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OPEN TEXTBOOK

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# CAPE Entrepreneurship

## Unit 1 - Entrepreneurship Theory

Business Education Department  
Ministry of Education, Science & Technology  
Antigua and Barbuda

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### Business Education Department

Government Complex  
Queen Elizabeth Highway  
St. John's  
Antigua

Fax: +268-462-4970

E-mail: [Jacqueline.Richardson@ab.gov.ag](mailto:Jacqueline.Richardson@ab.gov.ag)  
[Eo.jackrich2000@gmail.com](mailto:Eo.jackrich2000@gmail.com)

Website: [www.businesseducationantigua.webs.com](http://www.businesseducationantigua.webs.com)

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# About this Open Textbook

CAPE Entrepreneurship - Unit 1 - Entrepreneurship Theory has been produced by Business Education Department. All Open Textbooks produced by Business Education Department are structured in the same way, as outlined below.

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## How this Open Textbook is structured

### The course overview

The course overview gives you a general introduction to the course. Information contained in the course overview will help you determine:

- What you will already need to know.
- What you can expect from the course.
- How much time you will need to invest to complete the course.

The overview also provides guidance on:

- Study skills.
- Course assignments and assessments.
- Activity icons.
- Units.

We strongly recommend that you read the overview *carefully* before starting your study.

### The course content

The course is broken down into units. Each unit comprises:

- An introduction to the unit content.
- Unit outcomes.
- Core content of the unit with a variety of learning activities.
- A unit summary.
- Assignments and/or assessments, as applicable.
- Answers to Assignment and/or assessment, as applicable

### Resources

For those interested in learning more on this subject, we provide you with a list of additional resources at the end of this Open Textbook; these may be books, articles or web sites.

### Your comments

After completing CAPE Entrepreneurship we would appreciate it if you would take a few moments to give us your feedback on any aspect of this course. Your feedback might include comments on:

- Course content and structure.
- Course reading materials and resources.
- Course assignments.
- Course assessments.
- Course duration.
- Course support (assigned tutors, technical help, etc.)

Your constructive feedback will help us to improve and enhance this course.

## Course overview

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### Welcome to CAPE Entrepreneurship

#### Unit 1 - Entrepreneurship Theory

The Entrepreneurship programme seeks to empower students by providing the knowledge, skills and attitudes to achieve entrepreneurial success in a variety of settings. The programme places emphasis on the individual's acumen to realize the opportunity, assess risk, and apply the skills necessary to transform innovative ideas into viable and successful ventures.

The programme provides students with the mindset that supports creativity and innovation needed to transform ideas into ventures that create value and wealth. Also, the programme seeks to fill that void in the continuum from idea generation to venture creation and apprises students of ways to access training, technical support, funding and legislative incentives offered and provided by business organisations.

Entrepreneurship addresses fundamentals of entrepreneurial behaviour and thinking and engages students in practical experiences through idea generation and opportunity identification in implementing, managing and harvesting a venture. Moreover, the programme acquaints students with the essentials of business ownership, legal and regulatory frameworks, and the importance of market research, feasibility analysis and the development of a business model to successfully compete in the global marketplace.

The course provides a solid foundation for further studies in Entrepreneurship and preparation for Caribbean Advanced Proficiency Examination (CAPE). Individuals starting and operating a venture and/or becoming an entrepreneurial employee (entrepreneur) can utilize the acquired knowledge and understanding of the entrepreneurial process to create sustainable ventures.

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### Course objectives



#### Objectives

The objectives of this course are:

1. Develop an entrepreneurial mindset to deal with uncertainties in regional and global market environments
2. Understand the diverse character traits and behaviours which inform entrepreneurs
3. Demonstrate an understanding the entrepreneurial process from idea generation to concept development and creation of the venture
4. Develop critical thinking and problem-solving skills through creativity, innovation, and logical applications.
5. Develop an entrepreneurial mindset to deal with uncertainties in regional and global market environments

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## Timeframe



How long?

The course is worth 14 credits, and each credit is equivalent to 10 notional hours. You are, therefore, advised to spend not less than 150 hours of study on this course. The notional time includes:

- Reviewing activities embedded in the study material
- Peer group interaction (where necessary)
- Face-to-face tutorials (where necessary)
- Working with tutor-marked assignments
- Preparing and sitting examinations (where that is required)
- Class discussion, peer tutoring and scaffolding of knowledge
- ICT tools and internet sources (including audio-visual material)



## Study skills



As an adult learner your approach to learning will be different to that from your school days: you will choose what you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic **responsibilities**.

Essentially you will be taking control of your learning environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to reacquaint yourself in areas such as essay planning, coping with exams and using the web as a learning resource.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

We recommend that you take time now—before starting your self-study—to familiarize yourself with these issues. There are a number of excellent resources on the web.

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## Assignments



Assignments

You will be provided with detailed instructions for your final project by your instructor. Ideally, the final project for this course will require you to prepare a business proposal for a proposed business venture. The course has been designed to provide you with guidance and activities that will prepare you to complete the final project assigned by your instructor.

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## Assessments



Assessments

Assessments will take the form of responding to activities, as well as coursework assignments, a final project, and examinations as determined from time to time by the institution. In cases where coursework, assignments, projects and examinations are used in combination, the percentage rating for each component will be communicated to you at the appropriate time. Your instructor will provide you with guidance on how he or she will grade and provide comments or feedback concerning all graded assignments.
















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# Getting around this Open Textbook

## Margin icons

While working through this Open Textbook you will notice the frequent use of margin icons. These icons serve to “signpost” a particular piece of text, a new task or change in activity; they have been included to help you to find your way around this Open Textbook.

A complete icon set is shown below. We suggest that you familiarize yourself with the icons and their meaning before starting your study.

 Activity	 Assessment	 Assignment	 Case study
 Discussion	 Group activity	 Help	 Note it!
 Outcomes	 Reading	 Reflection	 Study skills
 Summary	 Video	 Objectives	

# Unit 1 - The Entrepreneurship Theory

## Introduction

The teaching of entrepreneurship provides students with an opportunity to generate a feasible and sustainable income while making a meaningful contribution to their country. The unit begins the process by examining the entrepreneurship theory, assessing the entrepreneurial mindset, promote an awareness of the characteristics of an entrepreneur, and evaluate the best practices of entrepreneurship development.

Upon completion of this unit you will be able to:

1. Develop an understanding of the entrepreneurial mindset
2. Develop an awareness of the diverse characteristics of an entrepreneur
3. Understand the best practices for entrepreneurship development



Outcomes

# Module 1 - The Entrepreneurship Mindset

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## Module Introduction

Module one examines the entrepreneurship mindset and develops an awareness of the diverse characteristics of an entrepreneur. You will also examine the best practices of entrepreneurship development. The aim of this module is to develop your understanding of entrepreneurship, business and have you evaluate the success and traits of the entrepreneurial mindset.

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## Lesson 1 – The nature and growth of entrepreneurship

### Outcomes



Upon completion of this lesson you should be able to:

1. Define entrepreneurship
2. Explain the concept of entrepreneurship
3. Explain the nature and growth of entrepreneurship
4. Identify the drivers of contemporary entrepreneurship
5. Evaluate the roles of entrepreneurship in national and regional development

### Introduction

In the lesson, we will begin to examine the entrepreneurial mindset. We will define the terms entrepreneurship and entrepreneur and identify the forces that drive behind these concepts. In today's business, the concept of entrepreneurship is essential to economic growth in many countries. Therefore, it is crucial to evaluate the roles of entrepreneurship in national and regional development to understand our role as an entrepreneur in the economy. Our goal is to start and operate a successful business.

## **Evolution of Entrepreneurship**

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Many simply equate it with starting one's own business. Most economists believe it is more than that. To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur's role as an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied.

In the 20th century, economist Joseph Schumpeter (1883-1950) focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them.

Business expert Peter Drucker (1909-2005) took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits change as an opportunity. A quick look at changes in communications—from typewriters to personal computers to the Internet—illustrates these ideas. Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, government support for entrepreneurship is a crucial strategy for economic development.

As the Business and Industry Advisory Committee to the Organization for Economic Cooperation and Development (OECD) said in 2003, "Policies to foster entrepreneurship are essential to job creation and economic growth." Government officials can provide incentives that encourage entrepreneurs to risk attempting new ventures. Among these are laws to enforce property rights and to promote a competitive market system.<sup>1</sup>

### **What is entrepreneurship?**

An entrepreneur can be considered as an individual with great ideas that can change the world. Entrepreneurs are considered key to future development and

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<sup>1</sup> Adapted from Saylor Academy, (2016). BUS305 Small Business Management. Retrieved from <https://learn.saylor.org/mod/page/view.php?id=4882> (CC BY)

economic growth. Entrepreneurs through partnerships and collaboration, provide solutions to problems or issues faced by their society. Entrepreneurship requires skills and a mindset to advocate for a better community with creativity, innovation and leadership to be successful.

### What do you understand by the term Entrepreneurship?



You might have the same understanding, which is similar to the understanding of many others in Antigua and Barbuda and other parts of the world. The most general response you will normally hear is that entrepreneurship is about business and especially about buying and selling products or providing a service.

**Entrepreneurship** can be defined as the ability to identify business opportunities, which can be transformed into successful businesses through creative and innovative processes.<sup>2</sup>

Successful entrepreneurship requires that you put effort into deciding what you would like to do and the accompanying plan of the process. Many success stories are based on brilliant ideas that were original and creative.

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<sup>2</sup> Adapted from Entrepreneurship Open Educational Resources (2012) Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

Video



Watch a video on [what is an Entrepreneur?](#)<sup>3</sup>

### Who is an Entrepreneur?

Entrepreneurship refers to a process that causes changes in an economy through innovation by individuals who respond to opportunities in the market.

If you remove a person who is in charge of business, what do you think will happen? In most cases, the people who work there will work less, or the business will suffer from a decrease in production. This means, the person who is in charge or who owns a business is paramount.

**An entrepreneur is the person who sees an opportunity in the market gathers his or her resources and creates and grows a business venture to meet the identified needs. This person will bear the risk and will be rewarded with profit if it is successful.**

The owner of any business is usually called an entrepreneur. The process of identifying a need, developing a product or service to satisfy that need, together with all the other related activities is called entrepreneurship.

When identifying a business opportunity, you have to consider consumer demand as well as the immediate business environment. Services that are not rendered or things that are needed by consumers, but are unavailable create valuable opportunities to act on and develop creative and innovative solutions.

Video



Video

Here is another video to reinforce the concept of entrepreneurship<sup>4</sup>

### Culture and tradition of Entrepreneurship

Now that you have examined the concepts of entrepreneur and entrepreneurship, let now review the culture and tradition of entrepreneurship

The culture of a community also may influence how much entrepreneurship, there is within it. Different levels of entrepreneurship may stem from cultural differences that make entrepreneurship more or less rewarding personally. A

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<sup>3</sup>See [https://www.youtube.com/watch?v=CEnMT9bz\\_B4](https://www.youtube.com/watch?v=CEnMT9bz_B4) (CC BY)

<sup>4</sup> See <https://www.youtube.com/watch?v=Xcsp0486oIY> (CC BY NC SA)

community that accords the highest status to those at the top of hierarchical organizations or those with professional expertise may discourage entrepreneurship. A culture or policy that accords high status to the "self-made" individual is more likely to encourage entrepreneurship.

### **Entrepreneurship Environment**

Entrepreneurship is not only about business. It involves other role players that also have an influence on the way we do business. Entrepreneurship focuses on management tasks and functions, but adds the dimension of a person and the environment to make a complete picture. Just as an individual cannot survive on his or her own, in the same way, a business cannot survive on its own.

Who are these other parties (stakeholders) that will interact with a business or play a role in its activities?

**1. *The owner:*** The person who manages the business is of vital importance, and we have to look at various issues regarding him or her.

**2. *The external environment:*** The community, customers, other businesses and other stakeholders form the external environment of the business. No business can survive without taking the environment into consideration.

A business needs the support of the community who will become customers and buy goods and/or services. The business relies on banks for credit and on suppliers for stock or materials. Because the environment plays a critical role in the success of the business, it should be carefully scanned for opportunities continuously, always keeping an eye on competitors and new developments.<sup>5</sup>

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## Assessments



Assessments

### **Test your knowledge**

How would you define an entrepreneur?

- Someone who creates new business
- A person who organizes and manages any enterprise,

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<sup>5</sup> Adapted from Entrepreneurship Open Educational Resources (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

especially a business, usually with considerable initiative and risk

## Discussion



Discussion

### Discussion

Why do some entrepreneurs keep their business small instead of expanding it?

### Emerging drivers of contemporary entrepreneurship

The growth of digital piracy since the mid-1990s has undermined a wide range of media business models, but it has also disrupted bad market equilibrium and created opportunities in emerging economies for price and service innovations that leverage the new technologies. In our view, the most important question is not whether stronger enforcement can reduce piracy and preserve the existing market structure—our research offers no reassurance on this front—but whether stable cultures and business models can emerge at the low end of these media markets that are capable of addressing the next several billion media consumers. Our country studies provide glimpses of this reinvention as costs of production and distribution decline and as producers and distributors compete and innovate.

Invariably, industry groups invoke similar arguments on behalf of stronger enforcement: lower piracy will lead to greater investment in legal markets, and greater investment will lead to economic growth, jobs, innovation, and expanded access. This is the logic that has made intellectual property a central subject of trade negotiations since the 1980s. However, while we see this mechanism operating in some contexts in emerging markets, we think that other forces play a far larger role.

The factor common to successful low-cost models, our work suggests, is neither strong enforcement against pirates nor the creative use of digital distribution, but rather the presence of firms that actively compete on price and services for local customers. Such competition is endemic in some media sectors in the United States and Europe, where digital distribution is reshaping media access around lower price points. It is widespread in India, where large domestic film and music industries dominate the national market, set prices to attract mass audiences, and in some cases compete directly with pirate distribution. Moreover, it is a small but persistent factor in the business software sector, where open-source software alternatives (and increasingly, Google and other free online services) limit the market power of commercial vendors.



### **Role of Entrepreneurship in national and regional development<sup>6</sup>**

Economic development is mostly characterized by increasing gross domestic product, GDP in nations and GDP per capita. It also means the distribution of income. Economic development ideally refers to the sustained, concerted actions of communities and policymakers that improve the standard of living and economic health of a specific locality.

The terms “economic development” and “economic growth” are often used interchangeably but in fact, there is a great difference between the two. Economic growth can be viewed as a subcategory of economic development. When social mobilization increases expectations and ambitions, economic development increases the capacity of society to satisfy their ambitions and therefore should tend to reduce social frustrations and any resulting political instability. Economic development can also be referred to as the quantitative and qualitative changes in an existing economy. Economic development involves the development of human capital, increasing the literacy ratio, improving essential infrastructure, improvement of health and safety and other areas that aim at increasing the general welfare of the citizens.

Economic development today involves far more than just traditional manufacturing industry; the key drivers of growth in the future will be the innovation economy and environmental protection-related demand. The last few years have seen a pronounced trend towards the formation of multilateral and bilateral free trade agreements (FTAs) and comprehensive economic partnership agreements (CEPAs)

Entrepreneurs build for-profit and non-profit ventures. The most well-known type of entrepreneurial venture is the for-profit, or commercial, venture, which sells products or services for a profit. Entrepreneurs can also launch a non-profit venture whose purpose is to fulfil a social mission rather than to make money. For example, nonprofits often work to improve societal issues such as health care, the environment, and underserved populations. Entrepreneurs who launch these kinds of non-profit ventures are often referred to as social entrepreneurs. **Social entrepreneurs** look for and implement innovative solutions to societal problems. Social entrepreneurs apply the same tools and skill sets as other entrepreneurs—seizing opportunities, organizing and managing tasks and

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<sup>6</sup> Adapted from Role Entrepreneurship in Future Development in Taiwan (2015). Retrieved from [http://file.scirp.org/pdf/OJBM\\_2015101314091629.pdf](http://file.scirp.org/pdf/OJBM_2015101314091629.pdf) (CC BY)

people, improving how something is done—but their focus is to solve a social problem or create a benefit to humanity<sup>7</sup>.

Entrepreneurial insights are profit opportunities that had previously gone unnoticed. Entrepreneurs act upon these insights, and the economy becomes more productive because it can produce more consumer satisfaction at a lower cost. The connection between entrepreneurship and economic growth is that these previously unnoticed profit opportunities must come from somewhere, and the most common source of profit opportunities is the insights of other entrepreneurs. Entrepreneurial ideas arise when an entrepreneur sees that the ideas developed by earlier entrepreneurs can be combined to produce a new process and/or output. Entrepreneurial opportunities tend to appear within the context of a specific time and place. A decentralized economy allows individuals to act on their entrepreneurial insights, and rewards them for doing so, produces an environment where additional entrepreneurial insights are likely to be produced. Look at it in this way, entrepreneurship is the foundation for economic growth. Entrepreneurial insights lay the foundation for additional entrepreneurial insights, which drive the growth process.

**Successful entrepreneurs** thrive in favourable economic and institutional environments that enhance the expected returns of innovation. When an enabling environment exists, entrepreneurs take risks and invest in innovation, spurring productivity gains through the dynamics of firm entry and exit and innovation by incumbent firms, thus fostering economic development. Why should policymakers care about entrepreneurs, who tend to be among the better off in the population? The answer is simple: entrepreneurship is a fundamental driver of growth and development. Indeed, the basic premise of this report—one that is shared by most economists since Adam Smith and was greatly strengthened by the seminal work of Joseph Schumpeter—is that creative entrepreneurs are not just by-products of the development process but necessary drivers of such a process. Entrepreneurs are the key players in the transformation of low-income societies characterized by low productivity and often subsistence self-employment into dynamic economies characterized by innovation and a rising number of well-remunerated workers. To the extent that causal links from entrepreneurship to productivity growth are at work, there is room for using policy levers to quicken the development process by improving the incentives and supportive institutions that facilitate innovation by entrepreneurs.<sup>8</sup>

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<sup>7</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

<sup>8</sup> Adapted from Latin American Entrepreneurs (2014). Retrieved from <http://www.worldbank.org/content/dam/Worldbank/document/LAC/LatinAmericanEntrepreneurs.pdf> (CC BY)

## **The role of entrepreneurship in national and economic development**

Several dynamic forces, such as technological disruption, fluctuating economies or demographic changes, have brought new opportunities and threats for organizations, and transformed societies from all over the world. To cope with these shifting forces, governments, public and private organizations, and the public are more and more aware of the significance of entrepreneurship. The role of entrepreneurship in society has become prominent since the end of the last century. In modern open economies, it has become essential for economic growth and development than it has ever been. Economic experts have abandoned their traditional approach to economic development based mainly on recruiting large companies with different financial and fiscal inducements. Today they are relying more on the small and medium enterprises (SMEs) and new ventures than in the past. Entrepreneurship is spreading recognized by government officials throughout the world not only as “a key mechanism for enhancing economic development, particularly in regions where entrepreneurial activity was once vibrant and is now lagging”, but also as “a good solution because it provides a relatively non-controversial way to increase the proverbial pie, creating jobs and enhancing per capita income growth” (Shane, 2005, p. 1). That is why “entrepreneurs need access to resources and markets to succeed, and this is where national policies play a vital role” (Kressel and Lento, 2012, p. 6).

Understanding the role of entrepreneurship and entrepreneurs in the process of economic development requires the decomposition of the concepts. The progress achieved in understanding entrepreneurship is mainly due to J. A. Schumpeter. He adopted a different approach, underlying the role of innovation. Entrepreneurs are not only innovators and, therefore, agents of change, but also the coordinators of production. He suggested that entrepreneurship occurs fewer than five conditions of newness: new goods, new production methods, new markets, new sources of materials, or new organizations (Schumpeter, 1911). According to the Schumpeterian view, the entrepreneurial process constitutes one of the key factors in the economic development of a region/country.<sup>9</sup>

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<sup>9</sup> Adapted from Science Direct (2014) Retrieved from <http://www.sciencedirect.com/science/article/pii/S2212567114001117> (CC BY ND NC)

**Social entrepreneurship**<sup>10</sup> needs to be defined in a way that is consistent with what is known about entrepreneurship. Entrepreneurship is an exceptional set of activities carried out by individuals with an exceptional mindset to maximize profit. Therefore, the process is closely tied to success. We use “exceptional mindset” as a broader term to encapsulate the characteristics that shape the entrepreneurial activities of those individuals. Although the utilisation of the term social entrepreneur is growing rapidly, the field of social entrepreneurship lacks rigour and is in its infancy compared to the wider field of entrepreneurship. Success stories of individuals solving complex social problems are being used to legitimize the field of social entrepreneurship.

The social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behaviours to deliver a social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable.

This definition combines four factors that make social entrepreneurship distinct from other forms of entrepreneurship. Social entrepreneurs:

1. Are *mission-driven*. They have dedicated to serving their mission of delivering a social value to the underserved.
2. Act *entrepreneurially* through a combination of characteristics that set them apart from other types of entrepreneurs.
3. Act within *entrepreneurially oriented organizations* that have a strong culture of innovation and openness.
4. Act within *financially independent organizations* that plan and execute earned-income strategies. The objective is to deliver the intended social value while remaining financially self-sufficient.

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## Assignments



Assignments

Do you have what it takes to be an entrepreneur?

**Quiz: Do You Have What It Takes to Be an Entrepreneur?**

<https://www.entrepreneur.com/article/246454>

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## Assessments



Assessments

**Assessment**

**Nature and growth of Entrepreneurship**

Now that you have reviewed the resources on the nature and growth of entrepreneurship, demonstrate your understanding by answering the questions

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<sup>10</sup> Adapted from The technology Innovation Management Review. Retrieved from <http://timreview.ca/article/523> (CC BY)

provided below.

\* Required

Define the term entrepreneur. \*

How does an entrepreneur contribute to the economy of a country? \* <http://goo.gl/forms/zkWy2Dqzwx>

## Lesson summary



Summary

### Lesson Summary

As an aspiring entrepreneur, it is critical to understand the evolution of entrepreneur and the mindset of its pioneers. In this lesson you examined the origins and concept of entrepreneurship; emerging drivers of contemporary entrepreneurship; the role of entrepreneurship International and regional development and emerging areas of enterprise development. Now evaluate your business idea and critically analyze, how your enterprise will impact your community; how will it contribute to national and regional development; and how emerging technologies will impact your business performance?

In the next lesson, you will be introduced to the term entrepreneurship and compare entrepreneurship and intrapreneurship.

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## Lesson 2 - Entrepreneurship and Intrapreneurship

### Outcomes



At the end of this lesson, students should be able to:

1. Distinguish between entrepreneurship and intrapreneurship

## Introduction

In lesson one, you examine the concept of entrepreneurship. In this lesson, we will look at the theory of Intrapreneurship. Let's begin by reviewing the meaning, characteristics, roles, and examples of intrapreneurship.

## Intrapreneurship

The power and spirit of entrepreneurs and entrepreneurship are also felt in the context of established businesses. In 1992, for instance, *The American Heritage Dictionary* brought entrepreneurship and intrapreneur into the mainstream by adding intrapreneur to its dictionary, defining it as “a person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation.”<sup>11</sup>

## Differences between Entrepreneur and Intrapreneur

The primary difference between the two types of innovators is their context—the intrapreneur acts within the confines of an existing organisation. Most organisations would dictate that the intrapreneur should ask for permission before attempting to create a desired future—in practice, the intrapreneur is more inclined to act first and then ask for forgiveness later, rather than ask for permission before acting. The intrapreneur is also typically the intra-organizational revolutionary—challenging the status quo and fighting to change the system from within. This ordinarily creates a certain amount of organisational friction. A healthy dose of mutual respect is required to ensure that such friction can be positively channelled. In summary, then, an intrapreneur is someone who operates like an entrepreneur but has the backing of an organisation.<sup>12</sup>

## Principles of Intrapreneurship

Gifford Pinchot's book *Intrapreneuring: Why You do not Have to Leave the Corporation to Become an Entrepreneur* (1985) provides ‘ten commandments’ for intrapreneur:

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<sup>11</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

<sup>12</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

1. Do any job needed to make your project work, regardless of your job description.
2. Share credit wisely.
3. Remember, it is easier to ask for forgiveness than permission.
4. Come to work each day willing to be fired.
5. Ask for advice before asking for resources.
6. Follow your intuition about people; build a team of the best.
7. Build a quiet coalition for your idea; early publicity triggers the corporate immune system.
8. Never bet on a race unless you are running in it.
9. Be true to your goals, but realistic about ways to achieve them.
10. Honour your sponsors.<sup>13</sup>

### **The Entrepreneurial Organisation**

An entrepreneurial organisation is one that seeks systematically to promote the spirit of intrapreneurship in targeted parts of the organization. The stellar innovation track records of firms like Merck & Co., 3M, Motorola, Newell Rubbermaid, Johnson & Johnson, Corning Incorporated, General Electric, Hewlett-Packard, Walmart, and many others demonstrate that bigness isn't in itself antithetical to intrapreneurship. At the same time, these are but a few of the thousands of large firms around the world. Understanding the obstacles to entrepreneurship in large, established firms will put you on firmer ground when it comes time to translate what you know about entrepreneurship in general in the process of corporate intrapreneurship.

As you may have guessed by now, intrapreneurs have helped increase the speed and cost-effectiveness of technology transfer from research and development to the marketplace. The following are some methods that have been used by businesses to foster intrapreneurship:

- Entrepreneurial employees can participate in the rewards of what they create, such as being granted something like ownership rights in the internal enterprises they create.
- The firm treats intrapreneurial teams as a profit centre, rather than as a cost centre (i.e., Teams are expected to make money). Some companies give their intrapreneurial teams their own internal bank accounts.
- Team members can choose the projects on which they work or the alliances they join.
- Employees have access to training to help them learn new skills.

