activities may lead to hasty decisions being made and the refusal to face reality. This may lead an entrepreneur to take an extremely high level of risk.

2. **Willingness to take risk**

   An entrepreneur is willing to face a high level of risk and is willing to make quick decisions using very little information when needed.

3. **Types 'A' and 'B' personalities**

Two types of personalities have been identified in entrepreneurs; namely, type 'A' and type 'B' personalities.

Type 'A'

Entrepreneurs with the type 'A' personality love competition, are greedy and hardworking, have a quick temper, and are quick to act, but do not necessarily produce results. They are impatient and often take on two or more tasks simultaneously, as they are not prepared to waste time.

Type 'B'

Entrepreneurs with the type 'B' personality are more relaxed, "easy-going" and are not competitive. For them business is pleasure. They prefer to have good relationships with various people and organisations. This is because they are more patient and tolerant, and tend to avoid conflicts.

4. **Proactive**

Entrepreneurs are more responsive and try to shape or influence the environment. They are always in search of business opportunities. Entrepreneurs will:

a. Be ready to present proposals without the fear of being ridiculed by others.

b. Make the effort to identify and find opportunities.

c. Be ready to take action even though they have to face risks.

d. Be ready to make changes because they have the confidence that the changes will determine the direction of the business venture.

5. **Locus of control**

An entrepreneur's locus of control is the extent to which they believe that they are controlled by internal or external powers. There are two types of locus of control:

Internal control

Internal confidence enables such an entrepreneur to control his or her own future. Such entrepreneurs are confident that the commitment they give to their business will determine the total profit that can be obtained.

External control

Such entrepreneurs see that the success of a business depends on the support of others. Therefore, future success cannot be predicted and depends on luck. They believe that their destiny is controlled by people who are more powerful than they are.

6. **Machiavellianism**

This type of personality characteristic was introduced by Niccolo Machiavelli. In his opinion, an individual who has a "High-Mach" personality is pragmatic, maintains an emotional distance and is confident that the ends justify the means. This confidence allows them to make use of others and to use various methods to attain personal goals. This will result in entrepreneurs acting in the following ways:

a. Ignoring moral and ethical behaviour.

b. Manipulating situations to achieve success in running a business.

c. Acting aggressive and rude.

Activity 1.4

Assess the personalities of the entrepreneurs you have identified with regards to the six personality characteristics of entrepreneurs discussed in this section.

Qualities of a successful entrepreneur

In order to organise and run it successfully, an entrepreneur must possess some qualities and traits as follows:

1. **Willingness to make sacrifices and assume risks**

A new venture is full of difficulties and unanticipated problems. In such an inhospitable environment, an entrepreneur has to be prepared to sacrifice his time, energy and resources in order to carry out the venture and make it a success.

2. **Hard work**

   Willingness to work hard distinguishes a successful entrepreneur from an unsuccessful one. For example, Assim Premji (chairman of Wipro) works in his office fourteen hours every day. He is a successful entrepreneur. He is one of the richest persons in India.

3. **Optimism**

   Successful entrepreneurs are not worried by the present problems that they face. They are optimistic about the future. This enhances their confidence and drives them towards success. Some of the world's greatest entrepreneurs failed before they finally succeeded.

4. **Self-confidence**

   This is the greatest asset of a successful entrepreneur. He must have the confidence to make choices alone and bounce back when he fails.

5. **Leadership**

   A successful entrepreneur generally has strong leadership qualities. He should be a good judge of human nature and a good leader. He must be able to select, train and develop persons who can properly manage and control the labour force. McClelland identified two main characteristics in an entrepreneur:

   a. Doing things in a new and better manner.

   b. Decision making under uncertainty.

A successful entrepreneur must be capable and well-informed, a successful leader of men, a keen judge of things, courageous and prudent. Above all, he must be gifted with a large measure of practical common sense. There is no age bar, for any person who possesses certain behavioural traits and attitudes can work to become an entrepreneur.

