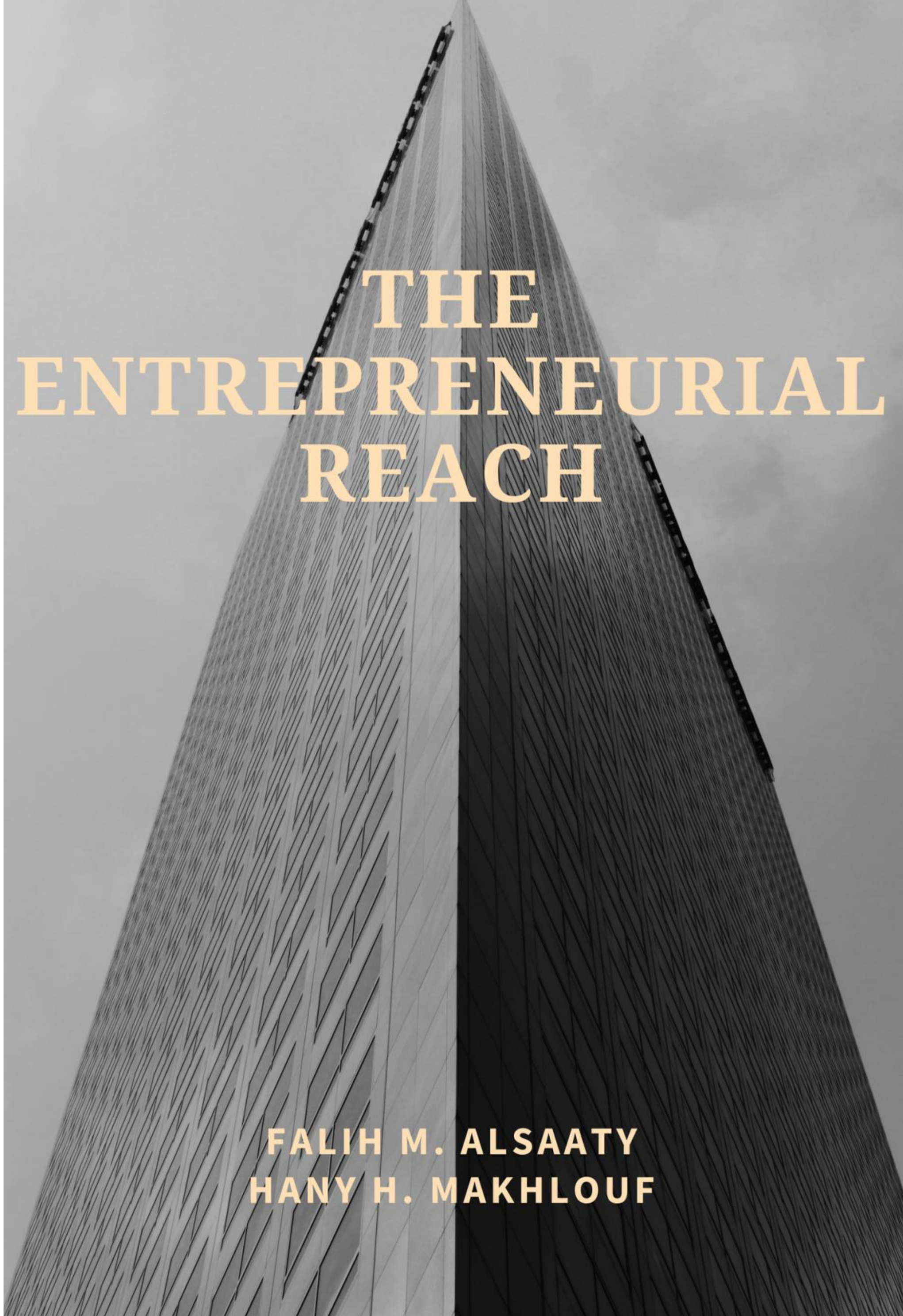

THE ENTREPRENEURIAL REACH

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The Entrepreneurial Reach

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Preface

The main theme of this book is that entrepreneurship has become a global phenomenon, having spread widely throughout the world, and is considered a major force behind economic prosperity, job growth, and wealth creation. Its close relationship with the introduction of innovative products, new business models, and production technologies has added to its mystique and broad appeal. In addition to the growing interest in business-oriented entrepreneurship, there has been a revival, in recent years, of interest in social entrepreneurship which aims at introducing radical innovative solutions to social and environmental problems that the free market and governments have failed to address or solve.