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<sup>13</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

- Internal enterprises are recognized within the organization and have official standing.
- The organization defines and supports a system of contractual agreements between internal enterprises.
- The intrapreneurship plan includes a method of settling disputes that may arise around the internal enterprise and employees.<sup>14</sup>

Companies that want to gain the benefits of intrapreneurism create systems for identifying employees with intrapreneurial traits and help develop those employees through training and reward them through incentives. The intrapreneurial organisation can take on one or a combination of two forms: coexistence or structural separation.<sup>15</sup>

### **Comparison of Intrapreneurs and Entrepreneurs**

As noted earlier, intrapreneurs are individuals who work in an organization. Several comparisons can be made between an intrapreneur and entrepreneur. Firstly, an intrapreneur is an employee who takes initiative on a new task. They focus on innovation, creativity, and profitability by transforming ideas for a profitable activity within the workplace. Hence, an intrapreneur is an entrepreneurial employee.

Secondly, entrepreneurs are responsible for financing their business ideas, whereas an intrapreneur used the resources of their employers creatively to increase the profits of the organization. Another consideration is entrepreneurs do not have the burden of the success or failure of the business. At the end of the workday, they can leave the business behind until the next day. However, the entrepreneur is ideally responsible for the success of the business and, usually, work long hours to ensure its success. The risk for the business is borne by the entrepreneur, whereas the intrapreneur simply performs his duties ethically and to the best of his abilities. However, to foster economic growth, business needs entrepreneurial employees to ensure success. The intrapreneur adds value to the organization and stands out from the average employees.

## **Activity**

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<sup>14</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

<sup>15</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)





Activity

### Activity

How is intrapreneurship similar to and different from entrepreneurship?

### Types of Entrepreneurship

Fictional Entrepreneurship is the use of design fiction to imagine businesses to discover what could be, creating things that are not impossible, but possible, often derived from utopian, theoretical, and philosophical principles. Fictional Entrepreneurship aims to author critical media through the creation of enterprises (imaginary, and real).

1. Fictional Entrepreneurship is the design of business that begins with “what if...” to innovate the unimaginable.
2. Fictional Entrepreneurship is an approach to business design which can serve as a tool for reaching new, almost impossible, demographics.
3. Fictional Entrepreneurship is a method that can be used by entrepreneurs to imagine the potential impact (good or bad) their business design can have on the world.
4. Fictional Entrepreneurship is the ability to make the impractical practical.
5. Fictional Entrepreneurship uses aspects of Design Fiction to work imaginatively while creating products and services that are not impossible, but possible.<sup>16</sup>

### Activity



Activity

Conduct a research on the different types of entrepreneurship. Select three different types of entrepreneurship and compare their similarities and differences.

When one recognises that entrepreneurship gives rise to knowledge externalities and increasing returns, it then becomes apparent that growth theory should focus less on the Ricardian production function approach where inputs are combined in a black box to produce outputs and more about the process by which production processes are determined. The engine of economic growth is

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<sup>16</sup> Adapted from Futurismic, (2011). Retrieved from <http://futurismic.com/2011/01/17/speculative-entrepreneurship/> (CC BY ND NC)

not better inputted, but rather an environment in which entrepreneurial opportunities can be capitalised upon<sup>17</sup>.

### **Economic Development and Entrepreneurship**

Economic development can be described regarding goals (e.g., Creation of jobs, Improvement of the quality of life) or as a process that influences growth to enhance the economic well-being of a community/society. In this respect, the economic development represents “the process of structural transformation of an economy towards a modern, technologically advanced economy based on services and manufacturing” (Naudé, 2008, p. 18). In other words, economic development refers to “sustainable improvements in the material well-being of society, as measured, for instance by GDP per capita, GDP growth, productivity, and employment”. In its broadest sense, economic development encompasses the following three major areas:

- The policies that government undertakes to meet broad economic objectives including inflation control, high employment, and sustainable growth.
- Policies and programs to provide services including building highways, managing parks and providing medical access to the disadvantage
- Policies and programmes, explicitly directed at improving the business climate through specific efforts, business finance, marketing, neighbourhood development, business retention and expansion, technology transfer, real estate development, and others

Entrepreneurship has to do with individuals, people with their own traits and actions (roles). The various roles of the entrepreneur can be distinguished in the business world. To express the connection between entrepreneurship and economic growth and development, two major roles of the entrepreneur can be singled out. The first has to do with ‘new entry’ and the second with ‘newness’ in general. Firstly, the entrepreneur is the founder of a new business, someone who creates and then, perhaps, organizes and operates a new business firm, whether or not there is anything innovative in those acts”. Secondly, the entrepreneur plays a more general innovative role in economic life: “... The entrepreneur as the innovator – as the one who transforms inventions and ideas into economically viable entities, whether or not,

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<sup>17</sup> Adapted from MISES University, (n.d). Retrieved from <https://mises.org/library/entrepreneurship-and-economic-growth> (CC BY ND NC)

in the course of doing so, they create or operate a firm” (Wennekers and Thurik, 1999). Thus, newness through start-ups and innovations are some of the most relevant factors linking entrepreneurship to economic growth.<sup>18</sup>

The relationship between entrepreneurship and innovation and their role in economic development was very well highlighted by Schumpeter, one of the most influential economists of the twentieth century *The Theory of Economic Development*. Subsequent studies have increasingly emphasized the link between innovation, underlying research and entrepreneurial effort aimed at commercializing the results of R&D, in many instances innovations being considered a precondition for an enterprise acquiring a competitive advantage UN, 2012.

## Lesson summary



Summary

### Lesson Summary

Entrepreneurs “...Are those person, business owners who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets” OECD, 2007. The combination of entrepreneurship and innovation results in innovative entrepreneurship: new firms based on new innovative ideas.<sup>19</sup> The literature indicates that entrepreneurs and intrapreneurs are problem solvers, creative and innovators. Here is another opportunity for you to evaluate your business venture, reflect on the problems you venture propose to solve, how creative and innovative are your solutions. What changes can you make to improve your product?

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<sup>18</sup> Adapted from Science Direct, (2014). Retrieved from <http://www.sciencedirect.com/science/article/pii/S2212567114001117> (CC BY ND NC)

<sup>19</sup> Adapted from Science Direct, (2012). Retrieved from <http://www.sciencedirect.com/science/article/pii/S2212567112001517> (CC BY ND NC)

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## Lesson 3 - Characteristics of an Entrepreneur

### Outcomes



Outcomes

At the end of lesson, students should be able to:

1. Discuss the characteristics of an entrepreneur

### Introduction

To understand entrepreneurs better, researchers have sought to define traits common to a majority of individuals who start and operate new ventures.<sup>20</sup> In

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<sup>20</sup> Adapted from Innovative Education for the Creative Mind, (2012). Retrieved from <http://blog.entrepr>

this lesson we will examine characteristics of an entrepreneur. You will also have the opportunity to analyze your entrepreneurial abilities and compare them with the characteristics of an entrepreneur.

### **Characteristics of Successful Entrepreneurs**

- Self-confident and optimistic
- Able to take calculated risk
- Respond positively to challenges
- Flexible and able to adapt
- Knowledgeable of various markets
- Able to get along well with others
- Independent-minded
- Versatile knowledge
- Energetic and diligent
- Creative, need to achieve
- Dynamic leader
- Responsive to suggestions
- Take initiative
- Resourceful and persevering
- Perceptive with foresight
- Responsive to criticism<sup>21</sup>

How many of the above traits do you possess? While some of them are subjective in scope, many of these are crystal clear and demonstrable from one's actions. Most of the traits on the list provided are not something intrinsic to our personality, but are in fact something we can choose to do or choose to be.

Our behaviour, largely, is a choice. A great entrepreneur knows that choosing most of the behaviours listed above, allows for one to know who they are increasingly better, as time passes, and also allows for growth.

However, being an entrepreneur allows for continuous personal growth, development of new relationships and learning about new things I know little about; which doesn't allow time for me to be bored.<sup>22</sup>

## **Activity**

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<sup>21</sup> Adapted from Innovative Education for the Creative Mind, (2016). Retrieved from <http://blog.entrepr>

<sup>22</sup> Adapted from Innovative Education for the Creative Mind, (2016). Retrieved from <http://blog.entrepr>



## Activity

### Activity

Create a PowerPoint presentation, using no more than 8 slides, entitled - TO BE AN ENTREPRENEUR, I MUST DISPLAY

Entrepreneurs must be willing to accept risk and failure. The key is that when you fail, you must fail quickly and inexpensively. Test, analyze, figure out why you failed, evolve, and iterate. That is the meaning of *drive*.<sup>23</sup>

### Key Characteristics of Entrepreneurs

Entrepreneurs often possess the immense focus and energy. Entrepreneurship requires extensive mental strength and determination because, as opposed to traditional occupations, there is no right or wrong path to achievement. Competition is intense, and innovation is required to face the challenges that result from starting your own business.

### Entrepreneurial Attributes That Enable Drive.

**Entrepreneurial drive** is something of an umbrella term for the wide variety of characteristics that compel an individual to pursue a unique and untested path relentlessly, regardless of the failures and obstacles. The characteristics below all overlap with drive in some way, shape, or form, to ultimately create a template for the entrepreneurial mentality:

**Vision:** The entrepreneur must be able to create and communicate an easily understandable vision of what the new venture does to launch a new business successfully. This is accomplished while inspiring others to join you in your new enterprise.

**Creativity:** The entrepreneur must be able to inject imagination and uniqueness into a new business venture. It takes skill and ingenuity to create a new venture equipped with strategies to outsmart the competition.

**Focus:** The entrepreneur must be able to maintain the vision of the company with unwavering diligence. It is very easy to get sidetracked,

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<sup>23</sup> Adapted from Boundless, (2016). Retrieved from <https://www.boundless.com/business/textbooks/boundless-business-textbook/small-business-and-entrepreneurship-7/small-business-owners-a-profile-56/key-characteristics-of-entrepreneurs-273-2430/> (CC BY SA)

especially if you find it necessary to adapt the original vision. Ironically, many successful entrepreneurs get bored easily.

**Passion:** Entrepreneurs must have a desire to succeed in a business venture under their own initiative.

**Perseverance:** The entrepreneur must be able to keep going even when faced with seemingly insurmountable obstacles.

**Opportunistic Nature:** The entrepreneur must take advantage of an upcoming trend or unite unrelated processes to create a unique business venture. It helps, of course, to see the possibilities before they even exist.

**Problem-solving ability:** The entrepreneur must thrive on coming up with solutions to complex challenges.

**Self-discipline:** The entrepreneur must be organized and regimented in pursuit of a successful business venture. This includes frugality, which knows how to stretch every cent so that expenditures are as low as possible.<sup>24</sup>

## Activity



### Activity

Janine Taylor has been a sales representative for a large computer firm for seven years. She took the job following her graduation from a local university, where she majored in computer science. Recently, Janine has been thinking about leaving the company and starting her own business. Her knowledge of the field of computer would put her in an ideal position as a new business venture?

After being able to identify the relevant characteristics of an entrepreneur,

- A) List five (5) characteristics that you think are most important.
- B) State the reason for their importance to a prospective entrepreneur.

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<sup>24</sup> Adapted from Boundless (2016) Retrieved from

<https://www.boundless.com/business/textbooks/boundless-business-textbook/small-business-and-entrepreneurship-7/small-business-owners-a-profile-56/key-characteristics-of-entrepreneurs-273-2430/> (CC BY SA)

Taxes are mainly used to finance the expenses incurred by the governments to manage an economy. [These expenses include health care, education, garbage collection and operating government business entities]. Taxation is also used by the government for several other purposes.

- a. To reduce pollution by taxing offending firms
  - b. To discourage unhealthy lifestyle e.g. A tax on cigarettes
  - c. To protect local and infant industries by taxing imports
  - d. To achieve greater equality of wealth and income. Revenue from taxation is used to help the very poor e.g. Providing food stamps.
  - e. To improve the balance of payments (BOP) by increasing the duties charged on imported goods.
  - f. [To control spending in an economy, thus reduce inflation.]
- Identify three uses of taxation?

## Lesson summary



Summary

### Lesson Summary

Now that you have examined the characteristics of an entrepreneur, do you have the requisite skills of to be an entrepreneur? As you advance your goals as an entrepreneur take time to critical evaluate these attributes in your practice. Why do you want to be an entrepreneur? What type of entrepreneur are you? In the next lesson, scrutinize the different types of entrepreneurs, observe the differences and identify which type represents you.

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## Lesson 4 - Types of Entrepreneurs

### Outcomes



Outcomes

At the end of this lesson, students should be able;

1. To identify five types of entrepreneurs.

### Introduction

In the lesson, we will examine five types of entrepreneurs identify two components of a successful start-up and describe what motivate these types of entrepreneurs in their pursuit of success. An understanding of the type of entrepreneur as a person aspires to is based on what he/she is driven by and provides insight on the nature and type of investment that is required for the



venture, the organizational structure to be established and the competitive strategy to be employed.

### **Nascent Entrepreneurs**

The creation of a new venture is a process, and if the new venture can be considered as an independent start-up, it is called a nascent entrepreneur. Nascent entrepreneurs are people who are engaged in creating new ventures<sup>25</sup>. Starting a business is often viewed by nascent entrepreneurs as a positive way to balance family needs with the need to produce an income.

The nascent stage is marked by the individual not only making a choice to behave entrepreneurially (through starting a new venture) but also manifesting that choice by undertaking the relevant venture creation activities or actions. Nascent activities leading venture start-up include registering the business entity, doing a business plan and seeking funding, partners, and resource. Having the skills and knowledge of what to do, where to go and whom to approach at this stage is paramount for successful venture birth.<sup>26</sup>

### **Novice Entrepreneurs**

A novice entrepreneur is someone who has just started to run his or her own business or venture and is still learning new things to make it work successfully.<sup>27</sup>

### **Habitual Entrepreneurs**

Habitual entrepreneurs are individuals who gain tremendous entrepreneurial experience and skills from acquiring major or minor equity stake in two or more businesses.<sup>28</sup>

### **Serial Entrepreneurs**

These individuals invest in innovative ideas, build powerful corporations and then sell them for profit. Some serial entrepreneurs can achieve enormous

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<sup>25</sup> Adapted from Nascent Entrepreneurs, (2014). Retrieved from <http://ftp.iza.org/dp1293.pdf>

<sup>26</sup> Adapted from Jurnal Intelek, (2015). Retrieved from <http://jurnalintelek.uitm.edu.my/index.php/main/article/view/36/20> (CC BY)

<sup>27</sup> Adapted from Answers.com, (2016). Retrieved from [http://www.answers.com/Q/What\\_is\\_a\\_novice\\_entrepreneurs#slide=2](http://www.answers.com/Q/What_is_a_novice_entrepreneurs#slide=2) (CC BY)

<sup>28</sup> Adapted from Method Entrepreneurship (2012) <http://www.yvi.fi/sanakirja/291-tapayrittajyys-habitual-entrepreneurship>.

success either in one specific field or by mixing up their investments a bit to try and get a wide range of experience.<sup>29</sup>

### **Portfolio Entrepreneurs**

Portfolio entrepreneurs are individuals who own several businesses simultaneously, as an earlier entrepreneurial activity provides an experience that will be helpful in establishing and running a new business.<sup>30</sup>

### **First-time vs. Serial Entrepreneur**

There are two main components of every successful start-up: a good idea and strong execution. When Venture Capitalists (VC's) invest in serial entrepreneurs, it is usually early on, and the entrepreneur has usually already proven their ability to execute effectively on a good idea. However, companies started by first-time entrepreneurs have yet to demonstrate that they either have a good idea or can execute it effectively. A lot of these companies will fail before ever getting to the stage when they could catch a VC's attention. However, if they make it past this point, they have already proven their idea works in the market and needs the VC for significant amounts of capital to scale their idea effectively. With these two points in mind, it makes sense that serial entrepreneurs require more help with the idea and product/market fit, while the first time entrepreneur needs more help with scaling the business (recruiting, managing teams, etc.)<sup>31</sup>.

### **What motivate these entrepreneurs?**

Serial entrepreneurs have been found to be more concerned with personal development and the pursuit of an idea for a product (in some cases following a family tradition) than portfolio entrepreneurs. Portfolio entrepreneurs, on the other hand, tend to report more often the need for security and have an instrumental view of some of the ventures in their portfolios, which were starting to benefit from tax exemptions. Novice and portfolio entrepreneurs seemed to be more reactive, i.e. they reported more often than serial entrepreneurs 'the exploitation of an opportunity that appeared' as a motivation. The second interesting issue is that the motivations of habitual entrepreneurs seem to change between the first and subsequent venture. While first ventures

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<sup>29</sup> Adapted from The Small Business Blog, (2014). Retrieved from <http://sme-blog.com/2014/02/05/infographic-serial-entrepreneurs/>

<sup>30</sup> Ibid 21.

<sup>31</sup> Adapted from First time vs. Serial Entrepreneurs, (2011). Retrieved from

<http://www.kinnetica.com/2011/05/01/first-time-vs-serial-entrepreneurs/>

have been found to be motivated by financial considerations, second ventures have been considered to be motivated by more personal reasons (continue the challenge of owning a successful venture) and by security considerations (reduce risk exposure, take advantage of tax exemptions).<sup>32</sup>

## Activity



Activity

Review the definitions of each type of entrepreneur then conduct additional research:

1. Identify two notable entrepreneurs for each type.
2. Compare each type of entrepreneur under the following:
  - (a) Independence and Autonomy
  - (b) Search for business opportunities
  - (c) Networking importance.

## Lesson summary



Summary

### Lesson Summary

To manage the risks of a business enterprise, an entrepreneur must constantly discover new ways of combining physical and natural resources. In this lesson, you identified five types of entrepreneurs. Additionally, you identified two components of a successful start-up and determined what motivate the types of entrepreneurs to succeed.

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<sup>32</sup> Adapted from The Journey from Novice to Serial Entrepreneurship in China and Germany: Are the drivers the same? (2008). Retrieved from <https://doaj.org/article/9d3b75054ffd45878a82cb85f51f12cd>

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# Lesson 5 - Factors of Successful Entrepreneurs

## Outcomes



Outcomes

Students should be able to

1. Evaluate what factors make successful entrepreneurs.
2. Conduct an in-depth analysis of your business idea
3. Identify the components of a business plan

### Introduction

Management is a combination of activities such as planning, organizing, directing and controlling to achieve the objectives defined by and through the efforts of others. Hence, with this understanding, the four management functions include planning, organizing, directing and controlling. In SMEs, entrepreneurs often carry all the above management functions. In addition to the general characteristics of management, SMEs entrepreneurs' management has specific characteristics. Firstly, SMEs entrepreneurs have close relationships with employees; they are interested in training as well as motivating employees at work. Secondly, the corporate communication mechanism is usually simple, based on the relationship between individuals. Thirdly, power is centralized, i.e., the director is the decision-maker of all internal and external operations of the company. Fourthly, because the organizational structure is not too complex, specialization in Management of SMEs is relatively low. Fifthly, the operational direction for SMEs dominates the management of a company. Thus, as an entrepreneur, he conducts general management activities, operational exploitations, and management of human resources in the company<sup>33</sup>. Small enterprises can be considered viable, or to be making a positive contribution, if the returns generated from it are greater than having not started the business at all<sup>34</sup>.

A successful entrepreneur needs to have certain qualities. It is obvious that the entrepreneurs named in our examples possess these qualities. Let's take a look at the qualities individually:

### Seeking opportunity

The key to coming up with a successful business idea for new products is to identify a market need that is not being met. Many

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<sup>33</sup> Adapted from The International Journal of Business and Management, (2016). Retrieved from <http://www.ccsenet.org/journal/index.php/ijbm/article/view/54260/29871> (CC BY)

<sup>34</sup> Adapted from Closing the Gap Clearing House, (2014). Retrieved from <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129546986> (CC BY)

entrepreneurs have an eye for opportunity. They start by finding a need and then set out to provide goods and/or services to satisfy the need. What most of us see as problems can sometimes become an excellent business opportunity. All you have to do is look around and ask yourself, "How can this situation be improved?"

### **Seeking information**

Before you start up a business, you have to request information about customers, suppliers and competitors that will enable you to make informed decisions. A lack of information about various role players in the market might result in the business not being successful. There are different sources of information. These include advertisements (television, radio, the Internet, magazines, and newspapers), questionnaires, libraries, courses and existing business people.

### **Determination and persistence**

People learn from their mistakes. Do you remember what happened when you learned to ride a bicycle? You fell, but kept getting on again until you learned to ride it. An entrepreneur is someone who does not give up, but tries over and over again until they can solve a challenge. Entrepreneurs will even make personal sacrifices like neglecting their families to be able to succeed. Entrepreneurs have the persistence and the ability to bounce back after rough times

### **Persuasiveness**

When you are persuasive, you have the ability to keep trying to convince people to buy your products or services to become customers and always support and follow you.

### **Commitment**

As an entrepreneur, to be successful requires commitment and determination to do everything possible to make a success of his or her business. Family and friends sometimes take second place until the entrepreneur has finished what he or she has set to do. Are you sure you are willing to make this commitment?

### **Perseverance**

Persistence and perseverance go hand in hand since when we persevere, we refuse to give up until we have found a solution for any challenge. An entrepreneur, who has perseverance, keeps his or her goals in sight and tries to reach such goals even if he or she experiences obstacles along the way. Being a true entrepreneur

means not giving up and learning from previous mistakes and failures.

### **Creativity/ Originality**

Entrepreneurs are always thinking of new ideas and new ways of making money or increasing the size of their businesses. They are not afraid to put these ideas to use. Creativity drives the development of new products, services or ways of doing business. We have to use our creative minds to develop solutions that other people have not developed. Let's look around us. What are people doing?

### **Innovativeness**

The entrepreneurs are highly innovative and creative individuals with vision. An entrepreneur can spot opportunities and act upon them. To be innovative means, you can come up with new ideas and inventions to solve problems and not give up until you have found an effective solution.

### **Initiative**

We find people in life who act like natural leaders. When we are in groups or participating in group work, there is always someone to whom all the others look up to. We also have to initiate opportunities by developing them.

### **Independence**

They need to be one's own boss is one of the biggest reasons why people become entrepreneurs. They are tired of working for somebody else and therefore establish their own venture. Entrepreneurs need to make decisions on their own that are in the best interest of themselves and their business enterprises. You can request people who are knowledgeable and informed about entrepreneurship to assist you with guidance and advice, but at the end the decision to become an entrepreneur rest entirely with you. We, however, would like to caution that freedom goes with taking responsibility.

### **Problem-solving skills**

We always tend to see problems and raise such problems without thinking about or developing solutions to solve such problems. It is rather a new trend to call problems, challenges and so change our mindset to think of the challenges (problems) as issues that can be solved. These issues represent possible opportunities.

### **Taking risks Entrepreneurs are risk-takers**

People are too afraid to take risks. This simply means that we fear that if the business fails, we will lose all our investments. This implies that we do not have the courage to leave our comfort zones and become independent entrepreneurs. If we work for the government or someone else, we are sure we will receive a salary at the end of the month. It is true that we should not just start any business or jump into an opportunity, just because we would like to be independent or work for ourselves. We have to make an excellent study of the possible risks and compare these with the advantages. If there are too many risks, we might decide not go into such a business. Hence, as we become more experienced, we will be able to identify risks well in advance and take the necessary steps to minimise or avoid them. What stands to reason is that from time to time we have to take calculated risks.

### **Setting goals**

Setting goals are vital in any business or even in our own lives. We have to decide what our destiny and achievements will be. If we do not have goals, we are like a ship on a big ocean without a compass. Do you know what the purpose of the compass is? Yes, to give us direction. In business, your compass will be your goals. When you set goals for your business, you have to be creative, but also so very realistic. We have to set **smart** goals for ourselves and our business.

- Simple goals are easy to understand and achieve with the minimum effort for the maximum output.
- Measurable goals are measurable regarding output. For example, how many shoes we would like to sell in a day.
- Attainable goals are not complicated to achieve or above our own abilities. For example, if I am a slow worker, I will possibly make fewer shoes in a day than my colleague.
- Relevant goals are directly related to what I want to achieve.
- Time-bound goals are achievable within a specific time frame.

Entrepreneurs have these qualities in different degrees. The question that arises is: “What if the person lacks one or more of these qualities?” Don't worry, because many of these skills can be learned or the entrepreneur can employ someone who has the skills, which

he or she lacks.<sup>35</sup>

### **Financing a new business idea**

Because new businesses usually need to borrow money in order to get off the ground, good financial management is particularly important to start-ups. Let's suppose that you're about to start up a company that you intend to run from your dorm room. You thought of the idea while rummaging through a pile of previously worn clothes to find something that wasn't about to get up and walk to the laundry all by itself. "Wouldn't it be great," you thought, "if there was an on-campus laundry service that would come and pick up my dirty clothes and bring them back to me washed and folded." Because you were also in the habit of running out of cash at inopportune times, you were highly motivated to start some sort of money-making enterprise, and the laundry service seemed to fit the bill (even though washing and folding clothes wasn't among your favourite activities—or skills).<sup>36</sup>

In order to understand an organizational structure, one also needs to understand the meaning of authority, delegation, responsibility and accountability. **Authority**, is the right to act in a specific manner, allocated or delegated to a specific person by virtue of his/her qualities and capabilities. The school principal has legal authority by virtue of his or her position. **Responsibility** is the duty that rests upon a person to carry out his/her appointed task, while Accountability is reporting on the control and use of resources, by those to whom the responsibility has been delegated. **Accountability** involves the responsibility to undertake certain actions and to provide an account of those actions. For example: the principal of a school has a responsibility to manage resources (financial and non-financial) entrusted to him/her by the department and/or community, as well as a responsibility to provide an account of the management. An annual report and the financial statements are mechanisms for discharging accountability. **Delegation** is closely associated with effective administration. It occurs when management grants certain management responsibilities and authority to a person at a lower

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<sup>35</sup> Adapted from Entrepreneurship Open Educational Resources for Open School, (2012). Retrieved from

[https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>36</sup> Adapted from Exploring business, (2016). Retrieved from

<http://open.lib.umn.edu/exploringbusiness/chapter/13-4-the-role-of-the-financial-manager/>



level. Set rules and procedures need to be laid down for them to report to management.<sup>37</sup>

### **FINANCING THE BUSINESS DURING THE GROWTH STAGE**

Flash-forward two and a half years: much to your delight, your laundry business took off. You had your projected five hundred customers within six months, and over the next few years, you expanded to four other colleges in the geographical area. Now you're serving five colleges and some three thousand customers a week. Your management team has expanded, but you're still in charge of the company's finances. In the next sections, we'll review the tasks involved in managing the finances of a high-growth business.