Functions of an entrepreneur

An entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. An entrepreneur has to perceive business opportunities and mobilise resources like man, money, machines, materials and methods. The following are the main functions of an entrepreneur.

1. **Idea generation**

   The first and the most important function of an entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

2. **Determination of business objectives**

   An entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The entrepreneur must be clear about the nature and type of business, i.e., whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

3. **Raising funds**

   All business activities depend on finance. Hence fund raising is an important function of an entrepreneur. An entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as TEKUN, Credit Bureau Malaysia (CBM), Credit Guarantee Cooperation Malaysia Berhad, Micro Credit Schemes for entrepreneurs etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

4. **Procurement of machines and material**

   Another important function of an entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.

5. **Market research**

   Market research is the systematic collection of data regarding the product which the entrepreneur wants to manufacture. An entrepreneur has to undertake market research persistently to know the details of the intending product, i.e., the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.

6. **Determining form of enterprise**

   An entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship and partnership.

What motivates people to become entrepreneurs?

What leads a person to strike out on his or her own and struggle to start and own a business? Perhaps that person has been retrenched one or more times. Perhaps that person is frustrated with his or her current job and does not see better career prospects on the horizon. Sometimes, that person realises that his or her job is in jeopardy. Perhaps that person sees no opportunities in existing businesses for someone with his or her interests and skills. Some people are actually repulsed by the idea of working for someone else.

Most people are attracted to entrepreneurship by the advantages of starting a business. These perceived advantages include:

1. Entrepreneurs are their own bosses. They make their own decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as how much to pay themselves and their workers, and whether to take vacations.

2. Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.

3. It provides the ability to be fully involved in the operation of the business, from concept to design and creation, from sales to business operations and customer response.

4. It offers the prestige of being the person in charge.

5. It gives an individual the opportunity to build equity, which can be kept, sold or passed on to the next generation.

6. Entrepreneurship creates an opportunity for a person to make a contribution to society. Most entrepreneurs help the local economy. A few – through their innovations — contribute to society as a whole.

Every successful entrepreneur brings about benefits not only for himself or herself but for the family, society and nation as a whole. The benefits that can be derived from entrepreneurial activities are as follows:

1. Enormous personal financial gain.

2. Self-employment, offering more job satisfaction and flexibility.

3. Employment for others, often in better jobs.

4. Development of more industries, especially in rural areas or regions disadvantaged by economic changes, for example, due to the effects of globalisation.

5. Encouragement of the processing of local materials into finished goods for domestic consumption as well as for export.

6. Income generation and increased economic growth.

7. Healthy competition, which encourages higher quality goods and services.

8. More goods and services being made available.

9. Development of new markets.

10. Promotion of the use of modern technology in small-scale manufacturing to enhance higher productivity.

11. Encouragement of more research/studies, and the development of modern machines and equipment for domestic use.

12. Development of entrepreneurial qualities and attitudes among potential entrepreneurs to bring about significant changes in the rural areas.

13. Freedom from the dependency on jobs offered by others.

14. The ability to have great accomplishments.

15. Emigration of talent may be stopped by a better domestic entrepreneurship climate.

Activity 1.5

Discuss with your course mates what would motivate you to become an entrepreneur. Find the differences between your motivations and those of your friends.

Types of entrepreneurs

Entrepreneurs may be classified in a number of ways.

1. **On the basis of type of business**

   Entrepreneurs are classified into different types. They are;

   a. **Business entrepreneur**: He is an individual who discovers an idea to start a business and then builds a business to give birth to his idea.

   b. **Trading entrepreneur**: He is an entrepreneur who undertakes trading activity i.e.; buying and selling manufactured goods.

   c. **Industrial entrepreneur**: He is an entrepreneur who undertakes manufacturing activities.

   d. **Corporate entrepreneur**: He is a person who demonstrates his innovative skill in organising and managing a corporate undertaking.

   e. **Agricultural entrepreneur**: They are entrepreneurs who undertake agricultural activities such as raising and marketing of crops, fertilizers and other inputs of agriculture. They are called agripreneurs.