This book discusses the state of entrepreneurship from both the domestic and global perspectives. It also explores how entrepreneurial enterprises can establish and sustain a culture of innovation that would increase their competitive advantage and prospects for long-term survival and growth. The thesis in this presentation is that entrepreneurship and innovation are inseparable; and that small/ entrepreneurial firms often have an advantage over many large firms in innovating and introducing desirable changes.

Three chapters are devoted to introducing potential entrepreneurs to different kinds of entrepreneurship, mainly social entrepreneurship, e-entrepreneurship, and international entrepreneurship. This exposure makes it possible for them to choose from these alternatives in planning their new ventures. What these different types of entrepreneurship have in common is that they provide individuals - who have entrepreneurial spirit, zeal and skills- with an opportunity to introduce their innovative ideas, models, and technologies that would make a difference in the marketplace or in society at large.

An added contribution of this book is the appendices that present a step-by-step guide to planning new ventures, factors that are considered in seeking and getting bank loans as a part of the start-up capital, and export procedures and guidelines. These appendices are presented in a simple and clear manner in order to ease the concerns of those who have no prior experience in starting a business or in getting into the global market as exporters of goods and services.

Contents

Chapter 1.
Entrepreneurship in America: An Overview

Success seems to be connected with action.
Successful people keep moving, they make mistakes, but don't quit.
Conrad Hilton

Chapter objectives are to learn about:

- The meaning and importance of entrepreneurship
- Success of entrepreneurial firms
- Sustainable competitive advantage
- Business opportunities
- Characteristics of entrepreneur

Introduction

The United States is universally recognized as the land of opportunity, innovation, and entrepreneurship[1]. This recognition reflects the success record of entrepreneurial ventures, and the role they play as engines of economic progress and social change. As creators of new ventures that grew into formidable enterprises, many American entrepreneurs have been elevated to a position of prominence in the annals of economic and business history. The list of such entrepreneurs is impressive and quite long. It includes such pioneers as Henry Ford, Andrew Carnegie, Milton Hershey, Cornelius Vanderbilt, James Hill (the builder of the Great Northern Railroad), George Eastman (founder of Kodak), William Edward Boeing, John Willard Marriott, Richard "Dick" McDonald and Maurice "Mac" McDonald, Walt Disney, John J. Raskob (the builder of the Empire State Building), and John Pierpont Morgan as well as more contemporary inspiring leaders like Howard Schultz (president of Starbucks), Steve Jobs (1955-2011) the co-founder and for many years inspiring president of Apple Corporation, Bill Gates (the founder of Microsoft), Jeff Bezos (founder of Amazon.com), and Chuck Dell (founder of the Dell Computer Company). The entrepreneurial spirit that those business leaders symbolize will continue to motivate and energize

[1] In this book, the terms "firm", "company", "organization", "establishment", "business venture", and "business enterprise" are used interchangeably.

thousands of new and potential venture creators for a long time to come.

From an entrepreneurial perspective, business opportunities in the United States are abound, thanks primarily to the creative skills of its people and the sheer size of its market, which is the world's largest. The United States gross domestic product (GDP) reached $14.2 trillion in 2008, or about 20 percent of the world's total. Looking at an economy of this size, and a population of more than 300 million, enjoying one of the highest per capita incomes in the world, many entrepreneurs launch new ventures every day, with the vision, intent and determination to make them succeed and grow. Such vision and entrepreneurial spirit are responsible for the establishment of more than 1,700 business firms in the American market every day of the year. Those entrepreneurial ventures have made the small business sector the largest source of employment, income, and wealth creation.