### **MANAGING CASH**

Cash-flow management means monitoring cash inflows and outflows to ensure that your company has sufficient—but not excessive—cash on hand to meet its obligations. When projected cash flows indicate a future shortage, you go to the bank for additional funds. When projections show that there's going to be idle cash, you take action to invest it and earn a return for your company.

### **MANAGING ACCOUNTS RECEIVABLE**

Because you bill your customers every week, you generate sizable *accounts receivable*—money that you'll receive from customers to whom you've sold your service. You make substantial efforts to collect receivables on a timely basis and to keeping non payment to a minimum.

### **MANAGING ACCOUNTS PAYABLE**

*Accounts payable* are records of cash that you owe to the suppliers of products that you use. You generate them when you buy supplies with trade credit—credit given you by your suppliers. You're careful to pay your bills on time, but not ahead of time (because it's in your best interest to hold on to your cash as long as possible).

### **BUDGETING**


A budget is a preliminary financial plan for a given time period, generally a year. At the end of the stated period, you compare actual and projected results and then you investigate any significant discrepancies. You prepare several types of budgets: projected financial statements, a cash budget that

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<sup>37</sup> Adapted from Department of Education, (2008). Retrieved from <http://www.education.gov.za/Portals/0/Lead%20and%20Manage%20organisational%20systems,%20physical%20and%20financi.pdf?ver=2009-10-14-125849-030> (CC BY NC SA)

projects cash flows, and a capital budget that shows anticipated expenditures for major equipment.<sup>38</sup>



 To develop a better understanding of financial statement in business, take some time to read chapter 12 of the book [Exploring Business](#)<sup>39</sup>

## The Business Plan

A business plan is a written document covering all aspects of business, beginning with the objectives of the business and explaining in detail how the business will be run. The business plan is a roadmap outlining every aspect of the proposed venture. It describes the what, how, where and why with regard to the new venture and is thus a structured guideline for achieving your objectives<sup>40</sup>.

To secure start-up financing and launch the new product, many entrepreneurs draw up a formal business plan that brings all the elements of the new venture together for a specific purpose—namely, to ensure key stakeholders that the firm has a well-considered strategy and managerial expertise. A business plan is a formal statement of business goals, the reasons why they are attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach the goals. Even if such a plan is not necessary for communicating with external stakeholders, preparing one is still a good idea. At the very least, it will help you re-examine the five elements of your strategy and prompt you to look for ways to bring them together to create a viable and profitable firm. Also, a business plan provides a vehicle for sharing your goals and objectives—and your plans for implementing them—with members of your entrepreneurial team.

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<sup>38</sup> Adapted from Exploring business, (2016). Retrieved from <http://open.lib.umn.edu/exploringbusiness/chapter/13-4-the-role-of-the-financial-manager/> (CC BY NC SA)

<sup>39</sup> Adapted from Exploring business, (2016). Retrieved from <http://open.lib.umn.edu/exploringbusiness/chapter/12-2-understanding-financial-statements/> (CC BY NC SA)

<sup>40</sup> Adapted from Entrepreneurship Open Educational Resources for Open School, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

Focusing on the staging component of the five elements of strategy, for example, is a good way to set milestones and timelines and otherwise manage the scale and pace of your company's growth<sup>41</sup>.

Creating a business plan will help you achieve your entrepreneurial goals. A clear and compelling business plan provides you with a guide to building a successful enterprise focused on achieving your personal and financial goals. It can also help persuade others, including banks, to invest in what you are creating<sup>42</sup>. Finally, when it does come time to seek external funding to support the firm's growth, the plan provides a solid basis for engaging professionals who can both help you get financing and advise you on strengthening customer relationships and finding strategic suppliers<sup>43</sup>.

### **Components of the Business Plan**

**Organise all the relevant information about your business.** Begin creating section headings and putting the appropriate information under the appropriate headings. Effectively separating your business' unique approach to each of these headings will organize your plan in a way investors find useful:

- **Title Page and Table of Contents**
- **Executive Summary**, in which you summarize your vision for the company
- **General Company Description**, in which you provide an overview of your company and the service it provides to its market
- **Products and Services**, in which you describe, in detail, your unique product or service
- **Marketing Plan**, in which you describe how you'll bring your product to its consumers
- **Operational Plan**, in which you describe how the business will be operated on a day-to-day basis
- **Management and Organization**, in which you describe the structure of your organization and the philosophy that governs it
- **Financial Plan**, in which you illustrate your working model for

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<sup>41</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

<sup>42</sup> Adapted from WikiHow.com, (n.d). Retrieved from <http://www.wikihow.com/Write-a-Business-Plan> (CC BY NC SA)

<sup>43</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-global-entrepreneurship-and-in.html> (CC BY NC SA)

finances and your need from investors<sup>44</sup>

## **Basic Components of a Business Plan**

It is essential for any entrepreneur to know what basic elements should be included in a business plan, as well as what a good business plan should look like.

The exact points that you include in a business plan can vary depending on your needs and specific situation. However, there are a few main sections or components that should always be included. Let's briefly look at the different components of a business plan.

### **Background/Introduction**

This section of your plan involves giving a full description of your business such as the name, type of ownership and detailed description of the qualities and/or skills that the entrepreneur possesses. This section also includes your vision statement, mission, goals, and objectives.

### **Market**

Market research is the process of finding out if there is a market for a specific product or service.

### **Input materials**

After conducting the market research, you will know what your customers want. You then have to find out what input materials you need for the business, where to get them and what they cost.

### **Location**

There are some factors will influence your choice of a location for a business. To find a location is not easy and you have to consider the following: Is it close to the market? Is the input materials close by? Are there skilled workers in that vicinity? Are there, services like electricity available? <sup>45</sup>

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<sup>44</sup> Adapted from WikiHow.com. Retrieved from <http://www.wikihow.com/Write-a-Business-Plan> (CC BY NC SA)

<sup>45</sup> Adapted from Entrepreneurship Open Educational Resources for Open School, (2012). Retrieved from

### **Technical Planning**

This part of a business plan must determine the business' requirements for equipment, land and buildings and infrastructure. That means the owner must put down in writing what is needed for the specific business, e.g., a saw, a sewing machine. A detailed list of all equipment with their specifications as well as offers from suppliers must accompany the business plan. Is there a building available? Does it have running water and electricity? Are there facilities for waste disposal? These are also questions that need to be tackled in this part of the business plan.

### **Marketing**

Your marketing plan provides a description of your target market and your marketing mix. In this part of the business plan, you have to explain how you are going to use the (four) 4 P's (product, price, place and promotion) to let people know about your product.

### **Production**

This section includes methods that will be followed in manufacturing the product or service. Remember to give thought to quality control standards and methods. Suppliers are important to the success of your business and your relationship with them should be discussed.

### **Organisation/Management**

An organisational plan shows the number of people that will be employed and their responsibilities. Experience has shown that entrepreneurs often need a good management team to manage and grow the business, and therefore they need to appoint people who have the necessary skills.

### **Finances**

A financial plan for your business is very important and needs time and attention. You must be realistic with your financial planning and plan to make a profit. Statistics have shown that many new businesses

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experience serious financial difficulties in the beginning and fail because no financial planning was done.

### Action Plan

This involves strategies that will be used to achieve goals and targets. This plan will indicate specific actions to be taken at specific times. However, before we come to actually draw up the business plan, let's quickly look at factors involved that you should consider.<sup>46</sup>

## Additional Readings



Readings



Employees performance is vital to a business success and how management interact with their employees can impact their performance. [Chapter 10](#) of the book Beginning Management of Human Resources highlight some factors to consider when managing employees.<sup>47</sup>

## Lesson summary



Summary

### Lesson Summary

As you consider your business venture, a business plan is essential to formulate your plan for success. However, the plan is only one element of success. Managing financial resources, understanding financial statements, effectively managing your employees and evaluating your strengths and weakness are also critical.

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<sup>46</sup> Adapted from Entrepreneurship Open Educational Resources for Open School, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>47</sup> Adapted from Beginning Management of Human Resources, (2011). Retrieved from <http://2012books.lardbucket.org/books/beginning-management-of-human-resources/s14-managing-employee-performance.html> (CC BY NC SA)

## Lesson 6 - Mistakes of Entrepreneurs

### Outcomes



Outcomes

Students should be able to:

1. Identify common mistakes made by entrepreneurs
2. Identify potential and pitfalls of entrepreneurship
3. Discuss strategies entrepreneurs can implement to minimize mistakes

### Introduction

As an entrepreneur, there are many tasks involved in managing a business. In this lesson, you will learn about some of the challenges experienced in operating a business. Therefore, to facilitate smooth operations, there are several mistakes an entrepreneur must be wary that can affect the profitability and sustainability of the venture. The lesson will discuss some of the areas in managing of the business where these challenges or mistakes can occur.

The entrepreneurial process encounters challenges that affect the sustainability of the business and lead to business failure. The entrepreneur must be vigilant in observing areas of the managing aspect of the business that may hinder efficiency and the ability of the venture to remain competitive and profitable.

The growing stages of the venture require the entrepreneur to transition to manager. This transition requires the entrepreneur to transfer creative and innovative skills and incorporate these into the planning and organizing of the venture process. The entrepreneur must, therefore, balance these attributes as failure to do so will reduce competitiveness and productivity.

Some areas within the business where challenges/mistakes can occur are:

#### Management:

- The absentee manager who believes the business will run itself
- Lack of proper leadership
- Poor planning strategies
- Lack of knowledge and managerial experience

#### Human Resources:

- Improper allocation of human resources within the organization
- Lack of training and expertise of employees
- Conflict

#### Marketing:

- Failure to conduct a market research
- Failure to focus on a target market
- Failure to advertise the product
- Lack of the proper location of the business/ accessibility
- Failure to recognize customer service as a priority

**Product:**

- Failure to develop new products to attract existing and new customers
- Ability to maintain a quality product
- Lack of creativity
- Inability to meet customers' needs

**Financial:**

- Poor recordkeeping
- Limited or no financial control management
- Using business funds for personal use
- Uncontrollable costs, cash flow issues
- Limited capital

**Operational:**

- Poor inventory control
- Lack of technical training/competence
- Wastage of resources
- Failure to monitor performance and productivity checks.

**Legal:**

- Tax regulations of host country
- Failure to hire expertise in handling legal issues

**Economic:**

- Inability to monitor and identify changes in the economy that may affect or be advantageous in the strategic decision-making of the business.<sup>48</sup>

## Mistakes of Entrepreneurs

### 1. Entrepreneurial biases

We all fall in love with our ideas. It is a natural phenomenon: we invest our time and money in an idea because we think it will be successful, and we are reluctant to admit anything otherwise. While faith in an idea is good, it becomes problematic when confirmation bias starts, especially in areas such as customer validation.

So what is this dangerous confirmation bias? It is when we have a preconceived idea of what customers want and how our product is a perfect solution, and we search for and interpret data to fit with these beliefs. It is one of the most significant hurdles our teams have had to

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<sup>48</sup> Mistakes Within Entrepreneurship by Janelle O'Mard is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/) / (CC BY)



battle through – confronting the feeling of weakness that comes when your assumptions do not match the data is a terrifying prospect.

## **2. Not fully validating the market**

It seems logical that if we provide something that solves a problem, everyone with that problem will automatically want to buy it. When people ask questions like, ‘how do you know?’ I hear time and time again, ‘because it just makes sense.’ However, the assumptions we rely on being the biggest threat to the success of a company. Things that seem intuitive, such as, ‘everyone wants to pay for convenience’ may not apply to those who, for example, are not tech savvy, or are set in their ways.

In fact, we’ve seen some pivots in the Lightning Lab, which resulted from conversations with customers. Companies realised they were solving the wrong problem, or not solving it in a way that customers want to buy into.

## **3. Not asking for and accepting help**

We all like to think we know what we are doing. No one wants to be told that his or her strategy is not working – that pesky ego gets in the way, as asking for help can be seen as a sign of failure. One of the most well-worn pieces of advice from entrepreneurs is to leverage the skills of those around you by asking other people for help. Afraid that they’ll turn you down?<sup>49</sup>

### Confused pitches

When you pour your days and weeks into creating a company and know everything about it and your industry, it can be very hard to distil that down into a 30-second pitch to give to someone who knows nothing. 30 seconds drags out, and by the end the listener sometimes still isn’t sure what your product does! Pitches are so, so important, as we are learning in the Lightning Lab. The whole programme culminates in Demo Day, where teams deliver a 7-minute pitch to hundreds of investors – which pitch can make or break your company.

## **5. Not working as a team**

No one can succeed alone. Having a strong, tight-knit team makes such a difference: if you’re away sick, others can keep everything moving forward; if you need advice or other skill sets, you have them on-hand;

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<sup>49</sup> Adapted from the Lightning Lab, (n.d.). Retrieved from <http://www.lightninglab.co.nz/6-most-common-mistakes-entrepreneurs-make-and-how-to-avoid-them/> (CC BY)

when it's Friday evening, and you're working late in the office, you have people around you to crack a joke and get you smiling again. Teams are no easy feat to assemble – it has taken some of our companies weeks and weeks to find the right people.

#### 6. Not looking after yourself

When we find ourselves in situations of stress, our health usually drops to the lowest level of priority. We skip lunch because we think our time is more productively spent working, or stay up late, because who needs sleep? We place immense pressure on ourselves without giving our body a chance to recover. Here's the thing: as an entrepreneur, you cannot afford to let the pace or the level of intensity fall – you have to find a way to keep yourself healthy while maintaining a high-pressure, high-performance lifestyle.<sup>50</sup>

### **Mistakes to avoid**

Running a business means making many decisions.

Some decisions come easily and obviously; others require more complex analysis, offering a variety of best outcomes. When trying to process all the relevant information to come to the best decision, it is easy to get overwhelmed. It is easy to make flawed decisions when we fail to realize that many of our preconceptions are based on what outside institutions teach us, and not what we know to be true.

Here are three common mistakes that small business owners often encounter in the decision-making process:

#### 1. Underestimating or overestimating the value of information received from others.

People have a tendency to overestimate the value of some individuals and underestimate the value of others, without good cause. For example, it is easy to place too much credence in the opinion of experts, authority figures, high-status groups.

In matters of opinion, even experts can have a flawed analysis. Similarly, it is easy to discount information received from perceived lower status groups. Entry-level employees, for example, may still have penetrating insights to another side of the problem which you had never considered.

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<sup>50</sup> Adapted from the Lighting Lab. Retrieved from <http://www.lightninglab.co.nz/6-most-common-mistakes-entrepreneurs-make-and-how-to-avoid-them/> (CC BY)

Make sure that you seek out information from a wide variety of sources, and always double check your reasons for accepting or disregarding outside opinions.

2. Hearing only what you want to hear or seeing what you want to see. Run a quick psychological experiment. Tell a friend or colleague to look around and try to remember everything that is green. Then have them close their eyes, and ask them about the red objects in their surroundings. Chances are they will not be able to tell you very much. Our perceptions work in a similar manner. We see what we expect to see, so it is critical to be aware of your biases and preconceived ideas to mitigate them and come to an objective decision-making process.<sup>51</sup>

3. Not listening to your feelings or gut reactions: Sometimes things seem like a very good idea, but you still feel bad about it for one reason or another. Don't ignore these feelings! We are constantly processing more information than we are ever aware of. If something "feels" wrong, stop and take a minute to consider why. By tuning into your intuition, you will be equipped to make much better decisions in the long run.<sup>52</sup>

### **Challenges for Entrepreneurship**

Setting up a business is not an easy or smooth process. The process involves different decisions to be made with accompanying plans and implementation after that. Challenges can involve:

- Finding the right idea and opportunity to break into the market
- Difficulties acquiring the resources (including land or raw materials, financial resources, labour and entrepreneurial ability) necessary for the production and distribution of goods and services
- The high costs of creating internal roles, relationships and operating routines in new organisations
- The time and investment required to establish external relationships that are conditioned on experience, reputation, and trust, and competition, often with very limited resources, with mature organisations that already have goods or services in the marketplace and that enjoy established customer relationships.

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<sup>51</sup> Adapted from Daniel Kaufman, (2014). Retrieved from <http://danielrkaufman.com/3-mistakes-entrepreneurs-avoid/> (CC BY ND)

<sup>52</sup> Adapted from Daniel Kaufman, (2014). Retrieved from <http://danielrkaufman.com/3-mistakes-entrepreneurs-avoid/> (CC BY ND)

Many entrepreneurs have been successful despite these challenges. However, entrepreneurship does not only have challenges.<sup>53</sup>

## Lesson summary



Summary

### **Lesson Summary**

Great Job! You have made it to the end of this lesson. You should now be able to recognize what are some of the common mistakes entrepreneurs. As your knowledge increase, you can assess or formulate your own strategies to minimize these mistakes and make your business a successful one! Next, you will learn about entrepreneurship and small business management.

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<sup>53</sup> Adapted from Entrepreneurship Open Educational Resources for Open School, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

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## Lesson 7 - Entrepreneurship and Small Business Management

### Outcomes



Outcomes

At the end of the lesson, students should be able to:

1. To outline the steps in managing a business
2. Understand the nature and characteristics of the small business.
3. Differentiate between the different types of ownership
4. To identify the role of innovation as the main difference between entrepreneurship and small business.

### Introduction

The major legal forms of business organizations are a proprietorship, partnership, and corporation. When an entrepreneur decides to launch a business venture, selecting the correct form of business to operate can be a tedious task. Small business owners must examine each form of business and assess which is most appropriate. As the business grows, it may move from one form to another. This section will discuss the types of business, forms, advantages and disadvantages of main forms.

### Forms of Ownership<sup>54</sup>

There are different forms of ownership. The decision on the type of ownership of a business depends on the person who has identified the business opportunity. His or her decision on the form of ownership will be based on different factors which will be uncovered as we discuss each form in detail. Every form of ownership has advantages and disadvantages. In the end, you will weigh these against each other before you make a final decision on which form to use.

#### Sole Traders

The sole means only one. In other words, we have only one person who owns this type of business. The business is started by only one person, and

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<sup>54</sup> Adapted from Entrepreneurship Open Educational Resources for Open School, (2012).

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[https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

he or she usually runs the business him or herself. The owner will in most cases use his or her own money to start the business or borrow the money from friends, family or the bank. The owner will take all profits. However, in case the business goes bankrupt and is not successful, the owner has to pay or carry all the losses and will be responsible for paying all the outstanding debts of the business.

#### Advantages

- The owner has all the control over the business, makes decisions on his or her own and can make fast decisions without consulting others.
- Profits belong to the owner alone and are not shared with anyone else.
- Healthy relationships are established with customers because the owner is involved directly in the business and comes in contact with the customers. In most cases, the customers become loyal to the business because of such relationships.
- Because the business belongs to the owner alone, he or she will work very hard and make personal sacrifices to make the business successful. The owner becomes multi-skilled because he or she has to learn to be knowledgeable and do all types of activities in the business, e.g., Buying, selling, administrative work and keeping books.
- It is easy to establish a sole trader because there are no major legal requirements.
- The owner can keep business secrets to himself and do not have to share it with others unless he wants to.

#### Disadvantages

- He or she must find the start-up capital him- or herself, and this can sometimes be hard.
- The business is dependent on one person to continue and can close down or suffer losses if the owner dies or becomes very ill.
- Because there is no difference according to law between the proprietor and the business, the owner can lose even his or her personal belongings if the business fails. He or she thus carries all the risks and responsibilities.
- The owner must take all decisions him- or herself; there is no one to consult and assist him or her.
- It's hard for the proprietor to take time off when he or she is ill or for a holiday

#### Partnerships

The form of ownership that we will look at next has more than one owner. A sole trader has only one owner, while a partnership can have between two and twenty people as owners. A partnership means to come together with someone else for a specific purpose, in this case, to start a business.

Partners come together and agree what each one will contribute whether it is money, assets or skills. All partners of a partnership are responsible for the losses of the business and can lose everything as in the case of a sole trader. When profits are made, the members will divide the profits amongst them according to a proportion on which they should agree in advance. If one or more of the partners decide to leave the partnership or die, the present agreement comes to an end, and a new agreement must be made.

#### Advantages

- Because there is more than one partner, the responsibilities such as buying, selling and administrative work are divided among them.
- The more partners, there are, the more start-up capital can be available.
- Partners share the risks of the business. When partners have different skills, everyone can do what he or she is best skilled at. For example, one can do the sales, another one the books and another one the purchasing (buying).
- More people can help to manage the business when it starts growing.

#### Disadvantages

- The wrong actions of one partner can influence the business and the other partners negatively because the business and the other partners are bound to such wrong actions.
- The danger exists that the partners can even lose their personal belongings if the business fails and goes bankrupt. Partners do not have limited liability.
- If one of the partners leaves the business, or dies, the business must close down until a new agreement is made. During this period, the business can lose valuable business deals.
- The partners share the profits, so the more partners, the less the profit.
- It might be time-consuming to consult all partners when business decisions must be taken.

#### Close Corporations (CC)

This is a new type of ownership that is winning ground very fast and is becoming very popular. The letters “CC” must appear in the name of a close corporation. This is a form of business ownership where the minimum is one member, and the maximum is ten. Owners enter into an agreement using a founding statement which contains each member’s particulars and their percentage interest in the business. The members are not liable for the losses of the business because a CC is a legal entity. This means that the CC can enter into agreements and contracts in the name of the CC

#### Advantages

- This type of business is easy to establish using an application for registration with the Ministry of Trade and Industry.
- A close corporation is considered a legal entity. Members are not liable for the losses of the business and cannot lose personal property when the business goes bankrupt. Members, therefore, have limited liability.
- More capital can be collected since there can be up to ten members.
- The business does not have to cease to exist when one of the members resigns or dies.
- Members agree in advance on the proportion according to which profits will be distributed.
- The financial statements of a CC do not need to be audited by law.
- It is cheaper to start a CC than a company, which makes it very suitable for a small or medium enterprise.
- The owners (members) manage the business themselves.

#### Disadvantages

- The amount of capital can be limited since the number of members is limited to a maximum of ten.
- There are more rules and regulations than for a sole trader or a partnership.
- There is the possibility of conflict between members if they have different ideas on the running of the business.
- Reaching decisions can take longer because many people want to give their opinions. This can make the business slow to react when a sense of urgency is important.
- All members need to be equally committed and work equally hard for the corporation to be successful.
- A lot of recordkeeping is necessary to make sure that everything is done fairly and transparently. (Each member has the right to know what the corporation is doing.)
- Sometimes, members are less willing to put profit back into the business, preferring to use it for their own needs. This is reasonable, but it means that the corporation will not grow as quickly as other forms of business.
- The limit of ten members can hamper the growth of the business.
- Banks might not want to lend money to a CC if the financial statements are not audited.
- A bookkeeper must be appointed for the CC by law. This might bring a lot of extra costs.

#### Cooperatives

The word co-operative is derived from the word “to cooperate”, which means that a cooperative is a form of business set up by some persons who desire to achieve a common objective. People with similar needs for a service or for creating employment will come together and form a cooperative. We get service cooperatives that provide various services to



its members like lower prices or workers' cooperatives that provide work to its members. The cooperative is owned by its members, and each member has one vote, while the common interest is the binding factor. The aim of a cooperative is not to make a profit, but to render a service to members. Income generated must only cover the expenses or it must be distributed amongst the members.

#### Advantages

- Each member has only one vote, which makes it impossible for one person to run the business, according to his or her will, and democracy will prevail.
- The co-operative is owned and controlled by its members.
- It is not based on profit-making principles, but rather on service - rendering principles to its members, and as such, members are sure of the highest quality of service at the lowest possible prices.
- The members work together because they have the same needs and goals. They are united around these goals and needs, and management comes from the members.
- Free business advisory services are available from the office of the Registrar of Cooperatives.
- If the co-operative does more than 70% of its business with its members, the tax is lower than that of other businesses.
- The co-operative is a voluntary organisation and thus easy to form or end.

#### Disadvantages

- Cooperatives have a longer decision-making process — decisions to be made can take very long because of the principle that all members have voting power.
- People do not work very hard because the incentive to earn profits is not present.
- Unfortunately, people (including members of close co-operatives) have a negative attitude because we have to be motivated by profits and money instead of by the fact that we can render a better service or conditions or even have a job. This is a bad habit and attitude that should change.
- There is a possibility of conflict between members.
- The participation of members is required for success.
- Extensive recordkeeping is necessary.
- There is less incentive to invest additional capital.
- Meeting both cooperative aims and business needs require complex management.
- They can limit your choice of external financing.
- Employment benefits often can't match those offered by other business types.

Workers' cooperatives can enjoy tax incentives, such as employee share schemes, but most small co-operatives find these too costly to

run.

