

Entrepreneurship management Lecture 3

Who are these
Individuals?

Historical Views from Economics

- Economics tends to marginalize the entrepreneur
- Cantillon and Say (from the perspective of an agrarian economy) – someone who makes buying and selling decisions and in so doing is the bearer of risk
- ‘Austrian school’: Kirzner – an ‘alert’ middleman who spots opportunities to facilitate exchange (arbitrage)
- Schumpeter: an innovator – the entrepreneur brings change through the introduction of new technological processes or products
- Knight: someone who undertakes risk, with profit being the reward for bearing uncertainty
- Shackle: emphasises the role of creativity in the entrepreneurial process
- Casson: someone with the skills to organise or reallocate resources

Economic Theories of Entrepreneurship

Risk Taker –
Richard
Cantillon, 1755

Capitalist –
Adam Smith,
1776, David
Ricardo, 1871

Technological
Knowledge –
Jeremy
Bentham,
1838

Risk Taker &
Innovator –
Von Thunen,
1850

Economic
Change –
Carl Menger,
1871

Capitalist –
Amasa Walker,
1866, Francis
A. Walker,
1887

Novel
Resource
Combination
– Alfred
Marshall,
1920

Risk Taker &
Uncertainty
Avoidance –
Frank Knight,
1921

Innovator –
Joseph
Schumpeter,
1952

Alertness –
Israel
Kirzner,
1973

Definitions continued

- Note: None of These Definitions Sees the Entrepreneur as the Creator of a Business
- Contemporary Definitions:
 - Distinguish Between 'Enterprise' & 'Entrepreneurship'
- Enterprise:
 - Using Skills Such as Initiative, Independence, Creativity, Problem-solving, Identifying & Working on Opportunities, Leadership & Acting Resourcefully to Apply Creative Ideas & Innovations to Practical Situations to Effect Change

- Which Entrepreneurs Can You Name?

Revolutionaries continued

- How have entrepreneurs affected your life in the past 24 hours?
 - Have you used your computer? (personal computers, PC software: Intel, Microsoft, Dell, Apple)
 - Have you surfed the web? (web browser – Netscape, Google, AOL)
 - Have you made a purchase over the internet (internet retailers, eBay, PayPal)
 - Have you made a mobile phone call? (cellular phone services; voice mail IT services)
 - Have you used a hand held wireless communication device (a 'blackberry')? (RIM)
 - Have you taken your car in for a fast oil change or MoT? (KwikFit)
 - Have you taken a budget flight? (Easyjet, Ryan Air)

Revolutionaries ... continued

- Where have you bought your clothes? Have you put on trainers (Nike, Reebok), put on waterproof clothes (WL Gore, Timberland)?
- Have you bought a coffee (Starbucks)
- Have you bought some DIY products (Home Depot, B&Q)
- Have you bought any stationary? (Staples)
- Have you listened to your iPod? (Apple)
- Have you watched a 24 hours news channel? (CNN)
- Do you purchase ethically (Bodyshop)?
- Have you played a round of golf? (Calloway Golf)
- Have you been to a fitness club (Fitness First, David Lloyd)?
- Have you bought a copy of 'Big Issue'? (social entrepreneurship)
- Have you donated anything to a charity shop? (e.g. Bethany Trust)

- Why Do They Do What They Do?

So Why Choose to be an Entrepreneur?

- Luke Johnson (FT 25/4/07)
 - Freedom: “starting and running a business is the best way of controlling your destiny”
 - Changing the world: “creating an enterprise is perhaps the most effective way of making a positive difference to society that has ever been devised.”
“What could be more important than creating jobs?”
 - Progress: “new business is about upsetting the status quo, thereby leading to progress. I think that is a virtuous mission”

continued

- Social mobility; “business is a fantastic way for someone from a modest background ... to improve their life and get ahead.”
- Creative destruction: inefficient and loss making companies die ... but productive companies tend to create a virtuous circle: ... attract talent, pay more, make investors good returns, and can afford to launch better products. This is called progress.”
- Creating a better future: “the inventive ability of entrepreneurs to find solutions to ... problems” such as global warming and so forth.
- Entrepreneurship is about striving for a better future – not just dreaming.

In Economic Terms....

