

The Entrepreneurial Mind

Lecture 1: The Concept of Entrepreneurship

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Define entrepreneurship in the context of small and medium scale industries.
2. Discuss theories that explain how countries grow economically.
3. Discuss the relationship between entrepreneurship and economic growth in the community.
4. Explain the socio-economic benefits from entrepreneurship.
5. Identify entrepreneurial competencies.
6. Assess the personal entrepreneurial characteristics of successful entrepreneurs vis-à-vis PECs.

What is Entrepreneurship?

Entrepreneurship as the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence. Actually, this is an old concept with a new flavor. Countries have developed through time, one term for producer, seller, and service provider, all lumped into one - - - "**merchants**".

Four Basic Aspects of Being an Entrepreneur:

1. **Creation of something of value.** This means entrepreneurs create products or services that can be offered for a price.
2. **Devotion of necessary time and effort.** Entrepreneurs devote their time and effort towards the attainment of their personal goals. In business, some of these goals are to earn profits, to make products/services available in the community, to provide employment and income for their family and other reasons.
3. **Assumption of necessary risks.** In the pursuit of their goals, entrepreneurs assume risks on the possibility of losing whatever they put in. In Business there is the possibility to fail and lose everything. But the possibility of earning big money is even greater.
4. **Getting rewards.** Many entrepreneurs reap the rewards of their efforts through the generation of profits and business expansion. Moreover, the prestige of being a business owner provides intrinsic satisfaction.

The Philippine government, recognizing the importance of entrepreneurship to the economy, had initiated through the Department of Education, Culture and Sports (DECS) the inclusion of subjects on Entrepreneurship in the intermediate grades and high school. Even before this compulsory inclusion, entrepreneurship has been among subject offerings and course majors at the college level and also in the post-graduate schools.

The government does not only prescribe the academic requirement for entrepreneurship, it also provides government incentive for more people to go into business. In addition, government projects like trade fairs, trade missions, etc. are being pushed to help entrepreneurs. Established businesses also serve as big brothers to would-be entrepreneurs. Civic organizations or non-government organizations called NGO's help promote entrepreneurship.

Who is an Entrepreneur?

An **entrepreneur** is a person who starts and or operates a business. An **entrepreneur** is creative and innovative. He is a person who starts something new. An **entrepreneur** maybe male or female, young or old, professional, college graduate or school dropout, comes from A, B, C, D or E economic group. He is an owner-manager and willing to take risks. Usually, he is someone not willing to work for others. Instead, he wants others to work for him. Usually, his kind of business is also single proprietorship because he does everything from production to selling.

Role of Entrepreneurs in the Economy

Entrepreneurs are vital in the economic development of the country. They provide employment and income that moves the economy forward, as shown in the vicious cycle of development below:

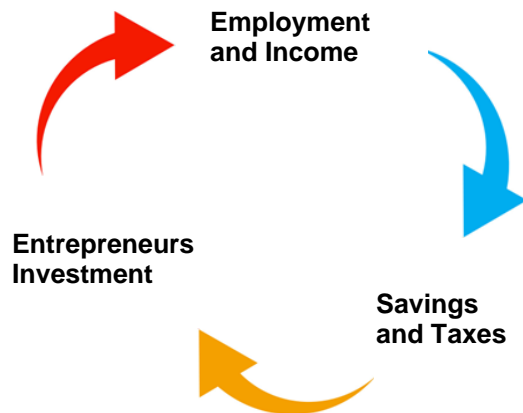
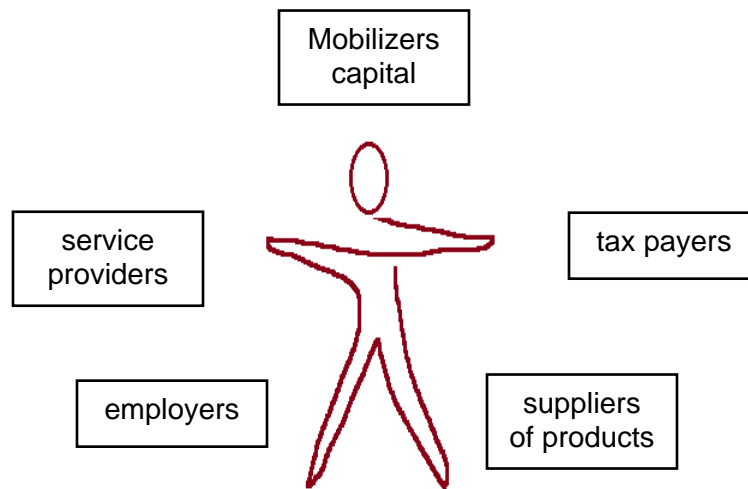