Women entrepreneurship

Women constitute about 50% of the world population. In traditional societies, they are confined to performing household activities. Hence women are generally called home makers. But today, in a modern society, they have moved out of the house and are taking part in all areas of life. Today, the entrepreneurial world is open to womenfolk. Thailand tops the list with 18.5% of women as entrepreneurs followed by India with 14.1%. Japan has the lowest rate of women entrepreneurs with just 0.6% women as entrepreneurs. Example of some successful women entrepreneurs in Malaysia are Datuk Mazna Hamid — Securiforce, Puan Rozita Ibrahim — Sendayu Tinggi, Ms. Rhoda Yap — British Asia Sdn. Bhd. and Ms. Tracy Ing — Hot & Roll Holding Sdn Bhd.

Social entrepreneurship

Social entrepreneurship is defined by Kuratko (2009) as a "new form of entrepreneurship that exhibits characteristics of nonprofits (non-profit organisations), governments, and businesses." It uses innovation, risk taking and large-scale transformation to solve social problems. Social entrepreneurship drives social change, and it is that potential payoff, with its lasting, transformational benefit to society, that sets the field and its practitioners apart.

A social entrepreneur is a person who adheres to entrepreneurial rules and regulations to organise, innovate and look for entrepreneurial opportunities to remedy social problems. Studies of social entrepreneurship focus on the type of value created (Dees 1998), the characteristics of entrepreneurs (Leadbeater 1987), the actions of entrepreneurs (Young 1983) and the context(s) of entrepreneurial activity (Schoonhaven and Romanelli 2001).

Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches and creating sustainable solutions to change society for the better.

Therefore, social entrepreneurs are entrepreneurs who combine innovation, opportunity and resourcefulness to transform social systems and practices in a wide variety of fields, including, for example, health, employment, education, environment, housing and technology. Examples of some successful social entrepreneurs in Malaysia are Andrew — MAD Incubator Sdn Bhd, Hakim Albasrawy & Tasmin Hadi — ShuttleGo, and Ms. Wong — BYOB Green Concepts.

About your business idea

Most likely, you decided to take this course for two reasons:

1. You have a great idea for a small business and want to learn how to go about its implementation in order to create a successful small business.

2. You are already running your own small business and want to learn about how you can make your business more successful.

So, now that you have a good understanding of the key concepts in entrepreneurship and the different types of legal structures for your business, let us define your business idea.

Advantages of starting your own business

Why do you think people venture into business? You may reflect on your own or just brainstorm with your friends about the various reasons for which people start their own businesses.

1. Entrepreneurs have complete freedom of choice in all aspects of the business. They can select the business location, employees, customer service philosophy, etc.

2. A start-up business can start fresh without having to follow old practices.

3. To start a small business you may not need a lot of capital investment. Many businesses nowadays start up as home-based businesses that people can run from their homes, like for example consultancy businesses, basket making, baking goods, etc.

4. Being your own boss can give self-satisfaction and can also help you develop leadership skills and obtain recognition in your community.

Disadvantages of starting your own business

1. Starting your own business takes time, effort, energy and requires a lot of hard work.

2. It takes time to establish a new business in the marketplace. Finding clients takes time and effort, as does developing your own niche of operation.

