

ROHINI COLLEGE OF ENGINEERING AND TECHNOLOGY

DEPARTMENT OF BUSINESS ADMINISTRATION

VALUE ADDED COURSE

ENTREPRENEURSHIP LECTURE NOTES

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ENTREPRENEUR

An entrepreneur is a person who starts and/or invests in one or more enterprises, taking on the most of the risks and reaping the majority of the benefits. The term "entrepreneurship" refers to the act of starting a business. The entrepreneur is frequently viewed as an innovator, a source of novel concepts, products, services, and/or business models.

ORIGIN OF THE TERM:

- The word “entrepreneur” is derived from the French verb “entreprendre”.
- It means “to undertake”.
- The Frenchmen who organized and led military expeditions were referred to as “entrepreneurs”.

ENTREPRENEUR-THREE PIONEER DEFN.

Richard Cantillon: A person who purchases a raw material at a known price in order to sell it at an unknown price

Jean-Baptiste Say: People who could do new things, people who could do more with less, and people who would obtain more by doing something in a new or different way
(Innovator)

Joseph Alois Schumpeter: Adopted Say’s innovation concept and further postulated the exploitation of new opportunities

ENTREPRENEURSHIP

Entrepreneurship is the creation or extraction of economic value. With this definition, entrepreneurship is viewed as change, generally entailing risk beyond what is normally encountered in starting a business, which may include other values than simply economic ones.

Stalwart’s views:

Dr. Manmohan Singh said there was a need to build an environment in the country where creativity, entrepreneurship and enterprise are encouraged and rewarded.

Dr. A.P.J. Abdul Kalam said, "when the graduates come out of colleges there should be confidence, instead of seekers of employment, they should become employment generators“

Dr. Kalam also said that the students should be encouraged to cultivate an aptitude for entrepreneurship right from the beginning of schooling and at the University level.

Characteristics of an entrepreneur

Planning to be an entrepreneur

Growth pressures, managing a family business, and corporate intrapreneurship

Innovation

An innovation is more than an idea or an invention

It's the result of taking it to market.

Entrepreneurs V. Intrapreneurs

Entrepreneurs are people that notice opportunities and take the initiative to mobilize resources to make new goods and services.

Intrapreneurs also notice opportunities and take initiative to mobilize resources, however they work in large companies and contribute to the innovation of the firm.

Intrapreneurs often become entrepreneurs.

INTRAPRENEURSHIP

Learning organizations encourage intrapreneurship.

Organizations want to form:

Product Champions: people who take ownership of a product from concept to market.

Skunkworks: a group of intrapreneurs kept separate from the rest of the organization.

New Venture Division: allows a division to act as its own smaller company.

Rewards for Innovation: link innovation by workers to valued rewards.

Small Business Owners

Small business owners are people who own a major equity stake in a company with fewer than 500 employees.

In 1997 there were 22.56 million small business in the United States.

47% of people are employed by a small business.

Advantages of a Small Business

- Greater Opportunity to get rich through stock options
- Feel more important
- Feel more secure
- Comfort Level

Disadvantages of a Small Business

- Lower guaranteed pay
- Fewer benefits
- Expected to have many skills
- Too much cohesion
- Hard to move to a big company
- Large fluctuations in income possible

WHO ARE ENTREPRENEURS?

Common traits

- Original thinkers
- Risk takers
- Take responsibility for own actions
- Feel competent and capable
- Set high goals and enjoy working toward them
- Self employed parents Firstborns
- Between 30-50 years old
- Well educated – 80% have college degree and 1/3 have a graduate level degree

Successful and Unsuccessful Entrepreneurs:

Successful

- Creative and Innovative
- Position themselves in shifting or new markets
- Create new products
- Create new processes
- Create new delivery

Unsuccessful

- Poor Managers
- Low work ethic
- Inefficient
- Failure to plan and prepare
- Poor money managers

Characteristics of Entrepreneurs

- Key Personal Attributes
- Strong Managerial Competencies
- Successful Entrepreneurs
- Good Technical Skills

KEY PERSONAL ATTRIBUTES

Entrepreneurs are Made, Not Born!

- Many of these key attributes are developed early in life, with the family environment playing an important role
- Entrepreneurs tend to have had self-employed parents who tend to support and encourage independence, achievement, and responsibility
- Firstborns tend to have more entrepreneurial attributes because they receive more attention, have to forge their own way, thus creating higher self-confidence

Entrepreneurial Careers

The idea that entrepreneurial success leads to more entrepreneurial activity may explain why many entrepreneurs start multiple companies over the course of their career

Corridor Principle- Using one business to start or acquire others and then repeating the process

Serial Entrepreneurs- A person who founds and operates multiple companies during one career

Need for Achievement

- A person's desire either for excellence or to succeed in competitive situations
- High achievers take responsibility for attaining their goals, set moderately difficult goals, and want immediate feedback on their performance
- Success is measured in terms of what those efforts have accomplished
- McClelland's research

Desire for Independence

- Entrepreneurs often seek independence from others
- As a result, they generally aren't motivated to perform well in large, bureaucratic organizations
- Entrepreneurs have internal drive, are confident in their own abilities, and possess a great deal of self-respect

Self-Confidence

- Because of the high risks involved in running an entrepreneurial organization, having an "upbeat" and self-confident attitude is essential
- A successful track record leads to improved self-confidence and self-esteem
- Self-confidence enables that person to be optimistic in representing the firm to employees and customers alike

Technical Proficiency

Many entrepreneurs demonstrate strong technical skills, typically bringing some related experience to their business ventures. For example, successful car dealers usually have lots of

technical knowledge about selling and servicing automobiles before opening their dealerships
Especially important in the computer industry Not always necessary.