- *“There has never been a better time to practice the art and science of entrepreneurship”.*

(Bygrave and Zacharakis)

UK SME Statistics: Start of 2013

- There were an estimated 4.9 million businesses in the UK which employed 24.3 million people, and had a combined turnover of £3,300 billion
- SMEs accounted for 99.9 per cent of all private sector businesses in the UK, 59.3 per cent of private sector employment and 48.1 per cent of private sector turnover
- SMEs employed 14.4 million people and had a combined turnover of £1,600 billion
- Small businesses alone accounted for 47 per cent of private sector employment and 33.1 per cent of turnover
- Of all businesses, 62.6 per cent (3.1 million) were sole proprietorships, 28.5 per cent (1.4 million) were companies and 8.9 per cent (434,000) partnerships
- There were 891,000 businesses operating in the construction sector - nearly a fifth of all businesses
- In the financial and insurance sector, only 27.5 per cent of employment was in SMEs. However, in the agriculture, forestry and fishing sector virtually all employment (95.4 per cent) was in SMEs
- Only 22.5 per cent of private sector turnover was in the arts, entertainment and recreation activities, while 92.7 per cent was in the agriculture, forestry and fishing sector
- With 841,000 private sector business, London had more firms than any other region in the UK. The south east had the second largest number of businesses with 791,000. Together these regions account for almost a third of all firms

(Federation of Small Businesses, 2013)

Small and Medium Sized Enterprises (SMEs)

The main factors determining whether a company is an SME are:

Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

(European Commission, 2013)

With the UK government adopting the definition of SMEs as -

Micro firm: 0-9 employees

Small firm: 0-49 employees

Medium firm: 50-249 employees (Greene and Mole, 2006).

Importance of SMEs

- SMEs play an important role in the change of technology and innovation
- SMEs create an additional sense of competition whilst also, providing a mechanism for regeneration
- SMEs contribute to international competition
- SMEs create jobs
- SMEs contribute to economic growth

What Explains this Growth?

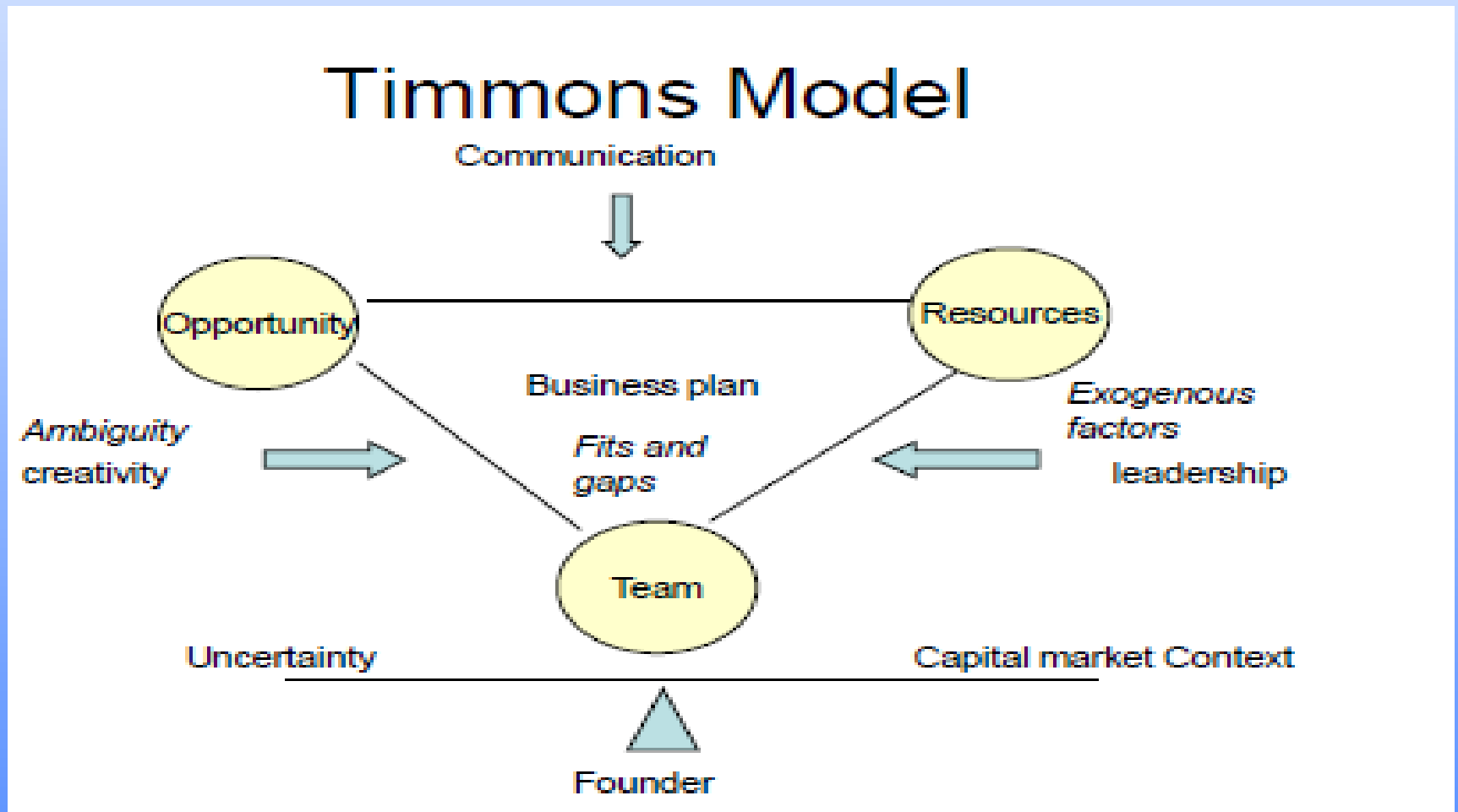
- Structural shift from manufacturing (large firm dominated) to services (small firm dominated)
- Growth in personal, flexible, tailor-made services
- Restructuring by large firms – focus on core activities, sub-contract non-core activities
- Technological change
 - Scientific discoveries exploited by small firms
 - Production and IT technologies have reduced the role of economies of scale
 - Low cost and access to communications technology ('the great equaliser'): access to information, distribution ('the long tail')