3. Starting a new business is 'risky businesses. You must be ready to face the potential risks, financial and otherwise.

Developing a business idea

More often than not, new business opportunities occur from changes in industry, social, or economic environments. New business ventures can arise due to a variety of factors, including:

1. External causes

2. Voluntary self-employment

3. Hobbies

External causes

1. **Changes in industry stimulated by advancing technology and new knowledge spur new products and services**:

   A good example of this is the rapid change we have witnessed in the Information and Communications Technologies (ICT), particularly in the field of telecommunications, and in the Information Technology (IT), especially in the field of computer hardware and software, the Internet and e-learning technologies. Over the last decade, these rapid changes have spun off many business opportunities, for example:

   a. The increased Internet speed and bandwidth have created opportunities for the provision of online courses for conventional education, life-long learning and training.

b. The increased access to more affordable computer equipment and software has created opportunities for provision of technical, support services at varying levels, not only to corporations but also to individuals that use computers in their homes, etc.

2. **Accidental discovery**

Sometimes a person stumbles upon an idea instead of deliberately trying to invent a new product. This was the case of the Post-It product of the 3M Company.

Web Reference

Please click on the following link to learn more about the discovery of Post-It notes:

http://www.todayifoundout.com/index.php/2011/11/post-it-notes-were-invented-by-accident/

3. **Changing perceptions**

There are times when the social environment is an element of new venture creation. For example, the emphasis on health activities in the 1980's created the opportunity for the creation of full-service health clubs.

4. **Economic changes**:

Often this type of change creates opportunities that arise out of necessity. For example, the current energy crisis is opening up the market to new ideas for alternative sources of energy. In turn, car manufacturers will design different types of engines to sustain different energy sources which may even lead to a new car parts and accessories industry! As you see, change is a good catalyst for business opportunities. And entrepreneurs are often times the first ones to "see" the opportunity and seize it by creating new businesses to respond to a perceived market need.

Voluntary self-employment

It is becoming more and more common that individuals with prior work experience create new ventures:

1. Frequently workers perceive ways to modify a product or improve a service, which leads them into starting a new venture. They are apt to doing so as they gained knowledge from their years of experience in a former workplace.

2. A person can decide to become a self-employed manufacturer by obtaining the right to manufacture a product based on a patent.

3. An individual observing scant competition afforded to a particular business can go out and duplicate that same business, as long as there is a market.

Individuals may also follow family traditions and take on an existing family business, especially if they have been serving the needs of an established market or community for a long period of time.

Hobbies

Hobbies can turn into business ventures. For example, a love of children can lead someone to an opportunity of running an early childhood education centre.

Self-test 1.2

1. Explain the characteristics of a successful entrepreneur.

2. Do an Internet search of a women entrepreneur and find out what are the challenges she face.

1.3 Entrepreneurs and Creativity

The concept of creativity

This section serves to change your mindset so that you will look into problems rather than avoid them, and turn problems into business opportunities. Creativity happens through the dynamic interaction of three forces, namely: individual intellect, experience and devotion. Creativity will help entrepreneurs find solutions to problems, grab opportunities and develop new ideas. Creativity is a competitive advantage that an entrepreneur should have. Creativity allows the entrepreneur to produce products that will generate loyalty among existing customers and potential customers; this will lead to increased profitability and greater flexibility in adapting to changing market conditions. Creativity allows a product to stay in the market because of innovative changes to the product's characteristics. The term personal entrepreneurial competence refers to the key characteristics that should be possessed by successful entrepreneurs in order to perform entrepreneurial functions effectively.

To be creative is to do something different from the ordinary so as to produce better results or solve problems. According to Amabile (as cited in S J Dollinger 1995), creativity will evoke the desire to produce products or processes that can bring benefits, appropriateness and value to tasks which are more heuristic than algorithmic. Heuristics is an approach to problem solving that does not rely on a mechanistic procedure. The algorithmic approach is more mechanistic, and has prepared solutions to problems, decision making and conflict resolution.

Dollinger (1995) believes that creativity has close connections with revolution, evolution and dynamism. Therefore, creativity is an advantage in product development, customer service and a company's expansion. Creativity is like a map that shows us where we are and the destination we are heading for, allowing us the freedom to choose the road to our destiny. Among the entrepreneurial characteristics that we should apply to encourage creativity are:

1. **Innovativeness**

   This involves the willingness to create new inventions or to modify present products. It also involves efforts to increase the value of certain products or to give value to products that have no value.