## Video



Video

To reinforce the different forms of business watch this video<sup>55</sup>

### Nature of Small Business

Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation. What businesses are defined as "small" regarding being able to apply for government support and qualify for preferential tax policy varies depending on the country and industry. Small businesses can also be classified according to other methods such as annual revenues, sales, assets, or net profits.<sup>56</sup>

Small businesses in many countries include service or retail operations such as convenience stores, small grocery stores, a bakery or delicatessen, hairdressers or trades people (carpenter), restaurants, guest houses, photographers, very small-scale manufacturing, and Internet-related businesses such as web design and computer programming. Some professionals operate as small businesses, such as lawyers, accountants, dentists and medical doctors (although these professionals can also work for large organizations or companies). Small businesses vary a great deal regarding size, revenues, and regulatory authorization, both within a country and from country to country. Some small businesses, such as a home accounting, business, may only require a business license. On the other hand, other small businesses, such as a restaurant may require inspection and certification from a public health board or other authority.<sup>57</sup>

A small business is a business employing fewer than 20 people. Categories of small businesses include:

- Non-employing businesses (sole proprietorships and partnerships without employees)
- Micro-businesses (businesses employing between 1 and 4 people, including non-employing businesses)

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<sup>55</sup> See <https://www.youtube.com/watch?v=g926iQeI0XY> (CC BY)

<sup>56</sup> Adapted from Wikipedia, (2016). Retrieved from [https://en.wikipedia.org/wiki/Small\\_business](https://en.wikipedia.org/wiki/Small_business) (CC BY SA)

<sup>57</sup> Adapted from Wikipedia, (2016). Retrieved from [https://en.wikipedia.org/wiki/Small\\_business](https://en.wikipedia.org/wiki/Small_business) (CC BY SA)

- Other small businesses (businesses that employ between 5 and 19 employees)

Small businesses are more likely to have independent ownership and be operated independently. Owners or managers of small businesses tend to have close control of operations, undertake principal decision making and contribute most of the operating capital.<sup>58</sup>

### **Small Business**

Small businesses come in all shapes and sizes. One thing that they all share, however, is experience with common problems that arise at similar stages in their growth and organizational evolution. Predictable patterns can be seen. These patterns “tend to be sequential, occur as a hierarchical progression that is not easily reversed, and involve a broad range of organizational activities and structures.” The industry life cycle adds further complications. The success of any small business will depend on its ability to adapt to evolutionary changes, each of which will be characterized by different requirements, opportunities, challenges, risks, and internal and external threats. The decisions that need to be made and the priorities that are established will differ through this evolution.<sup>59</sup>

### **Entrepreneurship vs. Small Business**

Many people use the terms "entrepreneur" and "small business owner" synonymously. While they may have much in common, there are significant differences between the entrepreneurial venture and the small business. Entrepreneurial ventures differ from small businesses in these ways:

- The amount of wealth creation - rather than simply generating an income stream that replaces traditional employment, a successful entrepreneurial venture creates substantial wealth, typically in excess of several million dollars of profit.
- The speed of wealth creation - while a successful small business can generate several million dollars of profit over a lifetime, entrepreneurial wealth creation often is rapid; for example, within 5 years.
- Risk - the risk of an entrepreneurial venture must be high; otherwise, with the incentive of sure profits many entrepreneurs would be pursuing the idea and the opportunity no longer would exist.

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<sup>58</sup> Adapted from Commonwealth of Australia, (2015). Retrieved from [http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/rp1516/Quick\\_Guides/Data](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/Quick_Guides/Data) (CC BY NC ND)

<sup>59</sup> Adapted from Small Business Management in the 21st Century, (2012). Retrieved from <http://www.saylor.org/site/textbooks/Small%20Business%20Management%20in%20the%2021st%20Century.pdf> (CC BY NC SA)

- Innovation - entrepreneurship often involves substantial innovation beyond what a small business might exhibit. This innovation gives the venture the competitive advantage that results in wealth creation. The innovation may be in the product or service itself, or in the business processes used to deliver it.<sup>60</sup>

### **Entrepreneurs Versus Small Business Owners: A Distinction**

- Small Businesses Owners
  - Manage their businesses by expecting steady sales, profits, and growth
- Entrepreneurs
  - Focus their efforts on innovation, profitability, and sustainable growth<sup>61</sup>

Entrepreneurship is more than simply “starting a business”. Entrepreneurship is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or identifying opportunities for change. In support of the assertion, Calvin (2003) said it is one of “today’s most potentially rewarding avenues to gaining control over life and career.” Therefore, entrepreneurs see “problems” as “opportunities,” then take action to identify the solutions to those problems. Entrepreneurial success is a function of the entrepreneur’s ability to see possibilities in the marketplace, initiate change (or take advantage of change) and creates value through solutions. They are an integral part of the renewal process that pervades and defines market economies. They are also the essential mechanism by which millions of people enter the economic and social mainstream of society. Entrepreneurs can be generalized as risk-bearers, coordinators and organizers, gap fillers, leaders, and innovators or creative imitators. Individuals are being encouraged to form new businesses in the form of tax incentives, buildings, roads, and a communication system to facilitate this creative process. Ideally, the encouragement by the Central Government is a factor to realize new enterprises. Governments should develop innovative industrial strategies for fostering entrepreneurial activity.<sup>62</sup>

## **Activity**



1. What type of business would you like to own?
2. Discuss the advantages and disadvantages of this type of ownership of your chosen business.

<sup>60</sup> Adapted from Slide Share, (2013). Retrieved from [http://www.slideshare.net/naijapreneur/entrepreneurship-lect-1?qid=2c22467c-f5eb-4553-bcf3-4a669ab8aaf6&v=&b=&from\\_search=1](http://www.slideshare.net/naijapreneur/entrepreneurship-lect-1?qid=2c22467c-f5eb-4553-bcf3-4a669ab8aaf6&v=&b=&from_search=1)

<sup>61</sup> Adapted from Slideshare, (2014). Retrieved from <http://www.slideshare.net/RahulKaurav/unit-1-37945798>

<sup>62</sup> Adapted from Scientific Research, (2013). Retrieved from <http://www.scirp.org/journal/PaperInformation.aspx?PaperID=26964> (CC BY)

## Activity

3. What is a liability?
4. Differentiate between limited liability and unlimited liability?
5. Is innovation crucial to small business management? Discuss

## Case Study



## Case study

## Sole Proprietorship

**Rad's Mechanic Repair Shop**

“During my teenage years, I enjoyed watching the village mechanic fix vehicles. After school, I would pass in the afternoon and help him. When I was in 4<sup>th</sup> form, he gave me a part-time job. I really enjoyed working for him. I found it rather satisfying. After graduation, I went to community college and studied mechanical engineering.

After college, I decided to open my own repair shop. I enjoyed being my own boss and the flexibility I sometimes had with my schedule. At first, it was difficult to manage. I signed up and did some night courses in business management and learned how to make my business run smoothly.

Now I serve people from all over my country. I believe in ensuring my customers are satisfied with their repairs. Once they are happy, they would speak well of my business!”

**Questions:**

1. Why does Rad prefer to be a sole trader?
2. Assess the factors that make Rad's repair shop successful
3. Evaluate what is value in this case?

## Case Study



## Case study

## Is Expanding an Option?

‘Peps Are Us’ is a sole proprietorship owned by Candy Kurt. Candy makes and sells various types of pepper sauces. At present, Candy has 4 workers in addition to her two teenage children who assist with business activities.

The demand of pepper sauces from her business has increased significantly from its 5 years conception. Candy decided to export

regionally and internationally. She feels the need to expand and considers taking on a partner.

She has never worked with a partner and plans to inquire further to find out more.

Question:

1. What type of business ownership is Candy proposing?
2. Discuss the advantages and disadvantages of this type of business.
3. Evaluate your decision on what Candy should change or should she remain as a sole proprietorship.

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## Assessments



### Assessments

Answer the following questions to test your knowledge on business ownerships.

State whether the statements are **TRUE** or **FALSE**

1. A sole proprietorship provides limited liability to the entrepreneur.
2. The level of liability depends on the type of business ownership.
3. In a general partnership, all partners have limited liability
4. Entrepreneurs with limited liability do not place personal assets at risk.
5. A limited liability company is owned by its shareholders.
6. A corporation is easier to set up than a sole proprietorship.
7. Farmers can form cooperatives to purchase equipment.
8. Corporations can differ depending on how they are taxed
9. Investors prefer to invest in sole proprietorships.
10. Partnerships can determine how they will share management, profitability, and liability of the business.

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Answer:

1. False
2. True
3. True
4. True
5. True
6. False

7. True

8. True

9. False

10. True

## Lesson summary



Summary

### **Lesson Summary**

At the end of this lesson, you should have gained a better understanding in knowing the different forms of business ownership. The lesson addressed the advantages and disadvantages of each form that would guide you in selecting the most appropriate form of your business venture. Keep going! You will learn about culture in the next lesson.



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## Lesson 8 - Cultural diversity of Entrepreneurship

### Outcomes



At the end of this lesson, students should be able to explain:

- (a) Gender and entrepreneurship.
- (b) Youth and Entrepreneurship.
- (c) Ethnicity and Entrepreneurship.
- (d) Family and entrepreneurship.
- (e) Religion and Entrepreneurship

### Introduction

This topic explores culture diversity in relations to entrepreneurial activities as well as the importance of embracing diversity within the workplace. Also, the prominent entrepreneurs learn the definition of culture, diversity, and cultural diversity as well as, the elements of culture, barriers of culture and the challenges the entrepreneur encounters. Also, you will learn the importance of developing a positive culture in the workplace, discover the importance of youths in the entrepreneurial process, and explore the effects of ethnicity, family, and religion in entrepreneurship. We will begin by brainstorming and coining a definition of culture and diversity. Moreover, cultural diversity as well as other related terms that will broaden your knowledge and provide assistance for the analysis and interpretation of data shared.

Culture: shared beliefs, values, and assumptions of a group of people who learn from one another and teach to others that their behaviours, attitudes, and perspectives are the correct ways to think, act, and feel.<sup>63</sup>

Diversity: *distinct and unlike elements or qualities* (interests, people, ideas, perspectives, ability, region); can be visible and invisible. Now that you are exposed to the definition of both culture and diversity let us brainstorm a definition that is suitable for cultural diversity.<sup>64</sup>

### Activity

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<sup>63</sup> Adapted from Leading with Cultural Intelligence, Retrieved from <http://www.saylor.org/site/textbooks/Leading%20with%20Cultural%20Intelligence.pdf> (CC BY NC SA)

<sup>64</sup> Adapted from Leading with Cultural Intelligence, (2012). Retrieved from <http://www.saylor.org/site/textbooks/Leading%20with%20Cultural%20Intelligence.pdf> (CC BY NC SA)



## Activity

### Activity 1

Conduct further research to coin a definition for cultural diversity and compare to the one you brainstormed for yourself.

**Culture**, in the broadest sense, refers to how and why we think and function. It encompasses all sorts of things—how we eat, play, dress, work, think, interact, and communicate. Everything we do, in essence, has been shaped by the cultures in which we are raised. Similarly, a person in another country is also shaped by his or her cultural influences. These cultural influences impact how we think and communicate.<sup>65</sup>

**Cultural intelligence** (CI) principles help to facilitate awareness for, and understanding of, cultural frames. When applied, they bring our frameworks to a conscious level. At a level where we can see the frames, we can then identify what it will take to learn new patterns of thought—new ways to reframe. To be culturally intelligent is to reframe or rewire your brain. You create new patterns and new frames by suspending your judgments and assumptions, by considering the old patterns in the face of the new or unfamiliar, and by choosing to change your behaviour and attitudes based on reflection and new interpretation. Cultural intelligence is the openness to emerge, not just about the unfamiliar and new culture, but about you—who you are and whom you could become.<sup>66</sup>

### Cultural Diversity

The changes we see in societies around the globe necessitate a new and different paradigm for how we come to think about culture. All this makes it harder and more challenging to think and practice cultural competence in the same way. Gardner says we need to approach the challenges that differences bring through acceptance, respect, and learning—a frame that he calls the “respectful mind.” We must engage in intercultural situations and activities fully; we need to immerse ourselves and experience the “flow” to harness the emotions required to perform and learn from our

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<sup>65</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

<sup>66</sup> Adapted from Leading with Cultural Intelligence, (2012). Retrieved from <http://www.saylor.org/site/textbooks/Leading%20with%20Cultural%20Intelligence.pdf> (CC BY NC SA)

cultural interactions. Leaders must be willing to explore and create new ways of thinking and interacting with the flow of culture.

In this age of social transformation, cultural intelligence is a topic of urgency for organizational leaders. Environmental, political, and technological factors are quickly shifting the ways we work and interrelate with one another. Cultural shifts are happening at a faster rate than organizations are ready for and capable of managing, thus creating mental and emotional havoc in managing and leading through cultural transitions. In many cases, the result is a tighter hold on the invisible aspects of culture and stronger emphasis on “the ‘right’ way to do the work.” More and more, people ask for the tools and information that help carry them through intercultural and cross-cultural interactions. There are multitudes of tools and methodologies that are useful for managing and leading on a global level—the cultural intelligence framework is one of them. It is only one component in the equation for improving the management and leadership of cultural interactions. I tell leaders, “You need to recognize that no matter what tool or method you use, who you are and how you use the tool or method is the biggest part of the equation.”<sup>67</sup>

There are external factors that also constitute a culture—manners, mindsets, values, rituals, religious beliefs, laws, arts, ideas, customs, beliefs, ceremonies, social institutions, myths and legends, language, individual identity, and behaviours, to name a few. While these factors are less structured and do not provide a comparative framework, they are helpful in completing our understanding of what impacts a particular culture. When we look at these additional factors, we are seeking to understand how each culture views and incorporates each of them. For example, are there specific ceremonies or customs that impact the culture and for our purposes its business culture?<sup>68</sup>

### **Gender and Entrepreneurship**

When we talk about masculine or feminine cultures, we are not talking about diversity issues. It is about how society views traits that are considered masculine or feminine.

This value dimension refers to how a culture ranks on traditionally

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<sup>67</sup>Adapted from *Leading with Cultural Intelligence*, (2012). Retrieved from <http://www.saylor.org/site/textbooks/Leading%20with%20Cultural%20Intelligence.pdf> (CC BY NC SA)

<sup>68</sup> Adapted from *Challenges and Opportunities in International Business*, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

perceived “masculine” values: assertiveness, materialism, and less concern for others. In masculine-oriented cultures, gender roles are usually crisply defined. Men tend to be more focused on performance, ambition, and material success. They cut through an independent persona, while women cultivate modesty and quality of life. Cultures in Japan and Latin American are examples of masculine-oriented cultures.

In contrast, feminine cultures are thought to emphasize “feminine” values: concern for all, an emphasis on the quality of life, and an emphasis on relationships. In feminine-oriented cultures, both gender swap roles, with the focus on the quality of life, service, and independence. The Scandinavian cultures rank as feminine cultures, as does cultures in Switzerland and New Zealand. The United States is actually more moderate, and its score is ranked in the middle between masculine and feminine classifications. For all these factors, it is important to remember that cultures do not necessarily fall neatly into one camp or the other<sup>69</sup>.

Women play a major role in entrepreneurship, although feminine entrepreneurship is lower than masculine entrepreneurship. However, the distance between both entrepreneurship rates (male–female) varies across countries because of the influence of different roles and stereotypes on entrepreneurial behaviour.

Since entrepreneurship is considered as a source of economic development, innovation, and growth, the study of factors that influence rates by creating new companies have become an important issue on the agendas of economists, researchers, and politicians in most countries. Understanding the role played by the social, cultural and economic factors in entrepreneurship is key to comprehend how to encourage culture and entrepreneurial behaviour.

Secondly and closely related to the above, understanding the national culture is essential to analyze how each country values and rewards the behaviours that promote entrepreneurial behaviour. In this sense, in those countries where social roles are closer to competitiveness, ambition and achievement, that is to say, where to highlight the roles attributed to the male group would be expected lower rates of female entrepreneurship<sup>70</sup>.

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<sup>69</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

<sup>70</sup> Adapted from ScienceDirect, (2016). Retrieved from <http://www.sciencedirect.com/science/article/pii/S2215910X15000518> (CC BY NC ND)

## Youth and Entrepreneurship

One potential way of integrating young people into the labour market is to increase youth entrepreneurship. Becoming an entrepreneur potentially offers benefits to the young person through deepening their human capital attributes (self-reliance, skill development) and increasing their levels of happiness. It also provides societal benefits. Entrepreneurs create jobs, increase innovation, raise competition and are responsive to changing economic opportunities and trends. Entrepreneurship offers other positive externalities. A young person setting up a new business may provide 'demonstration' or learning externalities in that they may act as a role model for other young people. This may be particularly advantageous in deprived communities because setting up a new business – especially if it goes on to be successful – may signal that entrepreneurship is a mechanism for helping disadvantaged people break out of social exclusion. Indeed, one of the reasons why youth entrepreneurship is so attractive is that it offers an indigenous solution to economic disadvantage. Youth entrepreneurship is also attractive to policy makers because of the high rates of latent entrepreneurship amongst young people. The entrepreneurial outcomes of youth entrepreneurs are often explained by the presence of market failures, push and pull factors and a lack of human, social and financial capital.

### Youth business characteristics

Because the labour market experiences of young people have become increasingly delayed and fractured, one expectation might be that young people have increasingly adopted differing forms of work and business activity. Regarding entrepreneurship, this may have led to the adoption of differing 'business models' such as part-time self-employment; some form of the co-operative or social enterprise; or a focus on a particular (innovative) sector.

On average, the typical new business focuses on sectors in which the entrepreneur has prior experience of; tend to be service rather than manufacturing orientated; and have relatively low entry barriers and low capital requirements<sup>71</sup>

Additional reading on Youth and Entrepreneurship - [Youth Entrepreneurship](#)<sup>72</sup>

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<sup>71</sup> Adapted from OECD Centre, (2013). Retrieved from [https://www.oecd.org/cfe/leed/youth\\_bp\\_finalt.pdf](https://www.oecd.org/cfe/leed/youth_bp_finalt.pdf)

<sup>72</sup> Adapted from OECD Centre, (2013). Retrieved from [https://www.oecd.org/cfe/leed/youth\\_bp\\_finalt.pdf](https://www.oecd.org/cfe/leed/youth_bp_finalt.pdf)

Here is an example of a youth entrepreneur - [Maya Penn: Meet a young entrepreneur](#),<sup>73</sup>

### Ethnicity and Entrepreneurship<sup>74</sup>

Entrepreneurship is not only about the job creation, but also about enhancing upward mobility, developing social leadership, increasing individuals' self-confidence by enabling them to become active agents of their own destiny, increasing the social cohesion of ethnic communities, and revitalising streets and neighbourhoods through innovation of social and cultural life. Ethnic entrepreneurship has not played a role in the strategy of cities to support the employment and societal integration of immigrants into local communities.

The ethnic and socio-cultural make-up of many advanced economies have significantly changed as flows of long-distance migration from ever more locations increased in the second half of the twentieth century. Immigrants from both developed and less-developed countries moved to advanced economies, embodying the complex process of globalisation in a very palpable sense. These two highly visible aspects of globalisation – the international mobility of capital and labour – are often directly related as immigrants themselves introduce their products and services to far-off places. They start businesses in their countries of settlement and become 'self-employed', 'new entrepreneurs', 'immigrant entrepreneurs' or 'ethnic entrepreneurs'.

#### **Importance of ethnic entrepreneurship**

The self-employment of immigrants is (or can be) important for several reasons. This is first of all related to the fact that they play a different role from immigrant workers.

- By starting their own business, ethnic entrepreneurs create their own jobs. This enables them to circumvent some of the barriers they may encounter in looking for a job. Immigrants from less-developed countries were particularly likely to come up against these obstacles. They may lack or be felt to lack educational qualifications; they may not have sufficient access to relevant social networks for transmitting information on vacancies, or local employers may

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<sup>73</sup> See

[https://www.ted.com/talks/maya\\_penn\\_meet\\_a\\_young\\_entrepreneur\\_cartoonist\\_designer\\_activist/transcript?language=en](https://www.ted.com/talks/maya_penn_meet_a_young_entrepreneur_cartoonist_designer_activist/transcript?language=en) (CC BY NC ND)

<sup>74</sup> Adapted from CLIP Network European Union, (2011). Retrieved from [http://www.coe.int/t/democracy/migration/Source/migration/congress\\_public\\_3.pdf](http://www.coe.int/t/democracy/migration/Source/migration/congress_public_3.pdf) (CC BY NC SA)

simply discriminate against them. Becoming self-employed does not mean all these barriers have become irrelevant, but entrepreneurs seem to be less vulnerable.

- If they are successful, ethnic entrepreneurs can create jobs for others as well. This can benefit relatives, friends and acquaintances and, more generally, co-ethnics, as social networks are often interfaced for information on the recruitment of new workers in small firms. Creating jobs – even poor jobs – helps alleviate unemployment among immigrants. The same holds for providing apprenticeships, which in some countries is seen as an important vehicle for a labour market career. This does not exclude, of course, the creation of jobs for people from other ethnic groups, including the native mainstream.
- Ethnic entrepreneurs can also contribute different forms of social capital to ethnic immigrant communities. Because of their links to suppliers and customers, ethnic entrepreneurs can be useful in constructing bridges to other networks outside the inner circle, thus improving chances of upward mobility.
- Ethnic entrepreneurs show that immigrants from less-developed countries are not necessarily restricted to filling vacancies on the job market. They can be active agents and shape their own destinies by setting up their own businesses.

Secondly, ethnic entrepreneurs don't only differ from immigrant workers, but can also be different from indigenous entrepreneurs.

- They may provide goods and services that indigenous entrepreneurs are less likely to offer. Ethnic entrepreneurs may have expert knowledge of specific demands or specific sources of supply relating to foreign products, as in the case of foodstuffs. By introducing new products and new ways of marketing, even ethnic entrepreneurs at the bottom end of a market can be innovators. Ethnic entrepreneurs may thus broaden the range of goods and services in a country and hence expand the consumers' choice. The flip side, of course, is that ethnic entrepreneurs sometimes gravitate to the same economic sectors and, in doing so, undermine their competitiveness.
- Analogous to the last point, ethnic entrepreneurs can be instrumental in giving certain sectors a new lease of life. In some industries, because of their specific skills, knowledge or social capital, ethnic businesses can be at a comparative advantage.

Notwithstanding the apparent diversity of both the origins of the entrepreneurs and the types of businesses they have been established in various countries, there are clearly similar underlying processes. Lacking, in most cases, access to significant funds of (financial) capital and also deemed lacking in appropriate educational qualifications, most fledgling ethnic entrepreneurs can, so it seems, only set up shop in markets with low

barriers to entry regarding capital outlays and required educational qualifications. In these markets, production is mainly small-scale, low in added value, and usually very labour intensive. Consequently, earnings are typically relatively low, and days are long and hard for many ethnic entrepreneurs. This very fact, to be sure, points to a distinct divergence of forms of ethnic entrepreneurship, and this makes it harder to get a sharp and coherent profile of ethnic entrepreneurship.

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## Assessments



Assessments

### Test Your Knowledge

1. Explain the importance of youths in the entrepreneurship process.
2. Identify **three** (3) major challenges youths encounter as entrepreneurs.
3. Discuss **three** (3) motivating factors that contribute to a successful young entrepreneur.
4. Identify **two** (2) major ethnic groups in your community

## Discussion



Discussion

### Discussion

Discuss the role of understanding the identified ethnic groups and their cultural beliefs and practices to a promising entrepreneur in your society.

### Family and Entrepreneurship

Economy, business, and entrepreneurship are related to the world of men. Home, nurturing, and the family belongs to women's world, so the story goes. On the other hand, family entrepreneurship and its outcome, the family business, are probably the most traditional way of conducting business, being thus a universal phenomenon. However, in comparison to other economic and entrepreneurial activities, the field of family entrepreneurship has been only recently addressed by economists,



researchers, and academicians<sup>75</sup>.

Family business makes possible the idea of perpetuating the founder's name and actions over time. It permits, if well managed, to preserve and amplify assets accumulated in life, entrusting the economic potential associated with the business entity for future generations.

Family businesses are the engines of both industrialized countries and developing economies. They contribute to the socioeconomic development impact on the entrepreneurial drive and represent major employment opportunities. Above all, family businesses represent 'life projects', vigorous centres that combine entrepreneurial skills and activities with typical traits of the family as a community of values and strong relationships.

The natural and innate idea of family businesses to persist beyond the founders, in a continuity of values and intergenerational wealth, is based on a concept of 'sustainable family'. The search for new market models emphasizes approaches based on cooperation and enhances emotional investments, the sense of belonging, and the social and economic continuity over time.

*Family business sustainability* is the ability to ensure the persistence of the family over time, combining the continuity of the family myth with social responsibility and creating a community of values and intentions. The theme of longevity or persistence of the family is one of the main topics on which to focus the theoretical and empirical contributions to the family business.<sup>76</sup>

## Activity



Activity

1. Discuss the major benefits of pursuing a family approach in the entrepreneurial process
2. How might family type(s) impact the aspiring entrepreneur and the business venture?