Growth Continued

- Importance of human capital rather than financial capital as the basis for competitiveness
- Consumer choice – reaction against mass produced products and services: individualism, demand for authenticity, natural products (e.g. real ale beer) – growth in market niches
- Deregulation of markets: e.g. in airlines, telecoms, media
- Personal choice – ‘rebellion’, reaction against working in large impersonal organisations, want to control own destiny
- Availability of finance – venture capital
- Availability of support, advice and education

- How do they do it?

Timmon's (2007) Model



An Enterprise Needs

- According to Timmons & Spinelli (2007);
 - Opportunity
 - Lead Entrepreneur & A Team
 - Resource Parsimony & Creative Use of Resources
 - Fit & Balance
 - Integrated & Holistic
 - Sustainable

The Paradoxes of Enterprise



On The One Hand

- Enterprise Requires Thought & Preparation
- To Make Money
- An Opportunity with Little or No Potential
- To Create & Build Wealth
- To Succeed



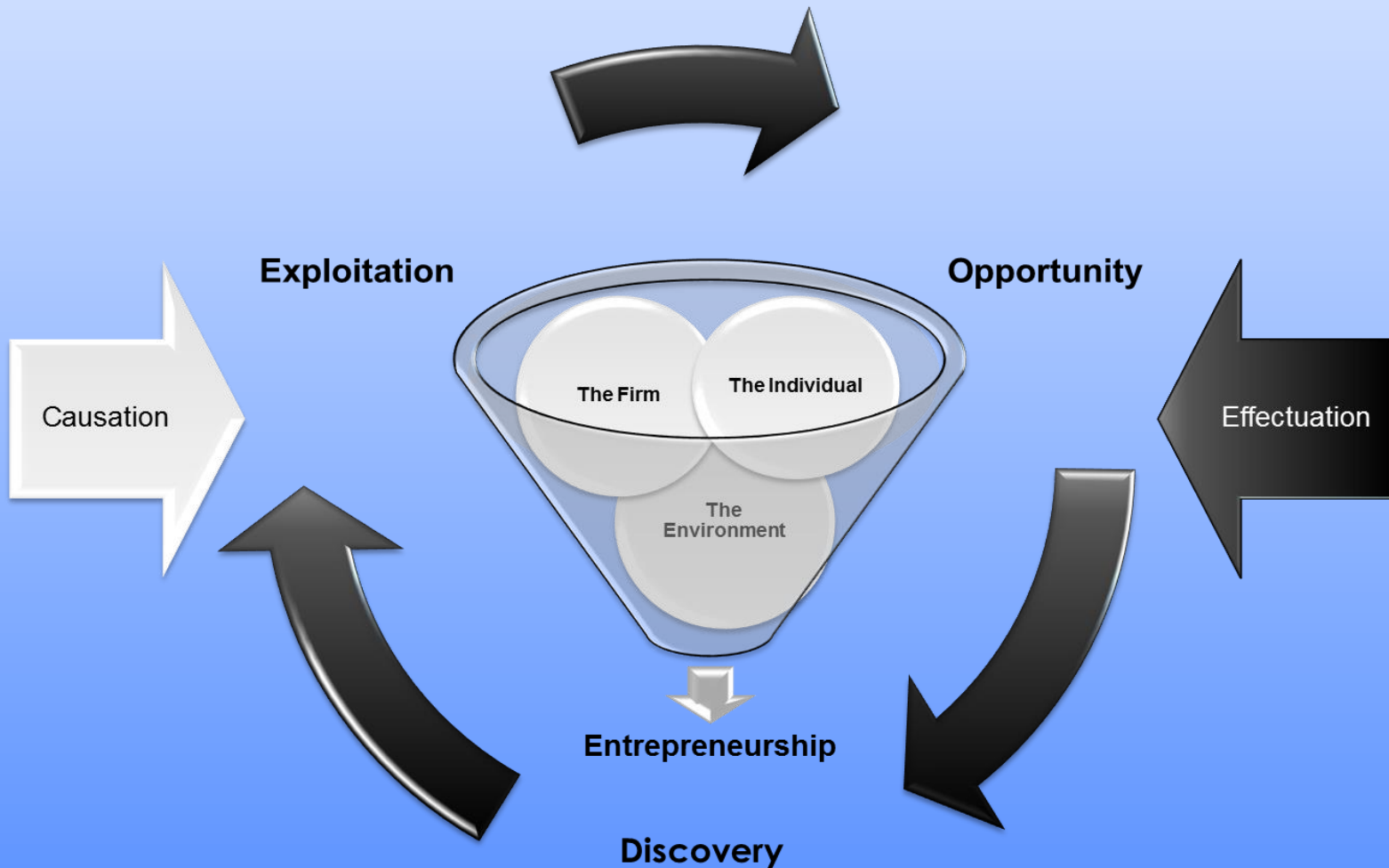
On The Other

- It Is An Unplanned Event
- You Have To Loose Money
- Can Be An Enormous Opportunity
- You Must First Relinquish Wealth
- You Must Experience Failure

Planned or Unplanned?