2. **Willingness to search for alternatives**

   This involves knowing how to find alternative ways out of a problem. We should seek alternatives and more cost effective methods of satisfying needs.

3. **Initiative**

   Be willing to perform tasks that are outside our own field of expertise and be ready to take responsibility for our actions. Entrepreneurs should always take the initiative in solving or helping to resolve problems. This includes being able to analyse and anticipate potential problems and recommend preventive action. They have to know a variety of problem-solving techniques and to use them or recommend them to the parties involved.

4. **Flexible**

   Due to increased competition, the demand to be flexible is increasing. To stay competitive, firms are constantly changing and restructuring to increase flexibility and decrease costs. Be ready to let go of the old and to try the new. Entrepreneurs should be prepared to drop old procedures, "red tape" and bureaucracy whenever necessary.

5. **Willing to take risks**

   Entrepreneur must be willing to try new things and have a tolerance for the mistakes and losses that might result from doing so.

In conclusion, creativity refers to the process by which novel outcomes that are viewed as acceptable and satisfying to a given audience are developed. Creativity depends not only on intellect, but also crucially on the interplay between intellect and other forms of thought, such as intuition and wisdom.

Activity 1.6

Define creativity in a single sentence.

Types of creative behaviour

According to S J Dollinger, there are three types of creative behaviour:

1. **Creation**

   Creation involves designing something original and making something out of nothing. Entrepreneurs may see certain problems faced by society that encourage them to create new tools or new processes in order to solve the problems. In one way or another, successful entrepreneurial ventures will feature creativity and innovation as the means by which to make a difference. They imply learning and change and they can be manifested in a whole

variety of different ways. Their creative behaviour will enable them to meet the demands of turbulent modern environments and to harness the potential of new technologies. Furthermore, they will encourage the involvement of other people to contribute ideas for the benefit of their business.

2. **Synthesis**

   Synthesis involves actions taken by someone to unite or combine two or more things that are not related into a new product. For example, the merger of computer and telecommunications technology has created a new product — the Internet.

3. **Adaptations**

   Adaptations happen when certain processes or products are enhanced in terms of quality, usage, useful life, easy storage, handling or new functions. For example, mobile phones have gone through several adaptations in terms of their size and functions.

Activity 1.7

Name and outline three new businesses that were never thought of before by anyone. Identify which creative behaviour you have applied in doing so.

How to develop creativity

Several techniques can encourage the development of creativity in the field of entrepreneurship. Among these techniques are to:

1. Always ask "is there a better way?" when looking at present methods. Are there ways to improve or to enhance the current methods?
2. Challenge the ordinary, tradition and routine by evoking dissatisfaction with your present achievement. Entrepreneurs should get themselves out of their comfort zone.
3. See a product or a process from different perspectives, whether it is from the aspect of usage, storage, distribution or taste.
4. Realise that there is more than one precise and best answer.

Activity 1.8

Describe your own techniques to develop creativity.

Innovation and entrepreneurship

Innovation is one of the underlying dimensions of entrepreneurship. It is a key function in the entrepreneurial process. The entrepreneurial process is a process of pursuing a new venture that involves more than just problem solving in a typical management position. An entrepreneur must find, evaluate, and develop an opportunity by overcoming the forces that resist the creation of something new. Without innovation, an entrepreneur cannot survive in the modern competitive business world. Entrepreneurship is a creative and innovative response to the environment and an ability to recognise, initiate and exploit an economic opportunity. An entrepreneur is an innovator who introduces who introduces something new in an economy.

As per the Schumpeter's view, a person becomes an entrepreneur only when he or she is engaged in innovation .further, innovation is equal to competitive advantage. The entrepreneurs today realise the need for innovation. Innovation adds value to the product. It is only through innovation, the organisations can survive the increasing competition in the market place.