Although the entrepreneurial spirit is an important factor in the creation of new ventures, the survival and growth of such ventures in the United States has depended, in large measure, on a range of internal and external conditions, including:

- Supportive public policies,
- A vibrant free market economy,
- Political stability,
- Business- friendly legal environment,
- Trade and investment agreements with other countries,
- Government programs that assist in launching and financing new small business ventures,
- Willingness of entrepreneurs to take risk,
- Continued introduction of innovative products that meet consumer expectations,
- Creative strategies for market expansion,
- Availability of well educated and skilled labor force, and
- Financial institutions and venture capitalists who are willing to support new venture creation and expansion.

These conditions explain why the small business sector has come to occupy such prominent position in the American economy. They also inspire other countries and their policy makers as they try to strengthen and expand their small business sectors and encourage growth in entrepreneurship. There is no doubt that the policies and programs that have proven to be successful in supporting entrepreneurship in the United States have become a model for other countries to emulate.

Defining Entrepreneurship

What is entrepreneurship? This term was coined by an eighteenth- century French/Irish economist, Richard Cantillon. It has since acquired different meanings, expressed by economists, social scientists, and business theorists, such as Joseph Schumpeter who described it as the "creative destruction" of an old order and the creation of a superior one, and Peter Drucker who closely associated it with gathering and redirecting resources toward progressive opportunities, as will be further discussed in Chapter 2.

Many business commentators define entrepreneurship as an endeavor as well as a body of knowledge. As an endeavor, it stands for the establishment and management of new ventures, typically small sized organizations with less than 100 employees. As a body of knowledge, it is viewed as a set of concepts, principles, theories, techniques, and analyses that emphasize the development, practices, and trends in entrepreneurial activities. In this sense, entrepreneurship can be taught and learned. This learning process, however, is still evolving and expanding, and is being built around a number of disciplines, especially economics, finance, management, and marketing.

Why Study Entrepreneurship

Studying any discipline is a daunting task. It consumes time and costs money. This is also true for entrepreneurship. Because entrepreneurship plays a crucial role in the American economy, it is worthwhile for prospective entrepreneurs to:

- Know what it takes to become a successful entrepreneur;
- Become acquainted with sources of capital and financing options;
- Learn about managing organizational resources;
- Understand competition and market characteristics;
- Be acquainted with entrepreneurial business strategies;
- Recognize market opportunities;
- Learn how to take a business venture public.
- Become familiar with legal forms of organizations; and
- Be able to attain sustainable competitive advantage for the venture.

Characteristics of Entrepreneurs

Do entrepreneurs possess unique characteristics, and what does it take to become an entrepreneur? Are they the independent thinkers who can't work with others? Are they the kind of irresponsible risk takers and gamblers who would pursue unrealistic dreams through venture creation and the aspiration to build empires? These questions have occupied a central stage in the effort to understand the entrepreneurial mind and personality.

There two major schools of thoughts about whether or not entrepreneurs are different from average individuals. The proponents of the first school believe that entrepreneurs are as diverse in terms of their personal attributes as the rest of the people in society. Hence, they are a heterogonous group of people. Low & MacMillan (1988), for example, point out that "entrepreneurs do not significantly differ from managers or even the general population".

On the other hand, the second school of thought contends that entrepreneurs are a class of people who possess distinct personal characteristics that are not shared by other individuals and groups in the society at large. Kuriloff & Hemphill (1988), who subscribe to this school, identified several common entrepreneurial characteristics, including:

- Commitment to the task;
- Risk-taking propensity;
- Readiness to seize opportunities;
- Objectivity;
- Optimism in novel situations;
- Respect for money;
- Thinking like an achiever;
- Adopting the language of achievement; and
- Planning for achievement.

Moreover, Farrell (2001), who also attributes different qualities to entrepreneurs, pointed out that the world's great entrepreneurs are characterized by four fundamental qualities, namely:

- Sense of mission;
- Customer/product vision;
- High speed innovation; and
- Self-inspired behavior.

Entrepreneurial Ventures and the Economy

The eminence of small and entrepreneurial ventures is reflected in their number and growth record. Of over 25 million firms operating in the United States in 2004, 19.5 million were small non-employer businesses, and of the remaining 5.8 million employers with payroll, about 5.8 million, or 98 per cent, were also classified as small businesses because they had less than 100 employees. Moreover, between the years 2000 and 2004, the number of small firms with less than 100 employees increased by 231, 000, or 4.2 percent, as Table 1 indicates.