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<sup>75</sup> Adapted from SpringerOpen, (2013). Retrieved from <http://innovation-entrepreneurship.springeropen.com/articles/10.1186/2192-5372-2-4> (CC BY)

<sup>76</sup> Adapted from SpringerOpen, (2013). Retrieved from <http://innovation-entrepreneurship.springeropen.com/articles/10.1186/2192-5372-2-22> (CC BY)

## Religion and Entrepreneurship

Religious economy refers to religious persons and organizations interacting within a market framework of competing groups and ideologies. An economy makes it possible for religious suppliers to meet the demands of different religious consumers. By offering an array of religions and religious products, a competitive religious economy stimulates such activity in a market-type setting. The idea of religious economy frames religion as a product and as those who practice or identify with any particular religion as a consumer. However, when the idea of belief is brought into the equation, this definition expands, and ideology affects the "product" and who "consumes" it. When examining depictions of religious identity in a global world, it is easy to see how ideology affects the religious economy.<sup>77</sup>

Religion impacts many different areas of a person's life, such as the family; politics, and gender roles. Though a few strong perspectives have emerged in the area of work and religion, this relationship has been marginalized by sociologists. Work is something that plays a central role in the everyday lives of people. Entrepreneurial behaviour as a particular kind of work has increased and can be seen as the driving force behind the capitalist system. Entrepreneurs, articulate a relationship in which their faith frames their entrepreneurial activity. The entrepreneurs described a tension that existed between their previous jobs and their faith due to conflicting values. In setting up their own businesses, they strove to create a work environment which focused on reflecting and incorporating these values. The entrepreneurial activity is shaped by the need for these entrepreneurs to reinterpret their work in religious terms, ending the tension between them between faith and work.<sup>78</sup>



### Discussion

Analyze the major impact of understanding religion for the young and aspiring entrepreneur.

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<sup>77</sup> Adapted from Wikipedia, (2015). Retrieved from [https://en.wikipedia.org/wiki/Theory\\_of\\_religious\\_economy](https://en.wikipedia.org/wiki/Theory_of_religious_economy) (CC BY)

<sup>78</sup> Adapted from Religions, (2014). Retrieved from <http://www.mdpi.com/2077-1444/5/3/780/pdf>. (CC BY)

## Lesson summary



You just completed cultural diversity and the entrepreneurship. You have defined culture, diversity, cultural diversity, elements of culture, as well as identify cultural barriers and cultural challenges to the entrepreneurship process, legal and ethical issues that entrepreneurs encounter, and ways in which the entrepreneur can foster positive organizational culture. Also, you have explored gender and entrepreneurship, religion and entrepreneurship, family and entrepreneurship, youth and entrepreneurship as well as ethnicity and entrepreneurship. We will now look at regional entrepreneurs.

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## Lesson 9 - Regional Entrepreneurs

### Outcomes



At the end of the lesson, students should be able to:

1. Identify three successful local, regional and international Entrepreneurs.
2. Describe how at least four Entrepreneurs became successful.

### Introduction

In this lesson, we will research and view series resources that highlight successful regional entrepreneurs. Listen to their stories and evaluate how their success may impact your business venture. This lesson will require you to engage your critical thinking and problem-solving skills to identify and analyse successful entrepreneurs locally, the region and internationally. To assist you with this probe a series of activities will initiate your research. We will begin with a recap of the features of successful entrepreneurs in Lesson 5.

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## Assignments



### Research Assignment

In lesson 5, we examined the characteristics of successful entrepreneurs. Create a checklist highlighting these characteristics and conduct an evaluation of three

- National,
- Regional
- International entrepreneurs and their business.

Then write a reflective paper or PowerPoint presentation to share the findings of your probe.

- Describe TWO ways in which you have been impacted by their Entrepreneurial skills
- Highlight TWO characteristics that are similar to them that make them successful
- Indicate how any of the entrepreneurs have inspired you.

## Lesson 10 - Myths of Entrepreneurship

### Outcomes



Outcomes

At the end of the lesson, students should be able to:

1. Discuss the Myths of Entrepreneurship

### Introduction

We often hear of factors of what makes a entrepreneurship business a success. However, are all these factors true and what impact they have in determining a successful business venture. In this lesson, we will examine some these myths of entrepreneurship and discuss their relevance and relation of our business venture.

Entrepreneurs work hard and are driven by an intense commitment and determined perseverance; they see the cup half full, rather than half empty; they strive for integrity; they burn with the competitive desire to excel and win; they are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter; they use failure as a tool for learning and eschew perfection in favour of effectiveness; and they believe they can personally make an enormous difference in the outcome of their ventures and their lives<sup>79</sup>.

### MIT videos<sup>80</sup>

### 10 Myths of Entrepreneurship<sup>81</sup>

The myths, however, are many. The following five entrepreneurship myths are among the most prevalent:

1. **Entrepreneurs are born, not made:** The most prevalent myth about entrepreneurs is that they are born with the skills that will make them successful and that anyone who's not born with those skills will not succeed. In reality, Entrepreneurism is a skill that, like any other skill, can be learned.

2. **Entrepreneurs make more money:** Surprisingly, the typical entrepreneur earns less money than if he or she were working as an employee. Only the top 10 percent of entrepreneurs earn more than

<sup>79</sup> Adapted from Challenges and Opportunities in International Business, (2012).

Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s15-01-entrepreneurship.html> (CC BY NC SA)

<sup>80</sup> See <https://www.youtube.com/watch?v=zWgGX71lws> (CC BY NC SA)

<sup>81</sup> See <http://www.society30.com/10-myths-entrepreneurship/> (CC BY)

employees.

3. **Being original is essential:** Another entrepreneurial myth is that entrepreneurs who get to the market first gain the most.

4. **It takes a lot of money to start a business:** Research by Scott Shane of Case Western Reserve University has shown that the average new business needs only \$25,000 in financing and that most of that money can be raised through debt. Scott Shane, “Top Ten Myths of Entrepreneurship,” *How to Change the World* (blog)

5. **Entrepreneurs must be risk takers:** According to this myth, entrepreneurs are good at starting businesses, but can’t manage them once they grow<sup>82</sup>.

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## Assessments



Assessments

### Test Your Knowledge

1. Identify **four** (4) myths of entrepreneurship.
2. Discuss the relevance and impact of understanding myths in the entrepreneurial process.

## Discussion



Discussion

### Discussion

Explain how an understanding of myths can prompt the entrepreneur to mitigate greatest challenges in the business venture.

## Lesson summary



Summary

### Lesson Summary

Terrific discussion!! You just completed the myths and entrepreneurship. You have defined myths, as well as explored ten common myths in entrepreneurship. We have completed the first section of our module 1 and we will now look at section 2 the entrepreneurship process. Great Job!

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<sup>82</sup> Adapted from International Business, (2012). Retrieved from [https://saylordotorg.github.io/text\\_international-business/s15-01-entrepreneurship.html](https://saylordotorg.github.io/text_international-business/s15-01-entrepreneurship.html) (CC BY NC SA)

## Module 2 - The Entrepreneurship Process

The focus of this module is to develop an understanding of how business ideas are generated. At the end of this module you should be able to identify different methods of generating business ideas and opportunity identification; examine business concepts; identify different resources essential for business success; and how to implement and manage a business venture.

### Outcomes



Outcomes

On completion of this Module, students should:

1. Understand the entrepreneurial process;
2. Appreciate the key stages in the process;
3. Understand the process through which business ideas are evaluated.

---

## Lesson 1 - Generating Business Ideas

### Outcomes



Outcomes

In this lesson, students should be able to:

1. Identify the steps in the entrepreneurial process;
2. Discuss some of the methods of generating ideas;

### Introduction

Scanning the business environment means that the prospective entrepreneur needs to do some research. If research proves the business idea to be a viable business opportunity you can start drawing up your business. Let's examine how business ideas are generated.<sup>83</sup>

### How to Identify Business Opportunities

A business opportunity starts with a business idea. A prospective entrepreneur must look for a creative idea that can be transformed into a business opportunity by scanning the business environment. Working

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<sup>83</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

through the next part will help you to understand how to identify business opportunities and generate business ideas much better.<sup>84</sup>

### How to Generate Business Ideas

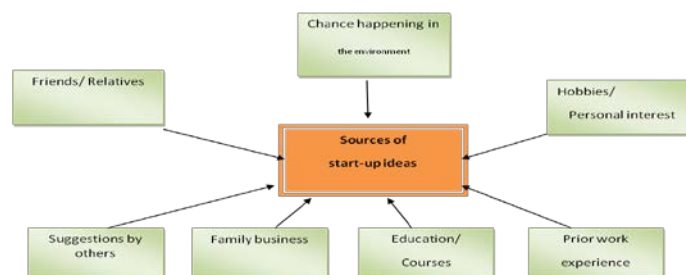
Scanning the business environment will help the entrepreneur to identify business ideas.

A business idea is the starting point of the journey to setting up a business. Business ideas are based on given situations and will differ from place to place and also from entrepreneur to entrepreneur.<sup>85</sup>

We can, therefore, see business ideas as:

- ❖ Dreams about creative ways of meeting the community's needs/wants
- ❖ Dreams of creative solutions to the communities' problems
- ❖ Innovative ways of improving on what is already being done, and
- ❖ A creative means of meeting the fantasies and dreams of community members for luxury and a better life.<sup>86</sup>

(Source: *Entrepreneurship Education for Secondary Schools, Teachers' Instructional Manual – MOE - Democratic Republic of Timor Leste*)



Adapted from Entrepreneurship 10.1. Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

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<sup>84</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>85</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>86</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)



Business ideas may come from problem situations, needs and wants, our interests and hobbies, as well as the natural resources around us. Coming up with a good business idea or even just changing old ideas into new ones, however, requires some creativity from the prospective entrepreneur.<sup>87</sup>

### What is Creative Thinking and how can it be enhanced?

Creativity is a way of thinking, coming up with new and innovative ways of solving problems. It is the mental attitude of always trying to improve on existing products and services. Remember that we said earlier that creativity is something that can be developed. Look at the following insert to see how you can become creative<sup>88</sup>

<p>♣ <b>Think actively</b> Whatever you do – watching television or reading the newspaper - try to think actively by considering if there are any new ideas that you can use.</p> <p>♣ <b>Record all your ideas</b> Get a book to write down all your ideas and look through the book regularly to improve, change and compare your ideas with others.</p>	<p>♣ <b>Why should it be this way?</b> Whenever you find yourself in a situation that seems normal, ask yourself why it should be this way. This helps you to ask questions about the world around you and can lead you to getting new ideas.</p> <p>♣ <b>Something different</b> - Read about a subject you know nothing about; - Use a different way to get your destination; - Do something new and different; - Change your daily routine.</p> <p>♣ <b>Adopt a creative attitude</b> Believe that you have the ability to be creative. Think about what could go right, rather than what could go wrong. Focus on opportunities!</p> <p style="text-align: right;">(Author: Unknown)</p>
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Adapted from Entrepreneurship 10.1. Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>87</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>88</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

Remember that generating ideas or identifying opportunities can be improved by using the creativity methods.<sup>89</sup>

<b>Creativity Methods</b>	<b>Explanation</b>
<b><i>Brainstorming</i></b>	Decide what the problem is and give ideas on ways to solve it. Just let the ideas flow and write down all of it. Do not comment on whether they are good or bad.
<b><i>Attribute analysis</i></b>	Make a list of a few existing products and services and create a list of attributes (characteristics) for each of them. By combining various attributes, you may be able to come up with an entirely new product or service.
<b><i>Problem redefinition</i></b>	Define a problem that you or others experience and write it down. Think of ways in which the problem could be solved by introducing a new product or service.
<b><i>Manipulation</i></b>	Make a list of some new products and services and think of ways in which you can change them, e.g., make it smaller, and change the colour, shape or package.
<b><i>Forced connections</i></b>	Take two ideas or products that have little or nothing in common and try to make a connection between the two, e.g., bed + food = bed and breakfast.

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<sup>89</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

***Mind mapping***

Mind mapping is a way to help you think creatively and gives you a picture of groups of ideas that you can examine without losing your main idea.

For example: Choose a word or group of words and write them down in the centre of a page. Think of anything that has some link with the word. Write it down and draw a line connecting it to the central word(s).

**(Author: Unknown)**

Good viable business ideas:

- Focus on the needs and wants of consumers;
- Must be able to provide consumers with the necessary goods and services, and
- Improve on the existing product and make it
- More attractive for consumers<sup>90</sup>
- 

**Turning Ideas into Business Opportunities**

By now, you should have at least one idea for a new business venture. Maybe, you are wondering when an idea becomes an opportunity. Considering the wants and needs of people in your community is only the first step towards identifying a business opportunity. There are many other issues that you need to take into account as well. Remember that we said earlier in the unit that good ideas are not necessarily good opportunities. Opportunities are ideas that work, and that can be turned into successful businesses.<sup>91</sup>

Look at the following example:<sup>92</sup>

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<sup>90</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>91</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>92</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)



*Do you think Saima's idea presents a good business opportunity?*

There are many potentially profitable business opportunities in the business environment, and any individual can enter into business. What about you? Do you also possess the quality of being creative and turning a business idea into an opportunity?

The followings are indicators/characteristics of a good business opportunity:

- ★ There should be an actual market or a demand for the product and/or service.
- ★ The business should have the capacity to generate profits.
- ★ The business should be able to get the factor inputs it requires for operation.
- ★ The business should be acceptable in the community.

Potential entrepreneurs should, therefore, look at factors that will have an impact on the business, such as government regulations, how much tax they need to pay, the current interest rates, social and cultural trends which might influence consumer demand, new innovations, available

infrastructure, potential competitors, available resources needed, potential suppliers and potential customers. When all these factors prove to be positive and in favour of the entrepreneur, it means that his or her business idea can be a viable business opportunity. Keep in mind that changes in the business environment can present good business opportunities. As soon as the idea has been assessed and you have come up with the most promising business opportunities, you must proceed to evaluate them and identify the one that meets your business expectations and abilities.

When you have identified a potentially successful opportunity, you should assess whether it is indeed an attractive opportunity. Turning an opportunity into a successful business makes specific demands on the entrepreneur. You will now be introduced to **sources of information** that could be of value to you in evaluating your opportunity.<sup>93</sup>

A lot of work goes into starting a business: you need to draw up a business plan, find investors, get loans, and look for employees. Before all that, however, you have to come up with your idea for a business. This could be a new product, service, or, method, but it has to be something that customers will pay money for. Finding that very good idea takes thought, creativity, and research. If you are looking to be an entrepreneur, keep the following in mind when trying to come up with your business idea.<sup>94</sup>

The entrepreneur can use several methods to help generate and test new ideas, including focus groups, brainstorming, and problem inventory analysis.

### **METHODS OF GENERATING NEW IDEAS**

Even with the wide variety of sources available, coming up with an idea to serve as the basis for the new venture can still be a difficult problem. The entrepreneur can use several methods to help generate and test new ideas, including focus groups, brainstorming, and problem inventory analysis.

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<sup>93</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>94</sup> Adapted from WikiHow, (2016). Retrieved from <http://www.wikihow.com/Come-Up-With-a-Business-Idea> (CC BY NC)

**Focus groups**

Group of individuals providing information in a structured format is called a focus group. The group of 8 to 14 participants is simulated by comments from other team members in creatively conceptualizing and developing new product ideas to fulfil a market need.

**Brainstorming**

A group method of obtaining new ideas and solutions is called brainstorming. The brainstorming method for generating new ideas is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in organized group experiences. Although most of the ideas generated from the group have no basis for further development, often a good idea emerges.

**Problem inventory analysis**

Problem inventory analysis uses individuals in a manner that is analogous to focus groups on generating new product ideas. However, instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. They are then asked to identify and discuss products in this category that have the particular problem. This method is often effective since it is easier to relate known products to suggest problems and arrive at a new product idea than to generate an entirely new idea by itself.

**CREATIVE PROBLEM-SOLVING**

Creative problem solving is a method for obtaining new ideas focusing on the parameters.

**Brainstorming**

The first technique, brainstorming, is probably the most well known and widely used for both creative problem solving and idea generation. It is an unstructured process for generating all possible ideas about a problem within a limited time frame through the spontaneous contribution of the participants. All ideas, no matter how illogical, must be recorded, with participants prohibited from criticizing or evaluating during the brainstorming session.

**Reverse brainstorming**

Similar to brainstorming, but criticism is allowed and encouraged as a way to bring out possible problems with the ideas.

**Synectics**

Synectics is a creative process that forces individuals to solve problems through one of four analogy mechanisms: personal, direct, symbolic and fantasy. This forces participants to apply preconscious mechanisms consciously through the use of analogies to solve problems.

### Gordon method

Gordon method is a method of developing new ideas when the individuals are unaware of the problem. With this approach, the entrepreneur starts by mentioning a general concept associated with the problem. The group responds by expressing some ideas.

### Checklist method

Developing a new idea through a list of related issues is a checklist method of problem-solving.



[Listen](#) to how young entrepreneurs use their ideas to generate millions in viable business ventures<sup>95</sup>

## Activity



Activity

Review the slides in this [presentation](#)<sup>96</sup>, and then reflect on your own business ideas. Evaluate if any of these approaches can assist in developing your business ideas to a profitable business venture.

There are many approaches used to generate business ideas. The Delphi Methodology is one of these methods. Here are six steps in the Delphi technique that could further analyze your business idea.<sup>97</sup>

## Activity



Activity

### Activity

[Watch](#)<sup>98</sup> the video and discuss any five (5) of the decisions that proved to be mistakes.

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## Assessments



Assessments

### ASSESSMENT

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<sup>95</sup> See <https://www.youtube.com/watch?v=Wky9cLHTc7g&feature=youtu.be> (CC BY)

<sup>96</sup> See <http://www.slideshare.net/Launchyourgenius/15-ideas-on-how-to-generate-new-ideas> (CC BY SA)

<sup>97</sup> See <http://www.preservearticles.com/2012051832377/6-sequential-steps-in-delphi-technique.html>

<sup>98</sup> See <https://www.youtube.com/watch?v=M7SqQnKuZOQ&feature=youtu.be> (CC BY)

**State whether the statement is True/False.**

1. At the core of any business venture is an idea.
2. A determination to keep things the same taps into entrepreneurs' creativity.
3. Education, friends, hobbies can all be sources of start-up ideas for a business
4. The capacity to generate a loss or the lack of an actual market is a good indicator of a business opportunity that should not be perused.
5. Viable business ideas focus on the developer of the product.
6. A creative mindset is the death of new product development.

## Lesson summary



### **Lesson summary**

Generating a business idea is one of the first steps in the Entrepreneurial process. In this process entrepreneurs screen all prospective ideas to evaluate their viability. Once a viable idea is determined it is important to assess the business opportunities that can derive from that idea before investing resources in the business venture. In the next lesson, we will explore the elements that determine and influence the viability of a business opportunity.



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## Lesson 2 - Opportunity Identification

### Outcomes



At the end of the lesson, students should be able to:

1. Identify sources of entrepreneurial opportunities
2. Distinguish between idea and opportunity
3. Evaluate an opportunity of giving information

### Introduction

A business opportunity consists of four elements, all of which are to be present within the same time frame (window of opportunity) and most often within the same domain or geographical location before it can be claimed as a business opportunity. These four elements are:

- A need
- The means to fulfil the need
- A method to apply the means to fulfil the need and;
- A method to benefit

With any one of the elements missing, a business opportunity may be developed, by finding the missing element. A desirable characteristic is the combination of items to be unique. The more control an institution (or individual) has over the elements, the better they are positioned to exploit the opportunity and become a niche market leader<sup>99</sup>.

Entrepreneurship can be viewed as

- Recognizing change,
- Pursuing opportunity,
- Taking on risk and responsibility,
- Innovating,
- Making better (higher value) use of resources,
- Creating new value that is meaningful to customers,
- Doing it all over again and again.

Moreover, entrepreneurship is an attitude and the drive to pursue opportunity and create something new and of value.<sup>100</sup>

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<sup>99</sup> Adapted from Wikipedia, (2016). Retrieved from [https://en.wikipedia.org/wiki/Business\\_opportunity](https://en.wikipedia.org/wiki/Business_opportunity) (CC BY SA)

<sup>100</sup> Adapted from Entrepreneurship, Innovation, and Sustainable Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/sustainable-business-cases/s09-entrepreneurship-innovation-an.html> (CC BY NC SA)

## Entrepreneurial Opportunities

Many different conditions in society can create **entrepreneurial opportunities** for new goods and services. Opportunity conditions arise from a variety of sources. At a broad societal level, they are present as the result of forces—such as changes in knowledge and understanding, the development of new technology, shifting demographics, political change, or changing attitudes and norms—that give rise to new preferences and concerns. These forces constantly open up new opportunities for entrepreneurs.

In relation to sustainability concerns, certain demographic shifts and pollution challenges create opportunities. For example, with 50 percent of the world's population, for the first time in history, now living in urban areas, city air quality improvement present opportunities for entrepreneurs.

The entrepreneur must first recognize the opportunity and then innovate by proposing a business solution that provides an attractive alternative to customers. A solution is just the first step in the process; the entrepreneur must also investigate the economic value of and business proposition emanating from that opportunity. They must research the market to understand how their potential product or service provides value to a customer and whether the amount a customer is willing to pay, which reflects the value of the product or service to the customer, exceeds the costs to provide that value, product, or service to the customer. In this way, the entrepreneur is contributing to economic growth and society by providing customers with goods and services whose costs to provide are less than their value to consumers.

An entrepreneur can come up with a new approach that meets a customer's need or want, but if not enough customers are willing or able to pay a price above the cost of that product or service, it will not be financially viable. Therefore, the opportunity becomes a true business opportunity when it is of sufficient scale and value—that is, revenues will cover costs and promise to offer net revenue above operating costs after the initial start-up investment expenditures are repaid<sup>101</sup>.

## Emerging markets

The definition of an emerging market is complex and inconsistent. The

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<sup>101</sup> Adapted from Entrepreneurship, Innovation, and Sustainable Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/sustainable-business-cases/s09-entrepreneurship-innovation-an.html> (CC BY NC SA)

application and interpretation of this information vary depending on who is doing the analysis—a private sector business, the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), the United Nations (UN), or any number of global economic, political, and trade organizations. The different statistics, in turn, produce a changing number of countries that “qualify” as emerging markets. For many business people, the definition of an emerging market has been simply a country that was once a developing country, but has achieved rapid economic growth, modernization, and industrialization.

During the last 20 years, the global business world has gone through drastic, but mostly positive changes. In the 1980s, international business was essentially an exclusive club of the 20 richest countries. This changed as dictatorships and command economies collapsed throughout the world. Countries that once prohibited foreign investment from operating on their soil and were isolated from international cooperation are now part of the global marketplace.

Knowing that there are wide inconsistencies, how do we define emerging markets consistently from the perspective of global businesses? First, understand that there are some common characteristics in terms of local population size, growth opportunities with changes in the local commercial infrastructure, regulatory and trade policies, efficiency improvements, and an overall investment in the education and well-being of the local population, which in turn is expected to increase local incomes and purchasing capabilities.

There are several major characteristics of emerging markets, which create “a comfortable and attractive environment for global business, foreign investment and international trade. An emerging market country can be defined as a society transitioning from a dictatorship to a free market-oriented economy, with increasing economic freedom, gradual integration within the global marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in cooperation with multilateral institutions.

The category of emerging markets is complex, evolving, and subject to wide interpretation. So how then do savvy global professionals sort through all of this information? Managers focus on the criteria for emerging markets to take advantage of newly emerging ones. While there are differing opinions on which countries are emerging, it is clear that global businesses focus on the groups of countries offering strong domestic markets. Many of these emerging-market countries are also home to companies that are taking advantage of the improved business conditions there. These companies are becoming world-class global competitors in their industries. Regardless of which definition or classification is used, the largest emerging markets remain lucrative and promising.

Emerging markets, such as Brazil, Russia, India, and China (also collectively known as the BRIC countries), don't have the same needs or capabilities as those found in developed economies. For instance, disposable income levels are relatively low, the availability of basic utilities like water or electricity can be varied, and transportation and transportation infrastructure can be non-existent. While these emerging economies are attractive by virtue of their massive size, their different needs and capabilities pose unique challenges that are often overcome only through corporate innovation<sup>102</sup>.

## New Technologies

Technology, being a form of social relationship, always evolves. No technology remains fixed. Technology starts, develops, persists, mutates, stagnates, and declines, just like living **organisms**. The evolutionary life cycle occurs in the use and development of any technology. The technological changes that damage established companies are usually not radically new or difficult from a technological point of view. They do, however, have two important characteristics: First, they typically present a different package of performance attributes—ones that, at least at the outset, are not valued by existing customers. Second, the performance attributes that existing customers do value, improve at such a rapid rate that the new technology can later invade those established markets.

The process of how disruptive technology, through its requisite support net, dramatically transforms a certain industry. When the technology that has the potential for revolutionizing an industry emerges, established companies typically see it as unattractive: it is not something their mainstream customers want, and its projected profit margins are not sufficient to cover big-company cost structure. As a result, the new technology tends to get ignored for what's currently popular with the best customers. However, then another company steps in to bring the innovation to a new market. Once the disruptive technology becomes established there, smaller-scale innovation rapidly raises the technology's performance on the attributes that mainstream customers' value<sup>103</sup>.

Technology entrepreneurship lies at the heart of many important debates, including those around launching and growing firms, regional economic development, selecting the appropriate stakeholders to take ideas to market, and educating managers, engineers, and scientists. Technology

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<sup>102</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/pdfs/challenges-and-opportunities-in-international-business.pdf> (CC BY NC SA)

<sup>103</sup> Adapted from Wikipedia Retrieved from [https://en.wikipedia.org/wiki/Disruptive\\_innovation](https://en.wikipedia.org/wiki/Disruptive_innovation) (CC BY SA)

entrepreneurship is an investment in a project that assembles and deploys specialized individuals and heterogeneous assets to create and capture value for the firm. What distinguishes technology entrepreneurship from other entrepreneurship types (e.g., Social entrepreneurship, small business management, and self-employment) is the collaborative experimentation and production of new products, assets, and their attributes, which are intricately related to advances in scientific and technological knowledge and the firm's asset ownership rights<sup>104</sup>.

The Internet and social networking websites have been pivotal resources for the success and collaboration of many social entrepreneurs. In the twenty-first century, the Internet has become especially useful in disseminating information in short amounts of time. In addition to this, the Internet allows for the pooling of design resources using open source principles. These media allow ideas to be heard by broader audiences, help networks and investors to develop globally, and to achieve their goals with little or no start-up capital. For example, the rise of open-source appropriate technology as a sustainable development paradigm enables people all over the world to collaborate on solving local problems just as open source software development leverages collaboration<sup>105</sup>.