Figure 1.1 Vicious Cycle of Development (Banastao & Frias, 2022)

Thus, the cycle results in economic development as more people are employed and enjoy an income through the investment of an entrepreneur. The government likewise benefits in the process because entrepreneurs, as businessmen, pay taxes, hence, the government has the funds to provide services to the people.

It should be remembered that the activity of one entrepreneur provides a multiplier effect. For example, Joe decided to manufacture T-shirts and buys his materials from Mr. Smith. Hence, Mr. Smith hires workers to meet the requirements of Joe and Joe hires workers to produce the t-shirts. If Joe will close his business, eventually, Mr. Smith will also close his shop unless he has a lot of customers. This cycle is the opposite of the cycle above, called the **cycle of regression**.

The previous cycle also shows that entrepreneurs are:



**Figure 1.2 The Entrepreneur
(Banastao & Frias, 2022)**

1. **Mobilizers of capital.** Entrepreneurs sometimes use their own savings as capital for their business ventures. However, if they do not have the capital, money can be borrowed from banks to finance their intended business.
2. **Service providers.** Business ventures of entrepreneurs could be along the line of service like parlor, spas, or coffee shops.
3. **Employers.** Usually, entrepreneurs hire people to help them in their business. A restaurant owner, for example, will hire cooks and kitchen helpers while he, the owner, does the purchasing and attending to the customers.
4. **Taxpayers.** Business establishments pay taxes to the government. Thus, more business would mean more taxes and better government services.

5. **Suppliers of products.** Products and services are available through the efforts of the entrepreneurs. Without them, a scarcity of certain products and services will be felt.

Role of Entrepreneurship in Economic Growth

Micro, small, and medium enterprises (SMEs) are a vital component of the economy.

Microbusiness, small, and medium enterprises provide employment for 70 percent of the Philippine labor force. According to the 2001 National Statistics Office (NSO), of the total business enterprises of 811, 589 the MSMEs provide jobs to 69.1 percent of the employed Filipinos with their economic output at 32 percent. It is important for the economy to increase the output of the MSMEs to help the economy moving and growing. To attain this, the MSMEs should have more access to (1) credit, (2) better sources of raw materials, (3) modern technology and (4) more marketing information. The government has three strategies to help MSMEs. They are:

1. Provide credit, technology, and marketing support to new enterprises from P24 billion in 2004 to P309.98 billion in 2010.
2. Tap overseas Filipino workers to invest their earnings in MSMEs.
3. Promote greater involvement of local government units (LGUs) in promoting small business activities by providing them with information on business opportunities, available sources of funds, and the latest product design.

In November 2002, RA 9178 was signed into law. RA 9178 or the Barangay Micro Business Enterprise (BMBEs) Act of 2002 provides five incentives and benefits are:

1. Exempt BMBEs from income taxes and encourage LGUs to exempt or reduce local taxes imposed on BMBEs.
2. Exempt BMBEs from coverage of the minimum wage law.
3. Improves credit delivery to BMBEs.
4. Provide for technology transfer, production and management training and marketing assistance to BMBEs.
5. Provides trade and investment promotion to BMBEs.

Entrepreneurship in Small and Medium Industries

Entrepreneurs are engaged in either small or medium business. This is because basically the establishment of a business is dependent upon the amount of capital that you can put in and the number of employees that you hire. Many businesses started small and then moved on towards big business.

Small and medium scale businesses are important in the country because of the following reasons:

1. They help provide the supply of products to customers. For example, a family needs only a can of milk per week and this need is met by the nearby store in the community.
2. They help provide personal service. For example, you need a haircut. This service is provided by the neighborhood barber shop.
3. Small and medium-scale businesses serve as a means of earning money for an unemployed individual. For example, the service of Juan Dela Cruz, a factory worker, was terminated. From the separation pay he received, Mr. Juan Dela Cruz started a repair shop and earns in the process.
4. The small and medium-scale businesses also provide employment for other people. In our example under number three (3) Mr. Juan Dela Cruz also hired workers to help him in the process of providing repair services to his customers. Thus, unemployment in the country is reduced.
5. Small and medium scale entrepreneurs also pay taxes to the government, and such payment allows the government to provide services to the people. Some of these services are education, sanitation, peace and order, electricity, health, and others.