Table 1. *American Employers/Firms by Size of Labor Force, 2000-2004 (In thousands)*

	Number of Firms*				
Size	2000	2001	2002	2003	2004
Under 20 employees	5,035	5,037	5,091	5,149	5,256
20 to 99 employees	516	518	508	515	526
100 to 499 employees	84	85	82	85	87
500 and more employees	17	17	17	17	17
Total Firms	5,652	5,657	5,698	5,766	5,886

Source: U.S. Census Bureau, *Statistical Abstract of the United States*, 2008, p.498.
Note: * Totals may not add up due to rounding.

Small firms, as is the case with the rest of the private sector, contribute to all facets of life in the United States, including employment, incomes, products, technological advances, community development, and tax revenues. As Table 2 shows, businesses with less than 100 workers employed about 63 million individuals, or about 55 percent, of total employment in the private sector in 2004. Those establishments' annual payroll amounted to $2,050 billion, or 48 percent of total annual payroll in the private sector.

Without a doubt, the role (and contributions) of small firms to the national economy will accelerate in the future as entrepreneurs continue to create new ventures to introduce their innovative products and services; and as opportunities for new business grow due to:

- Continued increase in population
- Increased sophistication of consumers who are eager to buy new products that fit their life styles
- Rising purchasing power both at home and abroad
- Accelerated pace of technological advances that create opportunities for innovation and change in the marketplace
- Less restrictive trade policies and procedures
- Easier movement of factors of production
- Modernization of infrastructure and product distribution systems that make easier to do business
- Continued expansion and improvement in communication and information systems

Table 2. *Business Establishments by Total Employment in the United States, 2000-2004 (In thousands)*

	Number of Employees*				
Employment	2000	2001	2002	2003	2004
Under 20 employees	27,569	27,681	28,116	28,313	28,701
20 to 99 employees	33,147	33,555	33,335	33,760	34,288
100 to 499 employees	29,736	29,692	28,101	28,549	28,976
500 and more employees	23,613	24,133	22,848	22,776	23,110
Total Employees	114,065	115,061	112,401	113,398	115,075

Source: U.S. Census Bureau, *Statistical Abstract of the United States*, 2008, p.496.
Note: * Totals may not add up due to rounding.

Attributes of Entrepreneurial Firms

The great majority of businesses in the United States start as small enterprises. Some are started by entrepreneurs as home-based businesses. Resource constraints are frequently a major part of the challenges those firms face in their formative years. Some struggle for years to overcome such challenges. Aside from the resource shortage challenge, start-up firms tend to:

- Have local focus. The market domain of the firms is often local or regional to the exclusion of national and international markets.
- Engage in limited promotional activities. Entrepreneurial firms frequently don't allocate sufficient attention and resources for sales and other promotional activities.
- Have short-term orientation. Entrepreneurial firms frequently fail to develop comprehensive strategies and long-term goals that give them direction.
- Use defensive tactics in order to avoid direct competition with bigger and resource-rich firms.

Identification of Opportunities

Opportunities are situations, which make it possible for an individual or an organization to exploit something of value, e.g. unmet needs in the market place or new discoveries or technologies, for the purpose of realizing some profits or attaining other rewards. Entrepreneurs are always in search of new financially rewarding opportunities that come about because of changes in the economic, social, technological, cultural, or global environments. They may also create their own opportunities, thanks to their vision as well as their creativity, innovative abilities and skills, curiosity, and the desire to explore the unknown.

Alertness to business opportunities is, therefore, a trait of successful entrepreneurs. It is the first step in the entrepreneurial process. Alertness enables an entrepreneur to experiment, explore, and eventually recognize attractive opportunities ahead of others. Such ability may be supplemented and enriched by a search process involving trusted individuals and published information that can be obtained from:

- Business Magazines and other library resources
- Newspapers
- Publications by governmental departments and agencies (e.g., Department of Commerce, United States Agency for International Development)
- Trade association reports
- Angel Investors and venture capitalists
- Foreign trade publications (e.g. Japan Electronic Products Importers Association, U.K. Builders Merchants Federation)
- Other companies' Websites
- Business seminars, workshops, and conferences
- Census and population reports
- Personal knowledge/experience
- Market studies and research

The Internet, with the help of a search engine such as Google, is also a growingly important tool for obtaining information about business opportunities in the American as well as the global market. It gives access to infinite sources of product and market information.