Need for achievement (achievement motivation)

It is the psychological need to achieve. It provides drive to the entrepreneur to set up a new venture, to achieve targets, to sense problems and opportunity, to take much risk so as to run the business successfully. It is nothing but a person's desire either for excellence or to succeed in competitive situation. Thus achievement motivation means a drive to overcome challenges in reaching higher goals. It is a strong desire to achieve a higher goal and make dreams come true. In short it is the strong desire to win.

Entrepreneurial competencies

Competency is a characteristic of a person, which results in effective and/or superior performance in a job. It is a combination of knowledge, skills and appropriate motives or traits that an individual must possess to perform a given task.

Meaning of entrepreneurial competencies

It is defined as characteristics such as generic and special knowledge, motives, traits, self image, social roles and skills which result in birth of a venture, its survival and/ or growth. In short, the competencies required by an entrepreneur for starting a business venture and carrying it on successfully are known as entrepreneurial competencies.

Personal Entrepreneurial Competencies (PEC)

Similar to competitiveness, the concept of competency is also related to performance but the focus is mainly at the individual level. Entrepreneurial competencies are obviously related to managerial competencies which are articulated by the works of Boyatzis (1982).

This approach is a response to the need for possession of characteristics more than simply skills and abilities in facing the increasing competition. In other words, there is a need for combining certain values and attitudes with these skills and abilities towards competence. The process approach of studying entrepreneurial competencies is our current emphasis. It assumes that the mere possession of competencies does not necessarily make an entrepreneur competent. Rather, these competencies can only be demonstrated with one's behaviours.

These are required to perform the tasks effectively and efficiently. This includes the following:

1. **Initiative**: It is an inner urge in an individual to do or initiate something.

2. **Ability to see and act on opportunities**: Entrepreneurs look for opportunities and take action on such opportunities.

3. **Persistence**: It means the capacity or skill to take repeated and different actions to overcome obstacles.

4. **Information seeking**: A successful entrepreneur always keeps his eyes and ear open. He should accept new ideas which can help him in realizing his goals. He is ready to consult experts for getting their expert advice.

5. **Concern for high quality of work**: Entrepreneurial persons act to do things that meet or beat existing standards of excellence.

6. **Commitment to work**: Successful entrepreneurs are prepared to make all sacrifices for completing the commitments they have made.

7. **Commitment to efficiency**: Entrepreneurial persons have to look and find ways for or find ways to do things faster or with fewer resources or at a lower cost. They should try new methods aimed at making work easier, simpler, better and economical.

8. **Systematic planning**: Entrepreneurial persons should be able to develop and use the logical step by step plans to reach goals.

9. **Problem solving**: Entrepreneurial persons are supposed to possess the skill of identifying new and potentially unique ideas to reach goals. They should generate new ideas or innovative solutions to solve problems.

10. **Assertiveness**: They assert own competence, reliability or other personal or company's qualities. They also assert strong confidence in own company's products or services.

11. **Persuasion**: Entrepreneurs should have the ability to successfully pursue others to perform the activities effectively and efficiently.

12. **Use of influence strategies**: Entrepreneurs should have the competence of using a variety of strategies to influence others. Such entrepreneurs can develop business contacts and use influential people to accomplish his/her own objectives.

Self-test 1.3

1. Briefly explain the relationship between creativity and entrepreneurship.

2. What are the types of creative behaviour defined by S J Dollinger? Support your answer with examples.

Summary of Unit 1

Summary

There are several factors that govern the pattern and rate of economic development in a country. One of the important inputs is provided by the quantum and quality of entrepreneurship. Unit 1 has elaborated on the basic characteristics on entrepreneurs. It also has given clear understanding on what motivates entrepreneurs and what makes them creative. The discussion on the history of entrepreneurship should have given you ample background on the origins of entrepreneurship and how the subject has evolved over time. The real-life examples should have inspired you and convinced you that success in entrepreneurship is attainable with proper planning, determination and creativity. Entrepreneurs are responsible for introducing innovation, adaptation and new ideas. They often come up with brilliant ideas to fill the market's need for products and services.