The Entrepreneurial Process



So...

- Do Ideas = Opportunities?
- Do Problems = Opportunities?
- Reality - An Idea is Only an Opportunity when It:
 - Adds Value to Consumer
 - It Solves a Problem
 - It Can Make Some Money (Communicate Some Value to Other Stakeholders)
 - It is a Good “Fit” with the Entrepreneurial Team
- Timmons & Spinelli (2007)

Ideas Can Start with Solving Problems

- Solving “Points of Pain”:
 - To Notice Inefficiency, Inconveniences, & Other Forms of “Points of Pain” & Use these to Build New Business Opportunities

Ideas Start With Solving Problems

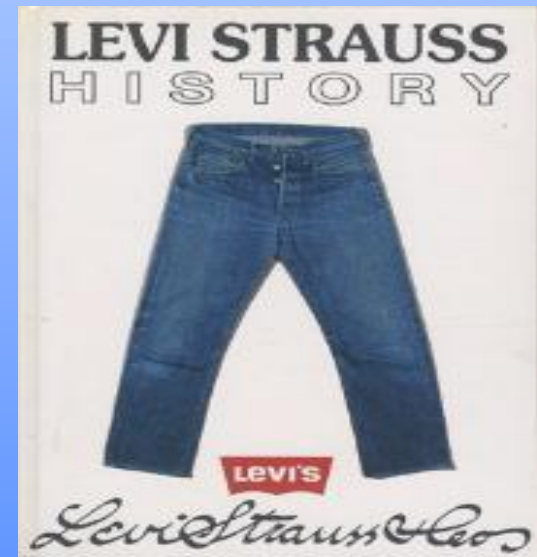
- Any Problems are Big Opportunities.
- No Problems, No Solutions, & No Reasons for Firms to Exist.
- No One Pays You to Solve a Non-existent Problem (*Vinod Khosla, Sun Microsystems*)

Example (1): Rise of Levi's

- Problem:
 - Working Clothes for Mining Workers do Not Last



- Solution:
 - First Pair of Jeans



Reading

Fillis, I. (2002) An Andalusian Dog or a Rising Star? Creativity and the Marketing/Entrepreneurship Interface. *Journal of Marketing Research*, 18(1), 379-395.

Bygrave, W.D. (1989) The entrepreneurship paradigm (1): a philosophical look at its research methodologies, *Entrepreneurship Theory and Practice*, 14(1), 1-26.