Bird's Eye View of Opportunities

This section presents specific examples of methodical approaches to identify opportunities. One involves the use of the North American Industry Classification System (NAICS). A review of such a system makes it possible to learn the magnitude of spending associated with each component. The NAICS is a statistical system designed for data gathering and reporting. It classifies all economic activities into five main categories: (1) sectors, (2) subsectors, (3) industry group, (4) industry, and (5) individual business activities. This system, moreover, classifies the sectors into twenty major categories. The Department of Commerce publishes detailed annual and quarterly statistical data about each economic sector. The data are accessible to the public. By examining the data for a period of time, say for ten years, one can identify trends for a specific industry of interest or a line of business, and then assess its future prospects.

As Table 4 shows, the fastest growing sector from 2000 to 2006 was mining, which jumped by 111%, followed by educational services (56%) and health care & social assistance (52%). During the same period, GDP increased by 35% in current prices. Each of these sectors is classified into subsectors. For example, the manufacturing sector is classified into durable goods and nondurable goods, which, in turn, are classified into individual industries such as wood products, primary metals, paper products, chemical products, as well as food, beverage, and tobacco.

Table 4. *Gross Domestic Product (GDP) in Current Dollars (NAICS Classification, in billions of dollars, 2000 and 2006)*

Economic Sector	2000	2006	% increase
Forestry, fishing, hunting, agricultural support	98	122	24
Mining	121	256	111
Utilities	189	263	39
Construction	436	648	49
Manufacturing	1,426	1,601	12
Wholesale Trade	592	789	33
Retail Trade	662	863	30
Transportation & Warehousing	302	364	21
Information	458	579	26
Finance & Insurance	741	1,028	39
Real Estate & Rental & Leasing	1,191	1,731	45
Professional, Scientific, & Technical Service	675	930	38
Management of Companies & Enterprises	183	239	31
Administrative & Support & Waste Management & Remodeling Service	282	396	40
Educational Services	79	123	56
Health Care & Social Assistance	599	912	52
Art, Entertainment & Recreation	89	122	37
Accommodation & Food Services	261	350	34
Other Services	229	296	29
Government (federal and stage)	1,203	1,636	36
Total GDP	**9,817**	**13,247**	**35**

Source: U. S. Census Bureau, Statistical Abstract of the United States, 2008, p.431.

A simplified version of business opportunities in the United States was shown in the Business Opportunities Handbook magazine in its May 2008 issue. In this version, opportunities were grouped into 69 categories (Table 5). As can be seen, the Table presents key sectors of the economy in an organized manner beginning with Accounting and Tax Services and ending with miscellaneous products and services. A review of the Table can help a prospective entrepreneur to identify the sector of interest, as an initial step that paves the way for gathering and analyzing additional information about the sector under consideration. Clearly, it is unwise, and could be very costly, to jump on an opportunity that might appear to be attractive without careful assessment and analysis.

Table 5. *Simplified Presentation of Business Opportunities in the United States*

Accounting/Tax Services Advertising/Direct mail Art Supplies/Frames Auto/Truck/Rentals Automotive Products and Services Beauty Salons/Supplies/Tanning Books/Publications Business Aids & Services Children's Products & Education Clothing/Shoes/Accessories Computer Sales and Services Concrete Services Construction & Remodeling Dating Services Dry Cleaning/Laundries Educational Products & Services Embroidery products and Services Employment/Personnel Services Energy products & Services Environmental Product & Services Financial Services Fire Protection Florists/Plants	Foods-Bakery/breads/Donuts Foods-Beverages/Coffee/Tea/Wine Foods-grocery/Specialty Stores Foods-Ice cream/Yogurt/Candy Foods-Pizza Foods-Restaurants/Carry out Foods-Mexican, Mediterranean, etc. General Merchandising Gift Items Greeting Cards/Stationary Health/Nutrition/Fitness Home Furnishing Home Inspection Services House ware/kitchen Items Insurance Internet services Jewelry Lawn & Garden Supplies/Services Maid services Medical Billing Motels/Hotels Moving Services/Storage Medical Instruments/Services	Musical Instruments/Services Optical Centers Party Goods Personalized products & Services Pet Centers/Supplies Photo Supplies/Services Printing & Copying Services Real Estate services Recreational & Entertainment Recycling Services Rentals/Equipment Rentals Retailing – not Elsewhere classified Security Services/Systems Senior Care/Services Sports Equipment & Accessories Telecommunication Products & Services Tools/Hardware Travel Services Vending Video & Audio Products & Services Water Treatment & Conditioning Miscellaneous products & services (e.g., Consulting, Wildlife Management)