Suggested Answers to Self-tests

Feedback

Self-test 1.1

1. **19th century**

   The entrepreneurs were not distinguished from managers. They were viewed mostly from the economic perspective. He takes risk, contributes his own initiative and skills. He plans, organises and leads his enterprise.

   20th century

   During the early 20th century Dewing equated the entrepreneur with business promoter and viewed the promoter as one who transformed ideas into a profitable business. It was Joseph Schumpeter who described an entrepreneur as an innovator. According to him an entrepreneur is an innovator who develops untried technology.

2. Most people are attracted to entrepreneurship by the advantages of starting a business. These perceived advantages include:

   i. Entrepreneurs are their own bosses. They make their own decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as how much to pay themselves and their workers, and whether to take vacations.

   ii. Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.

   iii. It provides the ability to be fully involved in the operation of the business, from concept to design and creation, from sales to business operations and customer response.

   iv. It offers the prestige of being the person in charge.

   v. It gives an individual the opportunity to build equity, which can be kept, sold or passed on to the next generation.

vi. Entrepreneurship creates an opportunity for a person to make a contribution to society. Most entrepreneurs help the local economy. A few — through their innovations — contribute to society as a whole.

Self-test 1.2

1. In order to organise and run it successfully, the entrepreneur must possess some qualities and traits. They are as following:

   a. Willingness to make sacrifices and assume risks

   A new venture is full of difficulties and unanticipated problems. In such an inhospitable environment entrepreneur has to be prepared to sacrifice his time, energy and resources in order to carry out the venture and make it success.

   b. Hard work

   Willingness to work hard distinguishes a successful entrepreneur from an unsuccessful one. For example, Assim Premji (chairman of Wipro) works in his office fourteen hours every day. He is a successful entrepreneur. He is one of the richest persons in India.

   c. Optimism

   Successful entrepreneurs are not worried by the present problems that they face. They are optimistic about the future. This enhances their confidence and drives them towards success. Some of the world's greatest entrepreneurs failed before they finally succeeded.

   d. Self-confidence

   This is the greatest asset of a successful entrepreneur. He/She must have the confidence to make choices alone and bounce back when he fails.

   e. Leadership

   Successful entrepreneur generally has strong leadership qualities. He should be a good judge of human nature and a good leader. He must be able to select, train and develop persons who can properly manage and control the labour

force. McClelland identified two main characteristics in an entrepreneur:

i. Doing things in a new and better manner.

ii. Decision making under uncertainty.

A successful entrepreneur must be capable and well-informed, a successful leader of men, a keen judge of things, courageous and prudent. Above all he must be gifted with a large measure of practical common sense. There is no age bar, for any person who possesses certain behavioural traits and attitudes can work to become an entrepreneur.

2. Visit a women entrepreneur and find out what were the challenges faced by her.

   Open ended question and the answers may vary from one student to another.

Self-test 1.3

1. There is a direct relationship between creativity and entrepreneurial zeal. However, note that certain entrepreneurs are successful but not too creative. Such entrepreneurs are organised and resourceful, always having an eye for an opportunity and knowing where to find the resources to capitalise on such an opportunity.

2. Ronstad (1985) suggested a set of fourteen skills to be developed through entrepreneurship education. Some of these skills included creativity, ambiguity tolerance, opportunity identification and venture evaluation, career assessment, deal making, networking, and ethical assessment. These personal competencies are gender neutral and could describe successful entrepreneurs throughout the world. With regard to core competencies, a successful entrepreneur:

   i. Capitalises and leverages her strengths.

   ii. Understand which competencies she needs to develop.

   iii. Commits to a process, person, or program that will help her build the complete range of competencies she needs for success.

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