### **Social Changes**

Social innovations are new strategies, concepts, ideas and organizations that meet the social needs of different elements which can be from working conditions and education to community development and health — they extend and strengthen civil society. Social innovation includes the social *processes* of innovation, such as open source methods and techniques and also the innovations which have a social purpose — like online volunteering, microcredit, or distance learning<sup>106</sup>.

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<sup>104</sup> Adapted from Technology Innovation and Management Review, (2012). Retrieved from <http://timreview.ca/article/520> (CC BY)

<sup>105</sup> Adapted from Wikipedia, (2016). Retrieved from [https://en.wikipedia.org/wiki/Social\\_entrepreneurship](https://en.wikipedia.org/wiki/Social_entrepreneurship) (CC BY SA)

<sup>106</sup> Adapted from Wikipedia, (2016). Retrieved from [https://en.wikipedia.org/wiki/Social\\_innovation](https://en.wikipedia.org/wiki/Social_innovation) (CC BY SA)

## Opportunity Evaluation

In the business world, good ideas must pass one test: can they generate a profit? No idea is good, ultimately, if it cannot pass this test. This means that someone, somewhere has to pay you more money for your product or service than it costs to produce it. Is it that simple and that challenging? Perhaps the most important part of any business plan is an articulation of the customer. Why will they buy it, When, Where, and for how much?

Of course, other characteristics are important too: does the idea have a social good or at least do no harm? How challenging is it to make? Is it within the capabilities of the team? Sometimes student teams have great ideas but no way in the world by executing them. You may want to save your great idea until you've had a little more experience with something that's more manageable. Can you raise enough money to finance your idea? Often great ideas fail this test: simply put, they require too much capital to prove themselves<sup>107</sup>.

## Lesson summary



Summary

### Lesson Summary

In this Lesson you examined how the changing demographics, emerging markets, new technologies, regulatory and social changes influence the viability of business opportunity in the market. Along with how market and economic issues, competitive advantage and management issue play a role in the evaluation of business opportunities.

Again, spend some time to reflecting on your business venture. Are there any regulatory changes in your business environment that will impact you enterprise? How has the changing demographics in your culture impacted your business? How viable is your business opportunity?

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<sup>107</sup> Adapted from Wikibooks, (2010). Retrieved from [https://en.wikibooks.org/wiki/Getting\\_Started\\_as\\_an\\_Entrepreneur/Opportunity/Evaluate\\_Your\\_Idea](https://en.wikibooks.org/wiki/Getting_Started_as_an_Entrepreneur/Opportunity/Evaluate_Your_Idea) (CC BY SA)

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## Lesson 3 - Business Concepts

### Outcomes



Outcomes

Students should be able to:

1. Define a business concept.
2. Identify at least four sources of business concepts.
3. Evaluate the steps in developing a business concept from an idea

### Introduction

The first stage in seeking to establish a business is to conceptualize a business idea. It requires identification of a venture that can satisfy human wants and needs while generating a profit. In this section, you will define the business concept, identify various sources from which a business concept can emerge and outline the steps involved in developing a concept from an idea.

### What is a business concept?

A business idea is a concept that can be used for financial gain that is usually centered on a product or service that can be offered for money. An idea is the first milestone in the process of building a successful business.

The characteristics of a promising business idea are:

- Innovative
- Unique
- Problem-solving
- Profitable<sup>108</sup>

### Sources of business concept

1. **Hobbies/Interests:** A hobby is a favourite leisure-time activity or occupation. Many people, in pursuit of their hobbies or interests, have founded businesses. If, for example, you enjoy playing with computers, cooking, music, travelling, sport or performing, to name but a few, you may be able to develop it into a business.
  2. **Personal skills and experience:** Over half of the ideas for successful businesses come from experiences in the workplace, e.g. a mechanic
-

with experience in working for a large garage who eventually sets up his/her own car repair or a used car business. Thus, the background of potential entrepreneurs plays a crucial role in the decision to go into business as well as the type of venture to be created. Your skills and experience are probably your most valuable resource, not only in generating ideas, but also in capitalizing on them.

3. **Mass media:** The mass media is a great source of information, ideas and often opportunity. Newspapers, magazines, television, and nowadays the Internet are all examples of mass media. Take a careful look, for instance, at the commercial advertisements in newspaper or magazine and you may well find businesses for sale. Well, one way to become an entrepreneur is to respond to such an offer. Articles in the printed press or on the Internet or documentaries on television may report on changes in fashions or consumer needs. For example, you may read or hear that people are now increasingly interested in healthy eating or physical fitness. You may also find advertisements calling for the provision of certain services based on skills. For example, accounting, catering or security. Alternatively, you may discover a new concept in which investors are required, such as a franchise.
4. **Exhibitions:** Another way to find the ideas for a business is to attend exhibitions and trade fairs. These are usually advertised on the radio or in newspapers; by visiting such events regularly, you will not only discover new products and services, but you will also meet sales representatives, manufacturers, wholesalers, distributors, and franchisers. These are often excellent sources of business ideas, information, and help in getting started.
5. **Surveys:** The focal point for a new business idea should be the customer. The needs and wants of the customer, which provide the rationale for a product or service, can be ascertained through a survey. Such a survey might be conducted informally or formally by talking to people – usually using a questionnaire or through interviews – and/or through observation. You may start by talking to your family and friends to find out what they think is needed or wanted that is not available. Alternatively, for example, whether they are dissatisfied with an existing product or service and what improvements or changes they would like to see. You can then move on and talk to people who are part of the distribution chain that is manufacturers, wholesalers, distributors, agents and retailers. It would be useful to prepare beforehand a set of questions which might be put in a questionnaire or used in an interview. Given their close contact with customers, channel members have a good sense of what is required and what will not sell. Finally, you should talk to as many customers as possible – both existing and potential customers. The more information you can get from them, the better. Besides talking to people, you could also get information through observation. For example, in deciding whether to open a shop on a particular street, you can observe and



count the number of people going past on given days and besides talking to people, you can also get information through observation.

6. **Complaints:** Complaints and frustrations on the part of customers have led to many a new product or service. Whenever consumers complain bitterly about a product or service, or when they hear someone says ‘I wish there were...’ or ‘If only there were a product/service that could...’, you have the potential for a business idea. The idea could be to set up a rival firm offering a better product or service, or it might be a new product or service which could be sold to the firm in question and/or others.<sup>109</sup>

## Activity



Activity

### ACTIVITY

Watch a video entitled: ‘Where good ideas come from’ by Steven Johnson, then answer the preceding question.

### Question

Think about your business concept. Answer the following questions in paragraph form.

1. Where did you get that business idea?
2. How long did it take that idea to incubate?
3. What type of feedback did you receive from persons you shared that business idea with? How did their feedback affect you?
4. How can your idea be turned into something meaningful?

### The feasibility study

Conducting a feasibility study for a proposed business concept (incubator) can achieve a number of important objectives and, if properly done, can provide a solid basis for judging the economic and political viability of the proposed project. The feasibility study represents the first in a series of early development phases that, for planning purposes, can be described as follows:

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<sup>109</sup> Adapted from The Secrets of Entrepreneurship, (2010). Retrieved from <http://www.entrepreneurshipsecret.com/sources-of-business-ideas/>

- Feasibility: 3 months
- Development: 9 months
- Renovation: 3-12 months
- Early-stage operations (up to anticipated break-even point): 18 months.

A feasibility study should also reveal examples of critical errors made on other incubator programmes. Such errors might involve facility and site selection, the structure of the governing board, funding arrangements, income assumptions, or the nature of the business assistance program. An adequate feasibility study will answer essential questions about how to proceed in a systematic fashion and how to secure funding during all the phases of incubator development. Indeed, a thorough study by a qualified consultant can and should provide the information necessary to determine whether the project should be pursued.

### **Building support**

A core group committed to starting a business incubator must recognize that its efforts cannot be pursued in a vacuum. The dream of a few must become the dream of many. An incubator represents a significant community investment, both practically and symbolically, and requires broad-based community support to be feasible. Engaging in this process should clarify the prospects for starting an incubator. The process should help to identify potential sites, funding sources, project champion from key organizations, and sources of assistance and support, both individual and organizational. The process may, however, also uncover serious impediments to realizing the project.

### **Identifying and securing stakeholders**

A stakeholder is any group or individual who can affect or is affected by the achievement of an organization's objectives. While each incubator's circumstance is unique, anticipated stakeholders would likely include local and state governments and a variety of public and private sector organizations (universities, major corporations) interested in fostering new business development in the region. Stakeholders might also include economic development organizations that could fund the rehabilitation of a facility and/or the operation of the incubator program. The support of these stakeholders is critical to initiating an incubator program. At the same time, potential supporters of the incubator effort understandably have varied motivations and expectations. Their level of understanding of the purposes and methods of business incubation will vary widely.

Stakeholders need to be identified and then cultivated. The first step is to secure a commitment from potential stakeholders who have the

strongest interest and who are most likely to provide financial support for the endeavour. Once stakeholders have committed to the project, the organizational structure needs to be formalized. A governing body, typically a board of directors, provides the organizational vehicle for maintaining, building, and strengthening commitment to the incubator program.

### **Identifying a market niche**

A business incubator will operate in a particular locale with its own rich history, so it must act with an eye to the regional economy and institutions. Therefore, to become an accepted part of this complex social fabric, an incubator must establish its distinctiveness and unique purpose. From a business perspective, the incubator needs to identify its market niche. Successful businesses carefully attend to the work of defining the market position of their products and services about their competitors, as well as to modifying their market position in response to changing customer preferences.

Developing a market niche for a business incubator requires similar attention to these tasks. An incubator's competitor comes from the spheres of real estate and economic development. Within the real estate market, the incubator must distinguish itself from other multiple-tenant properties. For a technology-related incubator, the distinction may be readily apparent, for example, in that incubator facilities may offer wet and dry lab space. Incubators also differ from conventional real estate agents in that they often offer short-term leases and flex-space for a company's expansion. Certainly, rent subsidization can be attractive to cash-poor start-ups. The availability of shared support services is another appealing feature of incubator facilities, although the provision of such services by for-profit organizations has become a growth industry.

### **The Formation Process**

The basic structure of an incubator facility is determined by owner attributes and regional demographics. The following owner/sponsor classifications can generally be applied:

- Private
- Local government
- University
- State government
- Private nonprofits
- Federal government

A typical organizational format includes executive and advisory boards, a CEO or operations manager, and support staff. Selections for board positions and other representative forums may come from the following: private enterprise, educational institutions, government, organized labour, development and investment community, and private citizens.

### Strategic Planning

Strategic planning compels incubator management to confront tough issues. How will the incubator continue to operate if revenue projections from rental income are not achieved? How will major facility repairs (for example, a ruptured boiler) be paid for? Addressing these worst-case scenarios through strategic planning can provide both a clear course of action if things go as planned and, if they do not, the necessary contingency plans to navigate what may be a difficult beginning.

Strategic planning usefully determines not only *what* will be done, but *when* it should be done. The initiation of a new phase of the incubator may or may not be made contingent upon the successful completion of an earlier phase. Can the operation begin as an “incubator without walls,” providing business services before the facility is ready for occupancy? At what point in the development process is the manager hired? The notion that timing is everything is certainly true in strategic planning for an incubator spinout<sup>110</sup>.



#### Activity

Outline clearly, three additional steps you would take to develop your business concept from an idea. Justify your response.

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<sup>110</sup> Adapted from IP Handbook of Best Practices, (2007) Retrieved from

<http://www.iphandbook.org/handbook/ch13/p06/>

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## Lesson 4 - Entrepreneurship Resources

### Outcomes



At the end of the lesson, students should be able to:

1. To identify what is needed to start the venture
2. To be aware of the available resources required for this venture

### Introduction

The idea of resources usually leads us to think of only money. In this section, we will examine how to access the available resources and how to put it to work.

We will seek to answer the following questions:

- 1 How do we start a small business?
- 2 What do we need to start a business?
- 3 How do we access resources?
- 4 Is partnering to access resources a good idea?

Successful entrepreneurial processes require entrepreneurs and teams to mobilize a wide array of resources quickly and efficiently. All innovative and entrepreneurial ventures combine specific resources such as capital, talent, and know-how (e.g., Accountants, lawyers), equipment, and production facilities. Breaking down a venture's required resources into components can clarify what is needed and when it is needed. Although resource requirements change during the early growth stages of a venture, at each stage the entrepreneur should be clear about the priority resources that enable or inhibit moving to the next stage of growth. What kinds of resources are needed?

The following list provides guidance:

**Capital.** What financial resources, in what form (e.g., equity, debt, family loans, angel capital, venture capital), are needed at the first stage? This requires an understanding of cash flow needs, break-even time frames, and other details. Back-of-the-envelope estimates must be converted to pro forma income statements to understand financial needs.

**Know-how.** Record keeping and accounting and legal process and advice are essential resources that must be considered at the start of every venture. New ventures require legal incorporation, financial record keeping, and rudimentary systems. Resources to provide for these expenses must be built into the budget.

Facilities, equipment, and transport. Does the venture need office space, production facilities, special equipment, or transportation? At the early stage of analysis, ownership of these resources does not need to be determined. The resource requirement, however, must be identified. Arrangements for leasing or owning, vendor negotiations, truck or rail transport, or temporary rental solutions are all decision options depending on the product or service provided. However, to start and launch the venture, the resources must be articulated and preliminary costs attached to them.<sup>111</sup>

## Financial Resources

Finances are crucial, and the amount of money needed to start and run a business will depend on the type of product or service, the size of the business and many other factors.<sup>112</sup>

Every start-up firm and young growing business need capital/money to invest in growing the business. Some companies access capital from the company founders or the friends and family of the founders. Growing companies that are profitable may be able to turn to banks and traditional lending companies. Another increasingly visible and popular source of capital is venture capital. Venture capital (VC) refers to the investment made in an early- or growth-stage company. A venture capitalist (also known as VC) refers to the investor.<sup>113</sup>



In this 28 minute, [Voluntary Life Podcast](#) explains how to finance a start-up. Listen and take note of the various options for financing your business.<sup>114</sup>

Sources of financing available to firms include foreign stock exchanges, foreign bond markets, foreign banks, venture capital firms, and funding from the parent company. Firms can also obtain funding via intra-firm loans or trade credits. A trade credit lets the customer (in this

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<sup>111</sup> Adapted from Saylor Academy, (2012). Retrieved from [https://saylordotorg.github.io/text\\_sustainability-innovation-and-entrepreneurship/](https://saylordotorg.github.io/text_sustainability-innovation-and-entrepreneurship/) (CC BY NC SA)

<sup>112</sup> Adapted from Entrepreneurship 10.1, (2012). Retrieved from [https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10\\_1.pdf](https://www.oercommons.org/media/upload/authoring/6929/documents/Entrepreneurship10_1.pdf) (CC BY SA)

<sup>113</sup> Adapted from Saylor Academy, (2012). Retrieved from [https://saylordotorg.github.io/text\\_international-business/s11-03-venture-capital-and-the-global.html](https://saylordotorg.github.io/text_international-business/s11-03-venture-capital-and-the-global.html) (CC BY NC SA)

<sup>114</sup> Listen <https://www.youtube.com/watch?v=69n633cEcaQ> (CC BY)

case, the subsidiary buying the goods or services) defers payment for the good or service for a specified period, typically thirty or ninety days. By borrowing capital from a parent company, both the subsidiary and the parent eliminate paying transaction costs to an outside entity such as a bank, which would charge fees to make the transaction.<sup>115</sup>

### **Product/Service Concept**

What are you selling? New ventures offer solutions to people's problems. This concept requires you to not only examine the item or service description, but understand what your initial customers see themselves buying. A customer has a need to be met. He or she is hungry and needs food. Food solves the problem. Another customer faces the problem of transferring money electronically and needs an efficient solution, a service that satisfies the need. Automatic teller machines are developed, and services are offered. In any of these situations, in any entrepreneurial innovation circumstance in fact, as the entrepreneur you must ask the following questions:

- What is the solution for which you want someone to pay?
- Is it a service or product, or some combination?
- To whom are you selling it? Is the buyer the actual user? Who makes the purchase decision?
- What is the customer's problem and how does your service or product address it?

Understanding what you are selling is not as obvious as it might sound. When you sell an electric vehicle, you are not just selling transportation. The buyer is buying a package of attributes that might include cutting-edge technology, lower operating costs, and perhaps the satisfaction of being part of a solution to health, environmental, and energy security problems.<sup>116</sup>

### **Physical resources**

The physical resources examine the resources concerned with the operation's ability to deliver its goods and services. These include manufacturing, marketing, production and technology facilities for optimal operation. The appropriate physical resources are essential. This includes proper workstations, telecommunication systems, and marketing materials. The entrepreneur should properly evaluate the needs and wants before they begin operations.

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<sup>115</sup> Adapted from Saylor Academy, (2012). Retrieved from [https://saylordotorg.github.io/text\\_international-business/s19-03-fundamentals-of-finance.html](https://saylordotorg.github.io/text_international-business/s19-03-fundamentals-of-finance.html) (CC BY NC SA)

<sup>116</sup> Adapted from Entrepreneurship and Sustainability, (2012). Retrieved from <http://2012books.lardbucket.org/books/entrepreneurship-and-sustainability/s08-01-entrepreneurial-process.html> (CC BY NC SA)

## Human Resources

People in companies provide skills, knowledge, intuition, and reasoning (known as [human capital](#)). Additionally, the culture inside an organization consists of relationships, values, and routines and companies that have a strong set of managerial values have a strategic advantage over those that don't- through employees increased identity with the corporation, increased stability, and consistency as well as a guide for appropriate behaviour.<sup>117</sup>

The human resource is the skilled set of the business. To determine if the business has the desired skill set to ensure success the entrepreneur should;

1. Ascertain the number of staff required and qualification need to operate the business properly
2. Resolve the training needed to function in various posts within the business
3. Ensure that the working environment is conducive for the employees to function optimally

It is crucial that professionals be recruited with the relevant expertise to ensure that the objectives of the business are efficiently and competently done.

### Internal environment

An organization evaluates which factors are its strengths and weaknesses; it is assessing its internal environment. Once companies determine their strengths, they can use those strengths to capitalize on opportunities and develop their competitive advantage. When organizations assess their internal environments, they must look at factors such as performance and costs as well as brand awareness and location. Managers need to examine both the past and current strategies of their firms and determine what strategies succeeded and which ones failed. This helps a company plan its future actions and improves the odds they will be successful.<sup>118</sup>

### External environment

Analyzing the external environment involves tracking conditions in the macro and the micro marketplace that, although largely uncontrollable, affect the way an organization does business. The macro environment includes economic factors, demographic trends, cultural and social

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<sup>117</sup> Adapted from Wikibooks, (2015). Retrieved from [https://en.wikibooks.org/wiki/Management\\_Strategy/Analyzing\\_Resources\\_and\\_Capabilities](https://en.wikibooks.org/wiki/Management_Strategy/Analyzing_Resources_and_Capabilities) (CC BY SA)

<sup>118</sup> Adapted from Marketing Principles, (2012). Retrieved from <http://2012books.lardbucket.org/books/marketing-principles-v2.0/s05-02-components-of-the-strategic-pl.html> (CC BY NC SA)



trends, political and legal regulations, technological changes, and the price and availability of natural resources. The microenvironment includes competition, suppliers, marketing intermediaries (retailers, wholesalers), the public, the company, and customers. Analyzing the environment becomes more complex because they must examine the external environment in each country in which they do business. Regulations, competitors, technological development, and the economy may be different in each country and will affect how firms do business.<sup>119</sup>

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## Assignments



### Assignments

#### Assignment

There are several entrepreneurial development organisations that provide assistance to entrepreneurs to ensure the success of their venture. Examples of these organizations include:

1. Caribbean Group of Youth Business Trust
2. National Development Foundation (NDF)
3. Caribbean Association of Small and Medium Enterprises (CASME)

You are required to:

- a. Conduct research to identify the services these organizations offer to entrepreneurs.
- b. Identify two other local organisations that provide similar services to entrepreneurs.



### Summary

#### Lesson Summary

There are different factors that impact the performance of any business venture. In this lesson, we examine the financial, physical, and human resources and their impact on business success. We also reviewed the internal and external environment for success. In the next lesson, we will investigate the implementation and management of business ventures.

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<sup>119</sup> Adapted from Marketing Principles, (2012). Retrieved from <http://2012books.lardbucket.org/books/marketing-principles-v2.0/s05-02-components-of-the-strategic-pl.html> (CC BY NC SA)

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## Lesson 5 - Implementing and managing the venture

### Outcomes



Outcomes

At the end of the lesson, students should be able to:

1. Develop an understanding of how to explain the activities involved in implementing and managing a venture.

### Introduction

A business venture <sup>120</sup> is a start-up enterprise formed with the expectation and plan that a financial gain will result. This type of business normally starts out with an idea that begins with a small amount of capital or finances. Individuals consider a business venture or a small organization backed by one or more investors with the hope that the business will be profitable.

### Business Concepts

We can note that a business venture results out of a need for something lacking or insufficient in the current market. Also, this need can be a service or product that consumers are requesting to satisfy a need or to serve a particular purpose. Therefore, once the need is recognized, an individual or investor that has the resources and time to develop and market the new commodity on the open market can start the venture.

At the start of a business venture, the investor should prepare a formal business plan to outline the purpose and mission of the business for the future. An effective business plan will include a quantifiable process for identifying additional finances, increasing gains and designing an escape plan should the business fail. One should note that many initial business undertakings fail within the first one to three years of inception. As a result, it is important to include a plan to liquefy the business if needed to reduce financial loss.

Entrepreneurs, often find easy coming up with a variety of ideas for new businesses and many difficulties to implement those concepts. Although the business concept is a bridge between an idea and a business plan, it directs the entrepreneur's thinking so that s/he can identify the specifics of his/her proposed venture. Transfiguring an idea

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into a business concept entails thinking about how the product or service will be sold and who will buy it, the values of the product or service, how it is distinguished from similar ones, and methods of delivery.

A clear business concept also allows the entrepreneur/founder to describe the specific nature of the business to suppliers, customers, lenders, and resource team members. When describing his/her business idea, the entrepreneur should answer the following questions:

- a. What is my product/service?
- b. What does my product/service do?
- c. How is it different or better than other products/services?
- d. Who will buy the product/service?
- e. Why will they buy the product/service?
- f. How will the product/service be promoted and sold/offered?
- g. Who are my competitors?

Once the entrepreneur defines the business concept statement, the more detailed work of business planning and implementation may begin. You can conduct additional research using the World Wide Web to explore ways of starting business ventures as well as further insight on how to compose a good business plan. Also, you can gain knowledge from experts in your field of interest and across industries. There are many search engines to facilitate this exercise.

***Monitoring Performance***<sup>121</sup> The innovative entrepreneur sees the importance in monitoring the performance of the new business ideas to discover if s/he is delivering benefits. To accomplish this task, the entrepreneur must:

- a. Set specific goals and targets: In most cases, new ideas or innovations originate to address specific needs or issues. Thus, they should either improve or enhance an existing product, process or service, or be completely new because of the research and development the entrepreneur has undertaken around a new trend or opportunity. Great investors make sure their targets are SMART - specific, measurable, achievable, realistic and time-bound.
- b. Measure the performance of new ideas: No matter how the idea derived, it is essential to measure how well it is performing once

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implemented. The choice of doing this will depend on the nature of the innovation and one's own organization. However, there are some simple calculations to facilitate the process, including:

- Research & Development expenditure as a percentage of revenue
  - The cost of non-financial resources (including time and people)
  - New product sales (less than 2 years) as a percentage of sales
  - The percentage of profits from the new products/services
  - The number of months to develop and launch a product (speed to market)
  - Staff satisfaction and performance
  - Customer feedback and satisfaction with your business.
- c. Benchmark your business: the entrepreneur may find it useful to benchmark his/her business against other similar businesses in the industry or sector, to try to understand the impact and benefits of the innovation. Benchmarking against rivals could help the investor identify whether there are any goals and targets his/her competitors' use that could similarly benefit the business.
- d. Act on goals and targets: When the goals and targets are achieved, the entrepreneur should consider additional or improved targets to help get the most out of his/her idea. However, when the goals and targets are not achieved, the entrepreneur should review and solve any specific issues which may be hampering the success, or consider whether his/her initial targets were unrealistic and should be revised.

The investor/entrepreneur should also explore the longer-term benefits of innovation, as well as the effect it can have in the short term. Since innovations can take the time to make a positive impact on your business operations, entrepreneurs are advised to include innovation as part of the business planning. Having a business plan will help the entrepreneur to develop new ideas that meet the strategy and vision for the business.

***Resources Provider***<sup>122</sup>

The definition of a provider is an individual person, organization or business that offers a good or service. Moreover, a resource provider is an individual, organization or business that offers services or good to the entrepreneur for a successful venture. Starting a business can seem like an overwhelming task. In fact, it is. Research indicates many businesses that open each year, fail to last as long since there is no guarantee for success. An entrepreneur who has properly prepared may have an advantage on the competition.