Source: Business Opportunities Handbook, May (2008).

The Rise and Fall of Business Firms

As mentioned earlier, thousands of small firms are created in the United States every day. This is important because new firms invigorate the market by introducing new products, business models, production technologies, and previously unknown distribution systems. They create new jobs and increase total output of goods and services. However, thousands of those new firms find it difficult to survive, and are forced out of the market in a survival of the fittest market realities. As Table 6 indicates, 628, 900 firms were founded in 2003/2004, while 541,000 firms went out of business during that same time period. These figures indicate a net gain in the number of surviving firms that may eventually grow into formidable and highly competitive business and industrial enterprises.

The lessons that can be drawn from the information presented in Table 6 are: (i) the creation of business ventures carries with it varying levels of risk that can influence their survival, (ii) business ideas about new ventures must be thoroughly evaluated prior to translating them into reality, and (iii) the ventures themselves, after their creation, must be run efficiently if they are to have a reasonable chance of survival.

Table 6. *Firm Births and Deaths in the United States, 2000-2004 (In thousands)*

	2000-2001	2001-2002	2002-2003	2003-2004
Births*				
Less than 20 employees	558.0	541.5	585.6	601.9
Less than 500 employees	584.8	568.3	612.0	628.7
500 employees or more	0.3	1.5	0.3	0.3
Total Births	585.1	569.8	612.3	628.9
Deaths*				
Less than 20 employees	524.0	557.1	514.6	515.0
Less than 500 employees	552.8	586.5	540.3	540.7
500 employees or more	.05	0.4	0.3	0.3
Total Deaths	553.3	586.9	540.7	541.0
Net, total births minus total deaths	31.5	(17.1)	71.6	87.9

Source: U.S. Census Bureau, *Statistical Abstract of the United States,* 2008, p.498.
Note: * Totals may not add up due to rounding.

Why Entrepreneurial Firms Fail

Entrepreneurial firms come to the marketplace with different missions, visions, products, technologies, leadership, management teams, and financial capabilities. Some of them possess the necessary resources and abilities needed for success, while others do not. The high failure rate, indicated in Table 6, can be attributed to a multiplicity of factors including, but not limited to:

- ✓ **Lack of Vision**. The establishment of a business requires a clear vision on the part of the entrepreneur who must be crystal clear in regard to the venture's purpose, mission, direction, and proper place within the industry. Lack of vision can jeopardize the success of the venture and lead to its demise.
- ✓ **Poor Choice of products/Services**. As mentioned earlier, today's consumers are far more sophisticated than past generations. They have expectations in regard to product value, quality, style, reliability, and convenience, among many other factors that make them prefer one brand over all others. As a result, business success has invariably become dependent on consumer satisfaction, especially in this globalized and highly competitive marketplace.
- ✓ **Failure to Use the Latest Technological Innovations**. Studies have shown that entrepreneurial firms that lag behind others in taking advantage of the latest technological advances are more likely to operate less efficiently than the competition. This would eventually be reflected in the bottom line.
- ✓ **Lack of Leadership and Management Skills**. Entrepreneurs may have the ability to introduce innovative products or services, but they may not always succeed as team builders and leaders. They may not have the required leadership and management skills, particularly when they establish their first venture.
- ✓ **Inadequate Capitalization**. The availability of sufficient funds for day-to-day operations and for business expansion is essential. Yet, it is may be difficult for entrepreneurs to raise sufficient capital or find the right partners who may play a role in obtaining sufficient funding.
- ✓ **Inability to Attract Experienced Team Members**. Attracting and retaining talented and experienced entrepreneurial team members is, sometimes, a challenge to small firms, particularly start-ups that face uncertainties and higher than average risk.
- ✓ **Inability to Compete**. The competitive environment may be too challenging to allow the firm to compete successfully with better established companies.
- ✓ **Poor Macroeconomic Conditions**. Recessions, inflation, deflation, high rate of unemployment, and stifling government regulations can impact entrepreneurial companies negatively, and possibly lead to failure.
- ✓ **Low Cash Flow**. This may be a product of law sale volume, low collection, poorly designed system, jor declining conditions.