The small and medium entrepreneurs cannot be underestimated. Financially, they provide purchasing power to their workers; psychologically, they enjoy prestige and satisfaction because they own their businesses; and economically, they add to the supply and demand of goods and services.

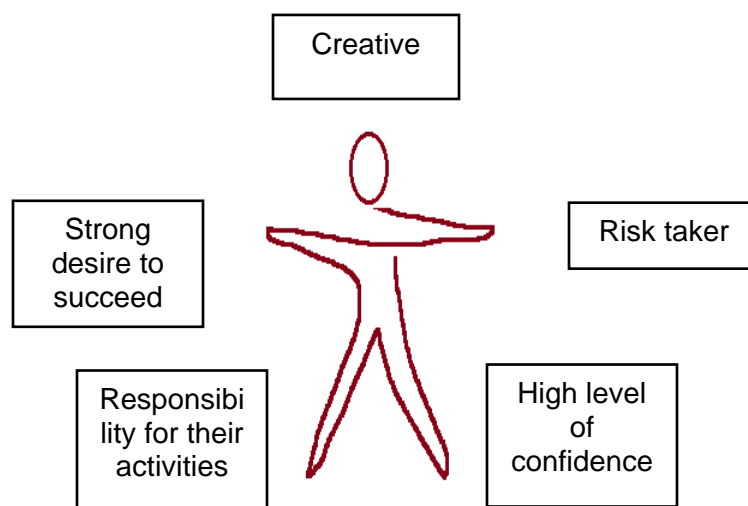
Entrepreneurs are found in practically every community. For example, the producer of rags sold along the busy city streets, the scissor makers in the provinces, the candle makers, vegetable growers and many others. These people boost the economy and make their country proud of their industriousness.

Words to Ponder: *Pursue your Dream! You can Do it!*

Entrepreneurial Competencies

Entrepreneurs are ambitious. They have a strong desire to succeed. They are motivated by their personal mission and vision. They are willing to do whatever it takes to succeed. They take risks and sometimes at a higher level than most other people. They are ready to take the road less travelled. They are confident they will succeed, if not now, maybe in some future time, but they keep on pursuing their desire to succeed. They have no one to answer to, they are their own bosses. The risk-taking quality of an entrepreneur is not the same as that of a gambler. The entrepreneur has a way of controlling the outcome. The outcome is not left to chance.

The characteristics of entrepreneurs are shown below:



**Figure 1.3 Entrepreneurial Competencies
(Banastao & Frias, 2022)**

1. They have a strong desire to succeed.
2. They are risk takers.
3. They are creative.
4. They take responsibility for their activities.
5. They have a high level of confidence.

The rewards of entrepreneurship are:

1. Money or material return or profit
2. Freedom
3. Psychological rewards

Profit generally comes in the form of money or cash. This is the material income or rewards from running a business. **Profit** is what is left after deducting the cost and expenses from the selling price of products and services. Thus, Selling price – Cost and expenses = Profit

The entrepreneur has **freedom** to do what he feels is fit in his business. The products may be those he bought for sale, those he bought and converted to other products or those services he renders to others. **Freedom** includes what product to sell, where to sell and when to sell. This is what is referred to as being one's own boss.

The third benefit of entrepreneurship is the **good feeling of being of service to others**. The entrepreneur is able to satisfy customers' needs, is able to give work or employment to others, is able to pay taxes to the government and is able to support the community. Observe how the cellphone has made communicating easy with your families and friends. Your parents, brothers and sisters may be working for an entrepreneur. The food for the family may have been produced by someone in the food business. Generally, the entrepreneur enjoys what he is doing. To most entrepreneurs, running their business is fun. They feel like they are always socializing with their customers, with their employees and with their business associates.

Prestige is also a good feeling. There is a sense of power, that of not being dependent on someone else for income. Such feeling gives rise to improved self-esteem and self-confidence.