In addition to a strong business plan, the entrepreneur should consider five resources that contribute to the success of a new enterprise:

a. **Financial Resources:** The most important element in starting a business is funding. Even the most basic business incurs several start-up costs, including registering a business name, obtaining a business telephone line and printing business cards. Financial resources can be obtained from multiple sources, the easiest being from the personal accounts of the business founder. Additionally, loans and lines of credit may be granted from financial institutions, friends and relatives, private investors and even the state government. Furthermore, many grants are offered from private and public sources to entrepreneurs/small business owners of all demographics and personal situations.

b. **Human Resources:** The success of an organization is profoundly dependent on the talent and strength of its employees. The hiring of experienced professionals with records of excellence in their field of expertise safeguards that the mission and goals of the company will be executed and achieved. Strong team members can be recruited using several methods such as staffing agencies and executive search firms as well as referrals from individuals.

c. **Educational Resources:** Conceivably the paramount thing an entrepreneur can do when establishing a new business is to gain as much education possible. By understanding the competition and gaining an in-depth knowledge of the industry, s/he will be better prepared to make smarter decisions regarding the direction of the firm. Educational resources can be acquired through professional trade associations geared toward the industry, the local chamber of commerce as well as the Small Business Association and Administration.

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d. **Physical Resources:** Whether a small business or a retail operation with multiple locations, every organization must have the appropriate physical resources to survive. This comprises a proper workspace, working telephone line, adequate information systems, and effective marketing materials. Since this aspect of business planning can be one of the costliest, it is important for an entrepreneur to assess his needs before making any purchases.

e. **Emotional Resources:** Starting a business venture can be a stressful undertaking for an entrepreneur. To maintain sanity as well as stay motivated, it is important that the entrepreneur has a support team that can provide inspirations and guidance as necessary. This team may entail friends and family as well as a mentor or professional group. If your resource providers did not lay out repayment terms up front, it is likely that they are "friends and family" rather than investors or venture capitalists. Consider ways in which you can create win-win for everyone involved in the success of the venture. The entrepreneur may consider fringe benefits and other offers for the human resources, negotiate loans and repayment terms conditions as well as offer shares in the business for major investors. Consulting with a professional consultant before making major decisions on paybacks to resource providers is advisable.

### ***Reinvestment in the Business***<sup>123</sup>

Without a doubt, the most successful investors/entrepreneurs recognize the value of reinvesting at an early stage. When a business begins to generate profits, owners face two primary decisions: they can either distribute profits back to the owners or reinvest those profits back into the business to improve the company or expand operations. The decision of whether to reinvest profits or distribute it to the owners depends on several factors. However, there are some specific advantages to reinvesting profits.

- Reinvesting is the paramount way to build wealth.
- Reinvesting is crucial to your company's continued growth and success. Additionally, it is worth keeping in mind that investing is not just about a sudden inflow of cash; your time and experience is also valuable.

If you can apply your time, knowledge and experience in a way that profits your company in the long term, you will be making a valuable investment. Some form of reinvestment is necessary for any business to grow. It does not have to be all of the entrepreneur's profits, but a

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significant amount of resources, when effectively managed can dramatically increase your bottom line.

***How to invest financially***<sup>124</sup>

The first thing that boggles the mind when one hears the word “reinvest” is a financial reinvestment. Redirecting a percentage of profits back into the business can help the firm grow and position itself for long-term success. However, the exact amount that you should reinvest will differ as the key is to reinvest based on a strategy, rather than a set percentage. Be strategic, and apply funds in line with your specific development plan and your business needs, but ensure there is enough to cover all of your other expenses.

One communal reinvestment is making business improvements. Hence, improving infrastructure, streamlining manufacturing, strengthening customer support, a refined marketing strategy can all directly benefit your business, increase your profits and reduce expenses, while giving you more capital to work with.

An investment in marketing will often pay off if the entrepreneur is smart with his/her marketing, and continually track the progress of the promotional initiatives. Therefore, when embarking on a marketing campaign, quantify the expected results to be able to monitor the success of the campaign.

It is important to invest in staff and build a resilient workforce. Taking care of one’s employees will keep them happy as they will look forward to coming to work, and will be more loyal to the company.

***How to know when you are ready to reinvest***

Successful entrepreneurs made their wealth by investing wisely and not just as a one-time venture. In other words, it is a continual effort. Reallocating profits and other resources back into the business can help to establish the firm as a leading provider of the services or products offered. Reinvesting can also help to set the business on track for continued development.

Many people dislike reinvesting in their companies because they view it as spending money. However, investing is not about wasting money on superfluous expenses, it is about applying resources in a strategic

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manner that will result in increased profits and help you to achieve your long-term goals of continued growth and success.

### ***How to invest expertise and experience***

A sound strategy and good application of skills and knowledge are what will ultimately determine the success of any investment. Investing should always be done carefully, and with defined goals. It is about finding the best way to accelerate the venture forward, and position the entrepreneur to be more profitable in the long term.

Training and education can also serve as an excellent investment. Training for self or your employees can pay off each time new skills are used. A well-educated workforce can be an important asset to the business, and smart firms invest in keeping their employees well trained and up to date on their credentials.

Finally, consider investing in a business coach or finding a mentor. Learning from others who have experience can often prove to be an invaluable investment. If you can gain support, time and assistance from others to improve your business, you will be significantly ahead.

### ***Expansion of the business***<sup>125</sup>

The entrepreneur is the endless challenge seeker who recognizes that once the business is profitable, growth is the next exciting challenge. Exciting, but at the same time growth can make good business sense, such as better brand recognition, building value in the business for employees and customers, offering a wider range of products and services to a larger geographical market, and creating "economies of scale." As a result, rationalizing the rewards of a larger business could mean updating your business plan. The entrepreneur will need to update those spreadsheets, strategize the marketing plan and strategies an expansion implementation plan. Also, s/he will need to weigh the risks and rewards for growth.

### ***Ways to Expand: From Local to Global***<sup>126</sup>

- Increase your sales and products in existing markets. This is the easiest and most risk-free way to expand. It may require a bigger location, different pricing strategies, as well as new/improved

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marketing techniques. However, it will be in a customer group with whom the entrepreneur already has a relationship.

- **Introduce a New Product.** You have a successful product/service that you have been offering for some time and have been gathering data, customer feedback and doing the fiddling on your newest product. This is a normal fruition in business, not just an expansion scheme. When placed as adding value and being responsive to customer needs, this can be a reasonably risk-free way to expand.
- **Develop a New Market Segment or Move into New Geography.** These areas require cost expenditures and doubt. Moving the products into new categories/demographic segments requires market research and new marketing strategies. This activity may absorb significant time and attention. However, while the risks are more, the payoffs are large. Therefore, for most businesses looking to expand, these two methods of expansion are inevitable.
- **Start a Chain.** A service business that is easily reproduced and can be run from a distance is suitable to launch a chain. However, the entrepreneur must be cognizant of what made the first location a success, i.e. was it the location, the staff or you? If it is just you, then replication is only possible through meticulous operations plans and sharing staff between locations. The entrepreneur will need to duplicate the plan of the first location while satisfying increased customer demands.
- **Franchise / License.** Although it is a quick way to grow, a franchise agreement can be costly to prepare. You will need to be a good teacher, be able to prepare the training manuals, be very organized and willing to travel. While licensing can carry less risk, it demands giving up a certain amount of control. Licensing a patent, trademark or industrial design means that you sell manufacturing, distribution or production rights.
- **Join Forces / Strategic Alliance.** A merger or acquisition combines two companies, expands your customer base, increases intellectual capital and delivers operational efficiencies. The hoax is locating the right partner.
- **Go Global.** The business owner can decide to go global in a number of ways. These may include but not limited to growing markets, rising consumer spending, or improved business climate. In addition, sometimes the only place to find these things is overseas. Conducting international business can take the form of exporting, licensing, a joint venture or manufacturing, but whatever forms the entrepreneur chose, the basic business rules

apply. These involve assess customer demand, gain legal and accounting assistance, protect intellectual property and obey regulations.

### ***Achievement of performance goals***<sup>127</sup>

Performance management (PM) includes exercises that ensure the aims are consistently being met in an effective and efficient manner. In other words, performance management involves the way managers assess employees, how employees evaluate their managers and fellow employees, and how individual workers appraise themselves. The ultimate goal of performance management is to improve the quality of work in the most proficient manner possible. The performance management process is a means by which organizations align their resources, systems, and employees to strategic objectives and priorities. Effective managers seek to provide feedback to and receive feedback from employees incessantly, rather than rely on infrequent appraisals. This allows a manager to determine what inspires employees to work hard, evaluate what impediments are making it difficult for employees to do their jobs effectively, and adjust employee workloads as necessary. Managers must identify which approach works best according to the situation and organizational culture. Managers have to ensure that employees are governed according to a company's policies, but must also ensure that cultural norms are taken into account.

Managing performance is essential to the relationship between managers and employees. It can be a key element of good communication and nurture the growth of trust and personal development. Managing performance is vital to how well your employees will be engaged in their work and how well they will complete given tasks. It is important to note that, an engaged employee is someone who:

- Takes pride in their job and shows loyalty towards their line manager, team or organization and
- Goes the extra mile – mainly in areas like customer service, or where employees need to be creative, responsive or adaptable.

Good performance management can contribute significantly to all drivers. Moreover, there are three aspects to planning an individual's performance, which include:

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1. Objectives which the employee is expected to achieve
2. Competencies or behaviours – the way in which employees work towards their objectives.

Personal development – the development employees need in order to achieve objectives and realize their potential.

The '**SMART**' acronym is a useful way of getting the objectives right. Objectives should be:

*Specific* – objectives should state the desired outcome. What does the employee need to achieve?

*Measurable* – how will you and the employee know when an objective has been achieved? How should employee performance be planned?

*Achievable* – is the objective something the employee is capable of achieving but also challenging?

*Relevant* – do objectives relate to those of the team/department/business?

*Time bound* – when does the objective need to be achieved?

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## Assessments



Assessments

### Test Your Knowledge

1. In your own words, define the term 'business venture'.
2. Identify THREE (3) steps the entrepreneur can explore in monitoring business performance.
3. In your own word, explain the term 'resource provider.'
4. List THREE (3) resource providers of a business.
5. Identify TWO (2) strategies an entrepreneur can exploit to the payback resource provider.
6. Define the term reinvestment and give TWO (2) ways in which the entrepreneur can reinvest into the business venture.



## Discussion

### Discussion

1. Explain THREE (3) major benefits of reinvesting to an entrepreneur.
2. Identify and explain TWO (2) growth strategies in a business venture.
3. Explain the importance of managing performance in order to achieve business goals and objectives.
4. Suggest TWO (2) factors that the entrepreneur should consider when selecting a suitable performance management strategy.

## Lesson summary



## Summary

### Lesson Summary

You just completed implementing and managing the venture in the entrepreneurial process. You have defined business venture, ways in which ideas can be generated for a business venture, monitoring of performance, resource providers, ways of paying back resource providers, reinvestment and ways the entrepreneur can reinvest in the business, benefits of reinvestments, ways in which the business can expand and achievement of performance goals in the business.

We will now look at harvesting the venture.

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## Lesson 6 - Harvesting the Venture

### Outcomes



Outcomes

At the end of this lesson, students should be able to:

1. Assess the various options of harvesting a venture
2. Compare and contrast the existing strategies

### Introduction

In this section you will learn about the final step of the entrepreneurial process: harvesting the venture. The harvesting strategies include selling the venture, liquidation, mergers, and acquisitions. These options are used by entrepreneurs and investors when they seek to exit a business and recover their initial investment.

### Student Reflection:

When is the right time to leave a business?

As an entrepreneur, do you plan to stop working one day? What will happen to your business?

Harvesting strategies include selling the venture, liquidation, mergers, and acquisitions. These options are used by entrepreneurs and investors when they seek to exit a business and recover their initial investment. Harvesting options are:

### Absorption of new concept into mainstream options:

This occurs when an area/activity of the venture is reduced or removed to recover funds to invest in a new concept or expansion of the product line. It is dependent on the financial feasibility of the project.

### Licensing of Rights:

The entrepreneur may choose to sell the business rights. Permission is granted to an individual/company to manufacture, patent, copyright and trademark products using the licensing agreement. The agreement is legal, and can be customized based on the access the licensors (entrepreneur) chooses to give the licensee.

### Family Succession:

The entrepreneur/founder of the business may consider retirement or from being actively involved in the business and may choose a family member to be a successor.

Initially, family members can be given employment with the company. This provides the opportunity for the founder to mentor and guided participation of the successor in the business for a smooth transition when he takes over.

A written document succession plan should be created to address the new roles of management and structure of the organizations for all parties involved.

**Go Public:**

A business may decide to sell shares of stock to outside investors. Initial public offerings (IPO) exist when a company sells shares of its stocks to the public for the first time. The method is used to raise capital, however; it can be timely and expensive. Entrepreneurs may choose to go public to gain returns on initial investments. When this happens, a business chooses to sell stock to the public, the business status changes from private to public.

**Employee Stock Ownership Plan (ESOP):**

This involves an agreement with employees and managers to allocate a portion of their wages towards purchasing company stock from the founder until employees own the company.

**Liquidate the Venture:**

The entrepreneur may want to leave the venture and will liquidate assets, settle debts and severance employees. This exists when there are no prospective buyers.

**Selling the Venture:**

The owner may decide to sell the venture to an individual or company. Parties involved should agree on a sale price, transfer of ownership and other legalities of the business.

**Mergers and Acquisitions:**

An entrepreneur or corporate organization may decide to purchase the majority or all shares of another business. The organization may choose to merge as a strategy for expansion and growth.<sup>128</sup>

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## Assessments



### Assessments

Bert and Danny, two brothers, decided to form a partnership to open a dog kennel. They agreed Tony (Bert's son) would take over the business in 8 years. During the entrepreneurial process, Tony was mentored and guided to take over the business. After 8 years, the partners retired, and Tony was responsible for managing the kennel.

1. What is the harvesting strategy mentioned?
2. Describe the disadvantages of this option.

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# Assessments



Assessments

## Harvesting the Venture

1. An entrepreneur may choose to fund an employee stock ownership plan:
  - (a) To increase multiple earnings
  - (b) To promote goodwill
  - (c) To exit the business
  - (d) Before filing bankruptcy
  
2. Placing a picture of Mickey Mouse to sell knapsacks is a form of:
  - (a) Liquidation
  - (b) Franchising
  - (c) Brand licensing
  - (d) Franchise loyalty
  
3. Franchising is an advantage to the franchisor as:
  - (a) Franchises are inexpensive
  - (b) Selling franchises can improve an unprofitable business
  - (c) The franchisor gains revenue from fees and royalties
  - (d) Legal fees must be paid prior to a franchising agreement
  
4. An initial public offering occurs:
  - (a) When a business has to liquidate due to bankruptcy
  - (b) An entrepreneur chooses to franchise the business
  - (c) A private company offers a stock sale to the public
  - (d) A management buyout occurs
  
5. A management buyout results:
  - (a) Employees purchase stocks in the business (ESOP)
  - (b) The managers of the company take ownership
  - (c) An IPO
  - (d) The owner buys managers' shares

## Answer key

- |      |      |
|------|------|
| 1. C | 4. C |
| 2. C | 5. B |
| 3. C |      |



## Activity



Activity

### FRANCHISING QUESTIONS:

What type information should be included in a franchise disclosure document?

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What information must be included in a franchise agreement?

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List three advantages for an owner franchising the business.

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List three disadvantages of franchising a business

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## Lesson summary



Summary

### Lesson Summary

On completion of this lesson, you have learnt about mergers, franchising and other harvesting options such as selling the venture, liquidation, and management buyout. An entrepreneur may harvest the venture not solely on the loss of profits, but for other reasons as a serial entrepreneur or retirement. You should be able to consider the most appropriate harvesting option for your business. You have now reached the last module of this course where you will learn about Creativity and Innovation!

# Module 3 - Creativity and Innovation

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## Lesson 1 - Principles of Creativity

### Outcomes



#### *Students should be able to:*

- Define creativity
- Explain the role and process of creativity in entrepreneurship

### Introduction

This topic explores creativity in relations to entrepreneurial activities as well as the process of creativity within the workplace. In addition, the prominent entrepreneur(s) learn(s) the definition of creativity as well as, the roles of creativity, and the importance of creativity in business. We will begin by brainstorming and coining a definition for creativity. Moreover, the roles and importance of creativity in entrepreneurship that will broaden your knowledge and provide assistance for the analysis and interpretation of data shared.

### Activity



Mrs. Thomas owns a mechanic store; her clients consistently demand her attention throughout the day. The tasks are vastly becoming uncontrollable for Mrs. Thomas to achieve within the short opening hours of operation. She discussed the problem with her son who provides assistance in the workplace twice per week. Amis is an innovative person who looked at the issues in a different perspective. He provided his mother with a solution that will allow her to accomplish her clients' tasks in a profitable way. If you were Mrs. Thomas' son, Amis, what are some of the solutions you would provide to solve the problem faced in the workplace?

### **Creativity Defined<sup>129</sup>**

Without a doubt, creativity does not just happen. In fact, the process entails the ability to envision situations in innovative ways, to discover unforeseen patterns, to make links between disparate phenomena, and to generate resolutions. Additionally, creativity involves two processes: thinking, a skill that can be developed and producing, a process that can and be managed.

In order to identify an individual creativity, s/he must have a foundation of knowledge, mastery of thinking, display signs of exploration, and love to experiment, focus on a discipline, question the status quo, use their imagination and synthesize information. In other words, the entrepreneur must be able to look at things in a complex approach from various perspectives. Additionally, s/he must learn to garner new ideas and think of alternatives that are unique. Therefore, the entrepreneur must be flexible, unpredictable with his/her tactics as well as tolerable of obscurities.

### **Activity**



Activity

Think of a major project that you have organized in the past or one that you are presently organizing. Write down the steps you took in order to achieve success or the steps you have taken to get to the final stage.

### ***The Creative Process<sup>130</sup>***

The creative process explains how an individual can form random thoughts into an ideal combination or solution. It is valuable to note that the basic five steps are important for creativity to be at its best.

- *Preparation:* During this step, an individual displays signs of curiosity after facing a problem. In addition, s/he may carry out research, constructs objectives, organize thoughts and brainstorm the various ideas convey.
- *Incubation:* This step allows for the synthesizing of ideas through imagination as well as constructing of such ideas to facilitate creation.
- *Illumination:* This step allows for the entrepreneur to be spontaneous as ideas can be obtained at the spur of the moment. Although, an

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individual may have an initial idea, several other ideas may generate as s/he continues to explore the concept and think outside the box. Illumination is that moment when the entrepreneur has an epiphany or unexpected brilliant idea.

- *Evaluation*: the brilliant idea may not be ready for execution so the entrepreneur must undergo an evaluation process to ensure that the pursuit is worth investing. In order to make a final decision, the entrepreneur may consult with other experts in the field to gain further insights.
- *Implementation*: Finally the entrepreneur can begin to transform his/her thoughts into a final product. This step is not set in stones and as such, the entrepreneur can begin to transform the idea or thoughts more than once until the desired outcome is achieved.

### Process of creativity

Where [creative ideas](#) come from<sup>131</sup>

#### *Roles and Importance of Creativity in Business*<sup>132</sup>

Undoubtedly creativity is important for any business venture. The act of creativity facilitates problem-solving by generating new innovative ideas that may further lead to success. Research has proven that the creative entrepreneur is happier in the long-run. This experience can be reflected within the workplace and serves as a motivation for others within the workplace. This can affect the productivity within the business and lead to greater profitability. Creativity can drive progress within the business as it facilitates changes necessary to combat problems within the workplace.

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## Assessments



Assessments

### Test your Knowledge

- In your own word, define the term *creativity*.
- List three characteristics of a creative individual.
- Explain two (2) steps of the creative process.

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<sup>131</sup> See <https://www.youtube.com/watch?v=U7nEgYOcb5c> (CC BY)

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## Discussion



Discussion

### Discussion

- Discuss three (3) importance of creativity in the entrepreneurship process.

## Lesson summary



Summary

### Lesson Summary

You just completed principles of creativity. You have defined creativity, the process of creativity, roles of creativity and the importance of creativity in the business.

We will now look at principles of innovation.

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## Lesson 2 - Principles of innovation

### Outcomes



Students should be able to

1. Define innovation
2. Explain the role and process of innovation in entrepreneurship
3. Discuss the types of innovation in relation to the 4Ps
4. List the core innovation concepts
5. Identify the sources of innovation

### Introduction

Have you ever considered where good ideas come from? How new business ventures become a success? In this lesson, you will have an opportunity to examine the core concepts of innovations and the role and process of innovations in entrepreneurship.

Innovation is the creation of better or more effective products, processes, services, technologies, or ideas that are readily available to markets, governments, and society. Innovation differs from invention in that innovation refers to the use of better and, as a result, a novel idea or method, whereas invention refers more directly to the creation of the idea or method itself. Innovation differs from improvement in the innovation refers to the notion of doing something different rather than doing the same thing better.<sup>133</sup>

Innovations are defined more narrowly as the ideas, the products, the services, and processes that (a) are perceived as being new and different and (b) have been designed, built, and commercialized. Innovation thus includes both creative idea generation and the actual implementation of the idea. An invention is an innovation that is not ready for prime time. Inventions are ideas that have been built or conceptualized, but not widely used and available and usually not commercialized<sup>134</sup>.

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<sup>133</sup>Adapted from Boundless, (2016). Retrieved from <https://www.boundless.com/sociology/textbooks/boundless-sociology-textbook/education-13/the-functional-perspective-on-education-100/innovation-564-10335/> (CC BY SA)

<sup>134</sup> Adapted from the Saylor Foundation, (n.d). Retrieved from <http://www.oercommons.org/courses/developing-new-products-and-services/view> (CC BY NC SA)

### **The importance of Innovation**

Innovation is an important driver leading to organizational financial performance. It is after all the catalyst for developing differentiated products and services for competing in monopolistic competitive markets. Research and development are driven by the diffusion of science and the translation of basic science into commercially viable products and services. R&D by entrepreneurs may not involve basic scientific research, but it does involve searching for ideas that will lead to differentiated and marketable products and services<sup>135</sup>.

### **Concept of Innovation**

The concept of innovation implies that benefit is derived from applications of a new market or technological knowledge. Innovations are of practical use in providing new or improved products or services and/or enabling people and organisations to do things more effectively and/or efficiently.

It is perhaps appropriate here to stress the difference between product and process innovation. Product innovation relates to the development of a new product, for instance, a new piece of equipment such as the personal computer (PC). However, when an organisation adopts this innovation to enable it to perform its operations more effectively and efficiently, it can be classed as a process innovation. In effect, it is impacting on the process of the organisation's activities. Keep in mind that what may be innovative for one organisation may be 'old hat' for another.

Process innovation is not confined to the use of new equipment in an organisation but, as Porter's definition of innovation suggests, can also refer to a new way of doing things. It is therefore important to remember that when we refer to technology in this course, we are defining it in its widest possible sense to include new equipment, machinery, and internet technologies, as well as new ways of organising work, bound up in the systems, processes and procedures of an organisation and not necessarily involving physical equipment and products<sup>136</sup>.

When an innovative idea requires a better business model or radically redesigns the delivery of value of a focus on the customer, a real-world

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<sup>135</sup> Adapted from the Saylor Foundation, (n.d). Retrieved from <http://www.oercommons.org/courses/developing-new-products-and-services/view> (CC BY NC SA)

<sup>136</sup> Adapted from Open Learn, (2016). Retrieved from <http://www.open.edu/openlearn/money-management/management/technology-management/the-concept-innovation/content-section-1> (CC BY NC SA)

experimentation approach increases the chances of market success.<sup>137</sup>

### **Sources of Innovation**

There are several sources of innovation. According to the Peter F. Drucker, the general sources of innovations are different changes in industry structure, in market structure, in local and global demographics, in human perception, mood, and meaning, in the amount of already available scientific knowledge, etc. When an innovative idea requires a better business model or radically redesigns the delivery of value to focus on the customer, a real-world experimentation approach increases the chances of market success. Potentially, innovative business models and customer experiences can't be tested through traditional market research methods. Programs of organizational innovation are typically tightly linked to organizational goals and objectives, the business plan, and to competitive market positioning. One driver for innovative programs in corporations is to achieve growth objectives. Once innovation occurs, innovations may be spread from the innovator to other individuals and groups. This process can be described as using the "s-curve" or diffusion curve. This is known as the process of diffusion<sup>138</sup>.

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<sup>137</sup> Adapted from Boundless, (2016). Retrieved from <https://www.boundless.com/sociology/textbooks/boundless-sociology-textbook/education-13/the-functionalist-perspective-on-education-100/innovation-564-10335/> (CC BY SA)

<sup>138</sup> Adapted from Boundless, (2016). Retrieved from <https://www.boundless.com/sociology/textbooks/boundless-sociology-textbook/education-13/the-functionalist-perspective-on-education-100/innovation-564-10335/> (CC BY SA)



## Lesson summary



### **Lesson Summary**

Innovation is the creation of better or more effective products, processes, services, technologies, or ideas that are readily available in markets, government, and societies. Innovation thus includes both creative ideas and the actual implementation of the idea. Innovation is essential for developing differentiated products, and services in a competitive business environment. The core innovation concepts are incremental, modular, discontinuous and architectural. Sources of innovation include new markets, new technologies, new political rules, limited options, changes in sentiments or behaviours, deregulations and changes in business models.

Reflection time: re-examine you product and/or service what creative or innovative strategy can you implement to advance your enterprise?

The next lesson will continue with Disruptive, Incremental, and Open innovations.

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# Lesson 3 - Disruptive, Incremental and Open innovations

## Outcomes



At the end of this lesson, students should be able to

1. Explain disruptive and incremental innovations
2. Discuss open innovations

### Introduction

Disruptive and incremental innovators and innovators use new ideas and generate a viable business venture. In this lesson, we will examine disruptive, incremental and open innovations and analyse the similarities and differences between these concepts.