- ✓ **Unrealistic Pricing Policy**. Entrepreneurial firms can get in trouble of over pricing as well as low pricing of the products or services provided.
- ✓ **Taking excessive/foolish risk**. Successful entrepreneurs carefully weigh the risks associated with their decision. They only take prudent or moderate risk.

Sustainable Competitive Advantage

Success in the marketplace requires business firms to own more than just assets. The availability of assets is a necessary, but assets by themselves fo not guarantee long-term success. To achieve success, the business enterprise must be able to possess resources and combine them in such a way as to achieve sustainable competitive advantage. A company's vital resources include tangible assets (e.g., capital, equipment), intangible assets (e.g., brand name, company reputation), and capabilities (e.g., skills, knowledge).

Now, what is sustainable competitive advantage? How can it be reached? Let's begin first by explaining the meaning of competitive advantage. Competitive advantage is a situation whereby a firm possesses an edge, or a lead, over other competing firms that operate in the same line of business and target the same group of customers. The availability o the right kind of resources, combined with the managerial know how that is needed to for the organization and mobilization of such resources in an efficient and effective manner, are the foundations of a firm's competitive advantage.

Sustainable competitive advantage, on the other hand, is a situation whereby the firm's advantage over rival firms is consistent and is expected to last for a long period of time. This is believed to be the case when a firm possesses such superior capabilities, products, and resource base that place it so far ahead of the competition. Specifically, such superiority could be a reflection of the firm's:

- Managerial, technical, marketing, sales, and financial skills
- Product/service quality and reliability
- Record of, and commitment to, continuous improvement
- State-of-the-art equipment
- Superior production (or work flow) systems and procedures
- R&D and innovative ability
- Distinctive trademark, brand name, and reputation
- Good product design and durability
- Cost advantage

- Competitive pricing strategy
- Employee motivation and commitment
- Investment in employee training and development
- Dynamic organizational culture
- Appropriate organizational structure
- Personnel policies that are both process and people oriented
- Realistic growth strategies
- Effective control processes and procedures

Of the approaches developed to help in attaining sustainable competitive advantage, two are particularly appropriate for small business enterprises. The first, the Industrial Organization (I/O) View, focuses on environmental forces, such as competition and the health of the economy, which are considered most influential in determining the firm's performance. Several factors are used to measure performance. They include profitability, market share, return on investment. The second approach is called the Resource-Based View (RBV). It focuses on the firm's resources as determinants of its performance level. Although these approaches differ in defining what it takes to attain sustainable competitive advantage, they are in fact complementary since one emphasizes environmental/external factors, and the other internal resources, systems, and capabilities.

Examples of Growing Companies

Of the large number of entrepreneurial companies that are created daily in the United States, some grow steadily and become great success stories, while others either stagnated or don't manage to survive beyond their first five years. To celebrate the high growth of small companies, Bloomberg Business Week listed the top fifty in its June 2008 issue. The leading ten in terms of gross sales and profits are listed in Table 7. A major reason behind those companies' growth record is their ability to adopt strategies that allowed them to acquire and deploy needed resources and strategic building blocks of success, including:

1. Exceptional managerial leadership;
2. Dedicated and skillful labor force;
3. Progressive culture that gives priority to systematic improvement;
4. Staying ahead of the others in exploiting new market opportunities;
5. Remaining customer-focused; and

6. Selecting the line business that promises future success in a dynamic marketplace.

Table 7. *High Growth Small Companies*

Company Name	Last 12 Months Sales ($ million)	Last 12 months Profit ($ million)
Hansen Natural	951	158
Lululemon Athletica	275	31
Graham	84	14
North American Galvanizing	86	10
Bolt Technology	65	14
VSE	721	15
Strayer Education	335	70
Caraco Pharmaceutical	191	33
XenoPort	112	24
Gymboree	921	80

Source: Foust, Dean (June 2008), Hot Growth Companies, *BusinessWeek*, p. 050.