Problems of Entrepreneurship

Just as there are benefits in entrepreneurship, there are also some problems. The problems of entrepreneurship are:

1. Entrepreneurship demands hard work.
2. Entrepreneurship demands long working hours.
3. Entrepreneurship may cause emotional stress.

The desire to succeed in terms of profit, satisfying customers' needs and sustaining the company makes the entrepreneur work harder than others who are employees. The entrepreneur may lose his capital, may lose his credit or may lose face if he is not able to make a profit or when he is not able to produce the needed cash. If capital and cash is not enough, he may keep on looking for sources of cash to fill in his need for money. He may lose face and may even be charged in court for bouncing checks. Some entrepreneurs end up going back to employment or becoming employees again. This is after experiencing both being an employee and being an entrepreneur again. Generally, employees stop thinking of their work - related problems when they leave their workplaces. Entrepreneurs think of their business wherever they go.

Real Life Situations Where Entrepreneurial Competencies Are Applied

Here are seven entrepreneurs who, in their own ways, have demonstrated the applications of entrepreneurial competencies:

1. The Entrepreneurial Machinist

He started as an apprentice in a machine shop at age sixteen. By age twenty, he produced tools and dies for large manufacturing companies. Then he concentrated on the production of umbrella parts and moved on to produce fly and mosquito nets when the demand for umbrella parts had gone down because of cheap imports.

2. The Entrepreneurial CPAs

A group of certified public accountants have been operating a CPA review school for the last twenty-five years. They are book authors, practitioners, college professors, CPA reviewers.

3. The Entrepreneurial Doctors

A group of doctors, most of them with their own specialization, invested money in, and for some actively run, a medical diagnostic laboratory catering to corporate and walk-in patients.

4. The Entrepreneurial Lady

She started her business printing materials and examination booklets for the next-door university. In time, her mimeographing business grew to a bookstore with a student canteen. After a few more years, she became a book publisher. She was able to set up big business schools in four campuses in Metro Manila, all run by her children. Meanwhile, she continues manning the original site, the bookstore/student canteen and today still writes her cash vouchers and bank checks longhand.

5. The Entrepreneurial Dermatologist

She has several cosmetic products patented in her name. To date her company continuously research for new products that are best suited for the Filipino skin. Her practice as dermatologist has been her priority even as she was attending to her cosmetic business where she heads the research and development department.

6. The Entrepreneurial MBA (Master in Business Administration)

He was a young college professor in an exclusive girls' school. That was soon after he graduated from one of the best MBA schools in Metro Manila. He put

up a specialty restaurant which was an instant success. His classmates, convinced of his track record of making things happen, were encouraged to make cash investments in his ventures.

7. The Entrepreneurial FrameMaker

He started a small shop laminating diplomas and certificates. Eventually, customers realized the disadvantages of lamination – that the document becomes yellowish after a while and laminated documents are blurred when photocopied. The customers opted to framing certificates. Moreover, framed cross stitch work became a fad, thus, our entrepreneur shifted business from wood lamination to the making of frames. His wife helps in doing cross stitch designs that they frame and sell. He also made arrangements with some schools to frame certificates of recognition/appreciation given to students or guests in seminars, hence his business is doing good.

Words to Ponder: *Character is what remain when a man is stripped of his fame and fortune.*

Entrepreneurial Qualities and Sel-assessment

Personal Entrepreneurial Characteristics (PECs)

In the Philippines, extensive research by the Small Enterprise Research and Development Foundation at the Department of Trade and Industry (DTI) reveals **10 Personal Entrepreneurial Characteristics (PECs)** that lead to success. These are grouped into what are called the Achievement Cluster, the Planning Cluster, and the Power Cluster.

Achievement Cluster

This pertains to the desire of the individual to fulfill or to realize something. This desire is strong to an entrepreneur who will not stop at any obstacle but take such obstacles as challenges. Hence, the following characteristics are dominant in him.

1. Opportunity Seeker

- a. Perceives and acts on new business opportunities.
- b. Seizes unusual opportunities to obtain financing, equipment, land, work, space, or assistance.

2. Persistent

- a. Take repeated or different actions to overcome obstacles.
- b. Makes sacrifices or expends extraordinary effort to complete a task.
- c. Sticks to own judgment in the face of opposition or disappointments.