PLANNING

Business Plan – A step-by-step outline of how an entrepreneur or the owner of an enterprise expects to turn ideas into reality.

Questions To Keep In Mind

- ❖ What are my motivations for owning a business?
- ❖ Should I start or buy a business?
- ❖ What and where is the market for what I want to sell?
- ❖ How much will all this cost me?
- ❖ Should my company be domestic or global?

Motivations

Deciding what your motivations are will direct you toward what type of business fits you best.

Types:

- 1.Lifestyle Venture
- 2.Smaller Profit Venture
- 3.High Growth Venture

Lifestyle Venture

Small company that provides its owner independence, autonomy, and control.

- ❖ Is often run out of household
- ❖ Provides flexibility (hours, meeting places, attire)
- ❖ Aligns your personal interests and hobbies with your desire to make a profit.

Smaller Profit Venture

Small company not concentrated on pushing the envelope and growing inordinately large.

- ❖ Making millions of dollars not important.
- ❖ Content with making a decent living.
- ❖ Ex. Mom and Pop Stores

High Growth Ventures

- Goal is maximum profit and growth.
- Concentrated on pushing envelope and growing as large as possible.
- Focus on innovation

Start or Buy?

Start – cheapest, but very difficult-requires most planning/research

Buy – expensive – may be out or reach-requires less planning and research

Franchise (middle ground) – a business run by an individual (the franchisee) to whom a franchiser grants the right to market a certain good or service.

The Market???

Planning & Research essential

- Extensive market surveys (family, friends, neighbors...)
- Magazines and Polls offer some information on the market -Businessweek, Harris Poll

What about the cost?

- ❖ Plan realistically, not optimistically
- ❖ Don't overestimate your profits
- ❖ Don't underestimate your costs
- ❖ Sources of Funds
- ❖ Banks
- ❖ Venture Capitalists – filthy rich, high risk investors looking for a many-times-over yield

- ❖ Angels – seem to have altruistic motives and less stringent demands than venture capitalists

Domestic or Global?

- ❖ Drawbacks to Global – more research and less accessible connections in startup phase, more travel time required, more considerations.
- ❖ Advantages to Global – more human resources, more demand, more financing, easier to start global than go from domestic to global.

Entrepreneurship: Growth Pressures

Entrepreneurs often find that as their business grows, they feel more pressure to use formal methods to lead their organizations.

Although this formalization process may compromise some entrepreneurs spirit, it often leads to more focus, organization, and greater financial returns.

Basically, it's a movement from a "seat-of-the-pants" operation to a more structured, legitimate and recognizable business

Entrepreneurial and Formal Organizations differ in six business dimensions:

- ❖ Strategic orientation
- ❖ Commitment to opportunity
- ❖ Commitment to resources
- ❖ Control of resources
- ❖ Management structure
- ❖ Compensation policy

Entrepreneurship: Managing a Family Business

Six steps to help lead you to a successful Family Business:

- Clear job responsibilities
- Clear hiring criteria
- Clear plan for management transition
- Agreement on whether and when to sell business

- Commitment to resolving conflicts quickly
- Outside advisors are used to mediate conflicts.

Clarity is key.... but NO GUARANTEE.

Operational vs. Survival Issues....

Operational = Decisions about the economics of the business and how to balance that with rational and family obligation criteria.

THINK: Day-to-day grind.

Survival = Develop out of a lack of attention on the operational issues within the business.

THINK: Festering problems; ultimately compromise livelihood.

FAMILY FEUD:

Severed relationships

Divorce

Poor business performance

Low morale, motivation

Entrepreneurship: Corporate INTRA-preneurs

Intrapreneur = someone in an existing organization who turns new ideas into profitable realities.

Not every employee has the ability to become a successful intrapreneur. It takes well-developed strategic action, teamwork and communication abilities.

Organizations that redirect themselves through innovation have the following characteristics:

- Commitment from senior management
- Flexible organization design
- Autonomy of the venture team
- Competent/Talented people with entrepreneurial attitudes
- Incentives and rewards for risk taking

- Appropriately designed control system

In order to for this type of forward thinking to reap long-term benefits, top management must allow it to flourish in the day-to-day operations of the business....

This is known as “skunkworks”

Skunkworks = Islands of intrapreneurial activity within an organization.

REMEMBER: On the island, formal rules and policies of the organization often DO NOT apply.

Opportunity:

A situation that enables an entrepreneur to offer a marketable products or services to interested buyers or user.

Mechanism for identifying Opportunities

- Customers
- Retailers and distributors
- Business associates
- Bankers
- Consultant
- Employees
- Others

Approaches:

- Opportunity comes by the way
- Watch the environment and its changes
- Create the opportunity - Innovate
- Solve the problems

Evaluation:

- ❖ Has potential for profit and growth
- ❖ Less competition
- ❖ Good fit between entrepreneur and opportunity
- ❖ Has competitive advantage

- ❖ Workable efficient
- ❖ Not against norms or values of community
- ❖ Conform with laws and regulations

Watch the problems

- Economic problems (Chik shampoo)
- Social problems (Old aged parents of NRI)
- Legal problems
- Environmental problems (Alternate to plastics)
- Technological problems