### Concept of disruptive and incremental innovations

A **disruptive innovation** is an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leaders and alliances. Not all innovations are disruptive, even if they are revolutionary. Disruptive innovations tend to be produced by outsiders. The business environment of market leaders does not allow them to pursue disruption when they first arise, because they are not profitable enough at first and because their development can take scarce resources away from sustaining innovations (which are needed to compete against current competition). A disruptive process can take longer to develop than with the conventional approach and the risk associated with it higher than the other more incremental or evolutionary forms of innovations, but once it is deployed in the market, it achieves a much faster penetration and a higher degree of impact on the established markets.<sup>139</sup>

Disruptive innovation processes have in many aspects been thoroughly analyzed, but are still something of an enigma on a micro level. It is an area inhabited by many kinds of actors; scientists, entrepreneurs, companies, financiers, customer, investors, business angels, etc. Product and business innovation can also emerge in a vast number of environments. Still, the innovation process proceeds through these actors and environments and if we better can understand the conditions for this innovation management and

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<sup>139</sup> Adapted from Wikipedia, (2016). Retrieved from [https://en.wikipedia.org/wiki/Disruptive\\_innovation](https://en.wikipedia.org/wiki/Disruptive_innovation) (CC BY SA)

process, it might be able to capitalize on the investments for nurturing innovation more effectively.<sup>140</sup>

### **Disruptive innovation**

#### **Video**



Video

This video on Disruptive innovation and online creativity helps to facilitate a further an understanding of disruptive innovation<sup>141</sup>

### **Incremental innovations**

Incremental innovations involve smaller improvements in ideas, products, services, and processes. They are like adding unique features to a product or service. But even incremental improvements can have a radical effect on the marketplace. For example, consider the incremental improvements in wireless phones that eventually lead to the development of Apple's iPhone and to the numerous Smartphone offerings.<sup>142</sup>

#### **Video**



Video

Here is another video to help explain the concept of Incremental innovations<sup>143</sup>

Incremental innovators think outside the box and challenge the norms of society.

### **Disruptive and Incremental**

Joseph Schumpeter describes an entrepreneur as "a person who is willing and able to convert a new idea or invention into a successful innovation." Entrepreneurship employs what Schumpeter called the gale of creative destruction. Schumpeter's idea encompasses more than single innovations, as he further explains how innovative thinking allows for a sustainable and long-term economic growth for societies that enable it. Creating new goods and new ways of doing things allow for consistent job growth, more

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<sup>140</sup> Adapted from Scielo, (2011). Retrieved from [http://www.scielo.cl/scielo.php?pid=S0718-27242011000200014&script=sci\\_arttext](http://www.scielo.cl/scielo.php?pid=S0718-27242011000200014&script=sci_arttext) (CC BY NC)

<sup>141</sup> See <https://www.youtube.com/watch?v=pN0SIn2lyoo> (CC BY)

<sup>142</sup> Adapted from Creating Services and Products, (2012). Retrieved from <http://2012books.lardbucket.org/books/creating-services-and-products/s04-06-radical-and-incremental-innova.html> (CC BY NC SA)

<sup>143</sup> See <https://www.youtube.com/watch?v=kmM1eVVSH-o> (CC BY)

consumption, and more economic dynamism. Innovative thinking allows for so-called disruptive innovations—innovations which make ‘leaps and bounds’ over existing products. One classic example is the iPhone.<sup>144</sup>

Schumpeter's view is not the only one, however. Incremental innovation is also largely recognized as a vital entrepreneurial pursuit. The idea of incremental innovation is simple: large change is a byproduct of small innovations compounded with others. Incremental innovators find ways to improve the efficiency of established processes to drive efficiency. An example of this kind of innovation has been Toyota's just-in-time inventory management. Incremental innovations are often process-based, while disruptive innovations are usually new goods or processes themselves.<sup>145</sup>

### **The concept of open innovation**

Among the latest developments in corporate innovation is the concept of open innovation. Open innovation<sup>1</sup> is the intentional leveraging of the research, ideas, or technologies of outsiders—that is, people or companies that are not part of the corporate entity—rather than relying solely on innovations that are generated from inside the company. Open innovation takes innovation beyond a company’s Research & Development lab and lets customers and partners participate in the creation of new product and services.

Procter & Gamble (P&G) embarked on open innovation in 2001 with its Connect + Develop program. For example, the innovation of printing text or images on Pringles chips came about through P&G partnering with a professor in Italy who ran a small bakery and had invented a technology that used ink-jet techniques to print pictures on pastries.

One method by which a company can manage and run open innovation is to use a contest or “challenge” method. In the contest method, the

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<sup>144</sup> Adapted from Boundless.com, (2016). Retrieved from <https://www.boundless.com/management/textbooks/boundless-management-textbook/introduction-to-management-1/entrepreneurship-22/introduction-to-entrepreneurship-140-3911/> (CC BY SA)

<sup>145</sup> Adapted from Boundless.com, (2016). Retrieved from <https://www.boundless.com/management/textbooks/boundless-management-textbook/introduction-to-management-1/entrepreneurship-22/introduction-to-entrepreneurship-140-3911/> (CC BY SA)

company poses a challenge, such as a way “to drop large amounts Humanitarian food and water packages from an aircraft in populated areas such that there is no danger of falling objects (i.e., non-food items) causing harm to those on the ground” and offers a financial reward to the person, company, or team that solves the problem first<sup>146</sup>.

## Activity



Activity

Create a chart/diagram to share with your classmate to demonstrate your understanding of disruptive, incremental and open innovations. You should also include any similarities or difference between them.

## Lesson summary



Summary

### Lesson Summary

In this lesson we list and reviewed the core innovation concepts, identify sources of innovation and explain the concepts of disruptive, incremental and open innovations.

Reflection: Which innovation concept reflects your business venture? Can any other innovation be applied to your entrepreneurship organization?

In the next lesson, we will consider the conditions for effective innovations at the Micro/organizational level and Macro/National level.

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<sup>146</sup> Adapted from Challenges and Opportunities in International Business. Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html>

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# Lesson 4 - Nurturing and Managing Innovation

## Outcomes



Outcomes

At the end of the lesson, students should be able to:

1. Identify micro factors that would nurture innovation
2. Identify macro factors that would nurture innovation

### Introduction

Innovation may be linked to positive changes in efficiency, productivity, quality, competitiveness and market share<sup>147</sup>. The aim is to convert innovative activities into notable organizational performance. In this section, you will identify the conditions for effective innovation at the micro or organizational level.

### Conditions for effective innovation

Innovation can involve new ways in which a product or a service might be used. It can involve new ways of packaging a product or a service. Innovation can be associated with identifying new customers or new ways to reach customers. To put it simply, innovation centres on finding new ways to provide customer value<sup>148</sup>.

### Examples of innovation

Apple was a \$2 billion company in 1997; then it jumped to a \$700 billion valuation in 2015 as a result of the innovation that came from the; MacBook, iPod, iPad, iPhone.

Tesla built an electric car with exceptional aesthetics and efficiency, which has helped build the electric sports car company earn a market capitalization of \$33 billion, with revenues up 54% since 2014.

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<sup>147</sup> Adapted from Wikipedia, : Innovation, (2016). Retrieved from <https://en.wikipedia.org/wiki/Innovation> (CC BR SA)

<sup>148</sup> Adapted from Modern Management of Small Businesses, (2012). Retrieved from

<http://2012books.lardbucket.org/books/modern-management-of-small-businesses/s06-03-sources-of-business-ideas.html> (CC BY NC SA)

Uber was founded in 2009 and has become a \$50 billion company in just 6 years, with its simple yet extremely unique idea of getting a taxi with the press of a button that has completely revolutionized the way we travel<sup>149</sup>.

Although some would argue that there is a difference between creativity and innovation, one would be hard-pressed to argue that creativity is not required to produce innovative means of constructing customer value.<sup>150</sup>

Alexander Hiam (1998) identified nine factors that can impede the creative mindset in organizations:

1. **Failure to ask questions.** Small-business owners and their employees often fail to ask the required *why*-type questions.
2. **Failure to record ideas.** It does not help if individuals in an organisation are creative and produce a large number of ideas, but other members of the organization cannot evaluate these ideas. Therefore, it is important for you to record and share ideas.
3. **Failure to revisit ideas.** One of the benefits of recording ideas is that if they are not immediately implemented, they may become viable at some point in the future.
4. **Failure to express ideas.** Sometimes individuals are unwilling to express new ideas for fear of criticism. In some organisations, we are too willing to critique an idea before it is allowed to develop fully.
5. **Failure to think in new ways.** This is more than the cliché of “thinking outside the box.” It involves new ways of approaching and looking at the problem of providing customer value.
6. **Failure to wish for more.** Satisfaction with the current state of affairs or by the means of solving particular problems translates into an inability to look at new ways of providing value to customers.

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<sup>149</sup> Adapted from Wikipedia: ‘Business Idea’, (2016). Retrieved from

[https://en.wikipedia.org/wiki/Business\\_idea](https://en.wikipedia.org/wiki/Business_idea) (CC BY SA)

<sup>150</sup> Adapted from Modern Management of Small Businesses, (2012). Retrieved from

<http://2012books.lardbucket.org/books/modern-management-of-small-businesses/s06-03-sources-of-business-ideas.html> (CC BY NC SA)

7. **Failure to try to be creative.** Many people mistakenly think that they are not at all creative. This means you will never try to produce new types of solutions to the ongoing problems.
8. **Failure to keep trying.** When attempting to provide new ways to create customer value, individuals are sometimes confronted with creative blocks. Then they simply give up. This is the surest way to destroy the creative thinking process.
9. **Failure to tolerate the creative behaviour.** Organisations often fail to nurture the creative process. They fail to give people time to think about problems; they fail to tolerate the “odd” suggestions from employees and limit creativity to a narrow domain.<sup>151</sup>

One of the great mistakes associated with the concept of innovation is that innovation must be limited to highly creative individuals and organisations with large research and development (R&D) facilities. The organisation’s size may have no bearing on its ability to produce new products and services.<sup>152</sup>

### **Incentives for innovating**

Danika Davis, Innovators Forum guest and CEO of the Northern California Human Resources Association, discusses the ways to reward innovation among employees and how to foster innovation in your small business.



Video

This [video](#): *Encouraging innovation with employees: Innovators Forum Guest Danika Davis*<sup>153</sup>

### **Internal Policy**

The framework of innovation process components is illustrated below:

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<sup>151</sup> Adapted from Modern Management of Small Businesses, (2012). Retrieved from

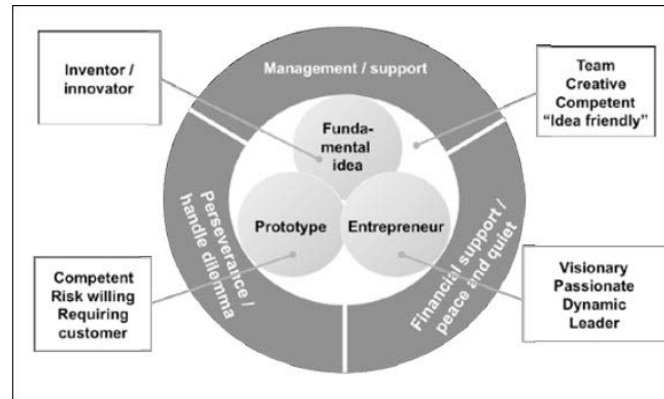
<http://2012books.lardbucket.org/books/modern-management-of-small-businesses/s06-03-sources-of-business-ideas.html> (CC BY NC SA)

<sup>152</sup> Adapted from Modern Management of Small Businesses, (2012). Retrieved from

<http://2012books.lardbucket.org/books/modern-management-of-small-businesses/s06-03-sources-of-business-ideas.html> (CC BY NC SA)

<sup>153</sup> See <https://www.youtube.com/watch?v=9m7zxmNG8YA>





**Fundamental idea:** The fundamental idea constitutes the technical and commercial hypothesis that is to be developed. It can have its origin in technology or market, but must always contain both parts. An inventor or innovator is the most common initiator of the process.

**Entrepreneur:** The entrepreneur runs the work with realizing the carrying idea. Typical abilities of an entrepreneur are to see the fundamental idea's commercial possibilities and to be a visionary and leading a team.

**Prototype/demanding customer:** The prototype plays a role in the verification of the idea. By the prototype, the technical and commercial relevance of the idea is secured. An important quality of the prototype is that it is developed with a skilled, risk willing and demanding customer.

**Team:** Several persons need to attend the creative process. The team contributes with competence, resources and constitutes a social system with common values regarding the fundamental idea.

**Management/support:** The team and the entrepreneur need to relate itself to a guiding and supporting context, e.g. mentors, board, sponsors, in order to have the energy for the hard work of developing and verifying the idea.

**Financial support / peace and quiet essential for work:** The financial support does give not only resources but also peace and quiet for the entrepreneur and the team.

**Perseverance and handle dilemma:** An important quality in the organization is strategically and tactically to handle the obstacles and obstruction that the idea raises: perseverance is required to handle these dilemmas. These obstructions can be both internally within a company as well as external market obstructions.

**Organizational Policy:** Change management experts have emphasized the importance of establishing organisational readiness for change and recommended various strategies for creating it. Organisational readiness for change is a multi-level, multi-faceted construct. As an organisation-level construct, readiness for change refers to organisational members' shared resolve to implement a change (change commitment) and shared belief in their collective capability to do so (change efficacy). Organisational readiness for change varies as a function of how many organisational members value the change and how favourably they appraise three key determinants of implementation capability: task demands, resource availability, and situational factors. When organisational readiness for change is high, organizational members are more likely to initiate change, exert greater effort, exhibit greater persistence, and display more cooperative behaviour.

Failure to establish sufficient readiness accounts for one-half of all unsuccessful, large-scale organisational change efforts. Drawing on Lewin's three-stage model of change, change management experts have prescribed various strategies to create readiness by 'unfreezing' existing mindsets and creating motivation for change. These strategies include highlighting the discrepancy between current and desired performance levels, fomenting dissatisfaction with the status quo, creating an appealing vision of a future state of affairs, and fostering confidence that this future state can be achieved.

### **What conditions promote organizational readiness for change?**

#### **Change valence**

Simply put, do organisational members value the specific impending change? For example, do they think that it is needed, important, beneficial, or worthwhile? The more organisational members value the change, the more they will want to implement the change, or, put differently, the more resolve they will fail to engage in the courses of action involved in change implementation.

#### **Change efficacy**

As Gist and Michell (1992) observe, efficacy is a 'comprehensive summary or judgment of perceived capability to perform a task.' In formulating change-efficacy judgments, organisational members acquire, share, assimilate, and integrate information bearing on three questions: do we know what it will take to implement this change effectively; do we have the resources to implement this change effectively; and can we implement this change effectively

given the situation we currently face? Implementation capability depends in part on knowing what courses of action are necessary, what kinds of resources are needed, how much time is needed, and how activities should be sequenced. In addition to gauging knowledge of task demands, organisational members also cognitively appraise the match between task demands and available resources. That is, they assess whether the organisation has the human, financial, material, and informational resources necessary to implement the change well. Finally, they consider situational factors such as, for example, whether sufficient time exists to implement the change well or whether the internal political environment supports implementation. When organisational members share a common, favourable assessment of task demands, resource availability, and situational factors, they share a sense of confidence that collectively they can implement a complex organisational change. In other words, change efficacy is high.

### **Contextual factors**

Change management experts and scholars have discussed other, broader contextual conditions that affect organisational readiness for change. For example, some contend that an organisational culture that embraces innovation, risk-taking, and learning supports organizational readiness for change. Others stress the importance of flexible organisational policies and procedures and positive organisational climate (e.g., good working relationships) in promoting organizational readiness. Still others suggest that positive past experience with change can foster organisational readiness.

Organisational culture, for example, could amplify or dampen the change valence associated with a specific organisational change, depending on whether the change effort fits or conflicts with cultural values. Likewise, organisational policies and procedures could positively or negatively affect organisational members' appraisals of task demands, resource availability, and situational factors. Finally, past experience with change could positively or negatively affect organisational members' change valence (e.g., whether they think the change really will deliver touted benefits) and change efficacy judgments (e.g., whether they think the

organisation can effectively execute and coordinate change-related activities)<sup>154</sup>.

## Activity



Activity

1. Generate a new product or service idea. You should be able to describe it in two or three sentences. Work with your fellow students in groups of threes and then ask them to review their ideas and select one for presentation in class. At the end of the presentation, everyone should write what he or she saw as occurring during the process of group decision making. Did it make the process more creative? Did it allow for the better evaluation of ideas? Do they see problems with this type of group innovation thinking?

2. In Exercise 1, students were asked to develop a new product or service. Repeat this exercise, but now think up an innovation for an existing product in the area of either packaging or marketing. Again, ask them the following questions after the group decision-making process: (a) Did it make the process more creative? (b) Did it allow for the better evaluation of ideas? (c) Do you see problems with this type of group innovation thinking?<sup>155</sup>

## Lesson summary



Summary

### Lesson Summary

In this lesson, you identified the conditions necessary for effective innovation at the micro or organisational level. These include encouraging an environment for creative thinking, providing incentives for employees to be innovative and creative, outlining a flexible internal policy that supports change and an organizational structure that is adaptive so that it can effectively execute and coordinate change-related activities

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<sup>154</sup> Adapted from A Theory of Organizational readiness: (2009). Retrieved from <http://implementationscience.biomedcentral.com/articles/10.1186/1748-5908-4-67> (CC BY)

<sup>155</sup> Supra note 111

## Lesson 5 - Protecting Innovation and Creativity

### Outcomes



Outcomes

At the end of the lesson, students should be able to:

- 1) Discuss the methods of protecting creativity and innovation.
- 2) Differentiate between copyright, patents and trademarks.

### Introduction

Entrepreneurs invest time and money into researching and developing a new product. Intellectual property laws protect the rights of individuals and give them economic rights for a specified time. You have learnt in previous lessons about creativity and innovation and how to nurture creativity. In the final lesson of this module, you will learn the methods of protecting your creative works that ensure the products offered by your venture is secured and allow you to retain profits.

### Methods of protecting innovations and creativity

Entrepreneurs invest time and money into researching and developing a new product. Intellectual property laws protect the rights of individuals and give them economic rights for a specified time. Ways of protecting creativity and innovation are:

#### Intellectual Property Rights (IPR)

For companies to gain financial benefits from investing in research and coming up with new inventions, there must be legal protection for those inventions. The system of law related to Research & Development and innovation is referred to as **intellectual property rights**. Different countries vary in the extent to which they protect intellectual property and enforce intellectual property regulations. The presence of strong, enforceable, consistent property rights serves to make the world flat. However, as long as significant differences in property rights exist around the globe, the world will be far from flat with respect to innovation.<sup>156</sup>

Intellectual Property Rights is the legal protection of an invention developed by an individual. The creator can own the rights to their invention or creative works.

Intellectual Property Rights:

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<sup>156</sup> Adapted from Challenges and Opportunities in International Business, (2012).

Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

- Establishes standards
- Minimizes competing for development
- Access to new markets
- Access to new technology<sup>157</sup>

Intellectual property (IP) refers to creations of the mind—inventions, literary and artistic works, and symbols, names, and images used in commerce. The term property connotes ownership that's exclusive, but the owners have the right to license or sell their IP. Under intellectual property law, owners are granted certain exclusive rights—intellectual property rights (IPR)—to the discoveries, inventions, words, phrases, symbols, and designs they create.<sup>158</sup>

### **World Intellectual Property Organization (WIPO)**

The World Intellectual Property Organization (WIPO) is a specialized agency of the United Nations that works to harmonize the intellectual property laws of countries around the world. Although the roots of the WIPO go back to 1883, WIPO became an agency of the United Nations in 1974, with a mandate to administer intellectual property matters recognized by the member states of the UN. In 1996, WIPO expanded its role and further demonstrated the importance of intellectual property rights in the management of globalized trade by entering into a cooperation agreement with the World Trade Organization (WTO). Today, WIPO seeks to

- Harmonize national intellectual property legislation and procedures,
- Provide services for international applications for industrial property rights,
- Exchange intellectual property information,
- Provide legal and technical assistance to developing and other countries,
- Facilitate the resolution of private intellectual property disputes, and
- Marshal information technology as a tool for storing, accessing and using valuable intellectual property information. “WIPO Treaties—Geneva Information,” World Intellectual Property Organization, accessed November 1, 2012.

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<sup>158</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

2010, <http://www.wipo.int/treaties/en/general><sup>159</sup>.

### **Patents:**

Rights are given to investors to exploit the invention for the life of the patent. The investor must meet certain stipulations in registering the patent to have a monopoly over the invention. This reduces the risk of competitors using, manufacturing or modifying the invention for personal and financial gain.

The creator establishes ownership of the innovation. Not all inventions are patented, and not all innovations are patentable. Creators must research and assess economic costs and feasibility in choosing a patent.

Stipulations for a patent-

- Must have never existed prior
- Have innovative steps
- Capable of industrial application.

For security, creators should not publicize innovations or reveal the patent before the filing date. The patent is not affected until it is commercialized on the market.<sup>160</sup>

The most common way to protect an industrial discovery or invention is to patent it. A patent is an inventor's exclusive right granted by the government for an invention, whether a product or a process, that is industrially applicable (i.e., useful) or new (i.e., novel) or exhibits a sufficient "inventive step" (i.e., be not obvious) get a patent, the company must reveal the details of the invention. The rationale for revealing the invention details is so that others can build on the invention and thus promote further innovation. By revealing the invention, companies obtain legal protection and the right to exclusive sales of the invention (or the right to license or sell its use to others). The patent gives the patent owner a monopoly on the invention for a specific number of years. A patent prohibits other people from selling the identical product built in the same way as the accepted patent. Patents give the owner the right to defend the invention in court, but they don't automatically mean that the owner will

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<sup>159</sup> Adapted from Challenges and Opportunities in International Business, (2012).

Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

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win the court case.<sup>161</sup>

### **Trademarks**

A registered trademark gives the entrepreneur exclusive rights to use symbolic characters, sound, scents, logo, and pictures to license and sell its products. Trademarks distinguish your products from other competitors on the market.

Registration prevents others from using a similar mark that may confuse customers. However, it does not prevent the competitor from making a similar product. Registration serves a public notice of ownership, making persons knowledgeable of the brand.<sup>162</sup>

### **Branding**

A symbol or combination of designs, names or characters associated with an organization that identifies it from its competitors.

### **Copyrights**

The legal protection is given to individuals who express ideas and information in mediums such as art, music, song, literary work, pictures, drawings, and architecture. Copyright focuses on the expression of an idea and not the idea. Copyright gives the creator the right to decide the reproductive use of original work.<sup>163</sup>

### **Registered Design Protection**

A design can be created and registered for protection by the original owner. It can apply to three-dimensional elements, shapes, colours, and textures. Design protection protects original designs from being used without the creator's permission.

### **Trade Secrets**

In the entrepreneurial process, the entrepreneur may create a product or seek to enhance its innovative capabilities. The law allows the entrepreneur to formulate a confidential legal agreement that restricts

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<sup>161</sup> Adapted from Challenges and Opportunities in International Business., (2012).

Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

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employees or authorized persons to information by associating with the firm, from disclosing trade secrets. A trade secret consists of information that is considered and must be kept as a secret has commercial value, and the result of disclosure will affect the value of the enterprise.<sup>164</sup>

Broadly speaking, any confidential business information which provides an enterprise with a competitive edge can qualify as a trade secret. A trade secret may relate to technical matters, such as the composition or design of a product, a method of manufacture or the know-how necessary to perform a particular operation. Common items that are protected as trade secrets include manufacturing processes, market research results, consumer profiles, lists of suppliers and clients, price lists, financial information, business plans, business strategies, advertising strategies, marketing plans, sales plans and methods, distribution methods, designs, drawings, architectural plans, blueprints and maps, etc.<sup>165</sup>

The simplest way for a company to protect its intellectual property is never to reveal it—to create what is called a trade secret. This is how Coca-Cola protects the formula for its hugely popular soda. If the secret were discovered or revealed through nefarious intent, then trade secret law would allow punishment of the perpetrator, including criminal prosecution. But if a company somehow developed the same formula on its own, Coca-Cola could do nothing to stop them. Therefore, companies opt for other IP protection—namely, patents and copyrights.

### **Copyright and Related Rights**

Copyright is the body of laws which grants authors, artists and other creators' protection for their literary and artistic creations, which are generally referred to as "works." A closely associated field of rights related to copyright is "related rights," which provides rights similar or identical to those of copyright, although sometimes more limited and of shorter duration.

### **Licensing IP Rights**

The word license, according to the World Intellectual Property Organization (WIPO), means permission granted by the owner of the

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<sup>165</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

intellectual property to another to use it according to agreed terms and conditions, for a defined purpose, in a defined territory, and for an agreed period of time. In licensing IP rights, the IP owner gives permission to use the IP but retains ownership of the IP<sup>166</sup>.



Video

Justification for [Intellectual Property](#)<sup>167</sup>

Activity



Activity

For this activity, you are required to write a 150-200 word essay discussing why a patent may be the best way to protect an innovation as opposed to branding.

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## Assessments



Assessments

1. Which form of protection can be used for protecting a specific way of doing business, the underlying computer codes, programmes, and technology?
2. Analyse and differentiate three forms of protecting innovation.
3. Discuss the implications of failing to protect innovations.

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<sup>166</sup> Adapted from Challenges and Opportunities in International Business, (2012). Retrieved from <http://2012books.lardbucket.org/books/challenges-and-opportunities-in-international-business/s07-culture-and-business.html> (CC BY NC SA)

<sup>167</sup> See <https://www.youtube.com/watch?v=KVpYFZ-FBdk> (CC BY)

## Lesson summary



Summary

### **Lesson summary**

On completion of your final lesson, you learnt the importance of using intellectual property rights (IPR). The benefits of trademarks, copyright, trade secrets and branding discussed are vital areas in stimulating entrepreneurship and promoting economic sustainability of the venture.

Congratulations! You have successfully reached the end of the course! The knowledge gained can assist you in pursuing your own business venture and prepare you for any foundation examination in Entrepreneurship.

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