3. Committed

- a. Accepts full responsibility for problems encountered.
- b. Helps own employees to get the job done.
- c. Seeks to satisfy the customers.

4. Risk-taker

- a. Takes moderate risks.
- b. Prefers situations involving moderate risks.

5. Values Efficiency and Quality Oriented

- a. Always strives to raise standards and aims for excellence.
- b. Strives to do things better, faster, and at a lower cost.

Planning Cluster

An entrepreneur is clear on what he wants to achieve. He plans his every move because he knows that eliminated resources will be used. To make sure that the resources (money, materials, machinery, etc.) are efficiently used, he makes his move tentatively on paper, hence, the plan. A **plan** is a blueprint of the project that he wants to establish. Such quality of an entrepreneur demands that he be a:

6. Goal-seeker

- a. Sets clear and specific short-term objectives.
- b. Sets clear and long-term goals.

7. Information- seeker

- a. Personally seek information on clients, suppliers, and competitors.
- b. Seeks experts to render business or technical advice.
- c. Uses contacts or information networks to obtain information.

8. Systematic in Planning and Monitoring

- a. Develops logical, step-by-step plans to reach goals.
- b. Look into alternatives.
- c. Monitors progress and switches to alternative strategies when necessary to achieve goals.

Power Cluster

Power does not mean bossing around. This means the power to lead; to convince people of your ideas; the power to make people believe in you; or the power to persuade others, especially those with negative perceptions. Therefore, an entrepreneur must:

9. Be persuasive and Good in Networking

- a. Uses deliberate strategies to influence or persuade others.

- b. Uses business and personal contacts to accomplish objectives.

10. Possess Strong Self-confidence

- a. Believe in self.
- b. Expresses confidence in own ability to complete a difficult task or to meet a challenge.

Other Factors to Consider

After studying the personal entrepreneurial characteristics (PECs), the entrepreneur determines those characteristics he already possesses, those where improvements are necessary and environmental factors. These are:

1. **Personal Interest.** The personal interest of the individual is a deciding factor in getting into business. His personal interest will drive him to engage into something that will give him satisfaction. If you look around, usually restaurant owners love to cook.
2. **Knowledge/Talents.** The skills or talents or knowledge of an individual serve as his best asset in venturing into something that will earn him an income. People who are good at computer technology eventually establish internet stations or internet cafes.
3. **Training/Work Experience.** The kind of training or experience of an individual influences his desire to go into business. Children of entrepreneurs eventually become entrepreneurs themselves. Those whose family was engaged in the manufacturing of, say, shoes, ultimately become shoe manufacturers themselves. In the same manner, those who have worked in a beauty salon for quite some time, sooner or later, put up their own salons.
4. **Government Support/Assistance Programs.** The goal of any government is economic development. This is done through investment, business, and employment. Thus, support is available in terms of technology, marketing, or training. So, check this out in your community.
5. **Rate of Growth of Business.** There is no profit in venturing into business where the rate of growth is negative. Check government and industry reports to have a glimpse of the future of the business you have in mind.
6. **Other Considerations.** Consider the rate of return of the capital you will put into the business. Would you earn higher returns by putting your money in the money market compared to the potential profits if you put up a business? Would you earn more in terms of salary as an employee compared to operating a business.

The Entrepreneurial Personality

Given the characteristics and other considerations in entrepreneurship, the list of entrepreneurial personality therefore can be lumped into three (3), namely:

1. **High need for achievement.** Here lies the strong desire of an individual to pursue his dream, a dream that could be long-range or immediate. His dream keeps on flashing in his mind until he makes a move for it to be realized.
2. **Strong belief that they can control their destiny.** William Jennings Bryan said, "Destiny is not a matter of change, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved." Indeed, it is!
3. **Risk-taker.** Risk is present in every activity, but it can be lessened. Business risk can be learned or avoided by careful planning, insurance, and being alert of what is happening around. Poultry farm pest, for example, can be avoided by vaccination or selling the entire herd in case of epidemic in a nearby farm.

Despite the risk involved in business, entrepreneurs establish their business because they prefer to be independent, to be personally responsible for solving business problems, setting goals and reaching goals through their own efforts. They prefer to take calculated risks. They usually are not likely to be contented in corporate or government employment.

Words to Ponder: *Great men all started from the first step.*

Textbook:

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