Entrepreneurial Responsibilities

Suppose you are a prospective entrepreneur, what would be your responsibilities after you have established your own company? One can identify at least five areas of entrepreneurial responsibilities: (1) ownership responsibility, (2) employer responsibility, (3) borrower responsibility, (4) product/service provider responsibility, and (5) legal and social responsibility. These responsibilities are interrelated and interdependent. Following is a brief explanation of each:

1. ***Ownership responsibility.*** This responsibility refers to the entrepreneur's moral obligation for the success and growth of the business enterprise. It is the responsibility to allocate resources among alternative uses wisely, and the achievement of sustainable competitive advantage. This is a fundamental responsibility of a rational business person who seeks survival and expansion for his/her business enterprise. Meeting this responsibility requires vision, commitment, hard work, and planning. The creation of a business venture is a serious matter and should not be taken lightly.
2. ***Employer responsibility.*** This is the responsibility towards the employees (human capital), As employees have the obligation to fulfill their responsibilities in an efficient and effective manner, the entrepreneur has the responsibility to recognize employee contributions, facilitate their professional development, and create an environment and a reward system that are conducive to both productivity improvement and job satisfaction. A business firm would be in a better position to

reach its goals and objectives if owners and employees understand their respective rights and fulfill their obligations.

3. ***Borrower responsibility.*** Most entrepreneurs borrow at least a part of the capital required for starting or expanding their businesses. Quite often, they also rely on supplier credit in their production and marketing operations. As is the case with other lenders, vendors expect timely payment. Some of the more successful ventures eventually go public, through an initial public offering (IPO), in order to generate additional capital and, in the meantime, enable outside investors to buy stocks. It is clear, therefore, that lenders and investors have a stake in the success of the ventures in which they have put their money, and the entrepreneurs have the obligation to manage their ventures' financial resources wisely and efficiently. This obligation also means assuming calculated and prudent risks, and avoiding foolish risk-taking in the decisions made, particularly for growth purposes. In these and other situations, sensible business people must meet their financial obligations toward those who made the business ventures financially possible and viable.
4. ***Product/service provider responsibility.*** An important aim of entrepreneurial activities is to provide innovative but safe and reliable products and/or services that meet customers' needs and expectations. Customers must feel that they are getting what they have been promised in terms of product functions, value, and other advertised benefits. Entrepreneurs, therefore, have the responsibility to offer enough product and conditions of sale information to make it possible for their customers to make the right purchasing decisions.
5. ***Legal and Social responsibility.*** Providers/producers of goods and services are obligated to respect all relevant laws and regulations. They are also expected to make ethical and socially responsible decisions in a wide range of areas, including those that relate to the environment as well as public and employee health and safety. The consequences of non-compliance with the law and unethical behavior are costly to the business and its managers, and can threaten its existence.

Reasons for Becoming an Entrepreneur

A large number of people in the Unites States and elsewhere dream about starting their own businesses. Some eventually realize their dreams, while others never take the necessary steps to become business owners. Of the questions that are often repeated in the effort to learn about the motivation to become an entrepreneur is the one that tries to associate entrepreneurship with the desire for independence and for becoming one's own boss. The literature, however, reveals many motivating and contributing factor, such as the following:

- ✓ Prestige. Business ownership carries with it prestige and a feeling of pride in one's achievement as a founder of a new business entity.
- ✓ Influence. Entrepreneurs can exercise influence especially over employees and suppliers. Some influential entrepreneurs can even influence the society at large and the consumers' quality of life. Successful entrepreneurs can as well influence government actions and public policy making.
- ✓ Self-actualization. Entrepreneurship provides an opportunity for self-actualization. It serves as an avenue for the realization of their potential and the use more of their abilities.
- ✓ Family influence. Some individuals follow the paths of their parents and other members of the family who have established successful business ventures.
- ✓ Financial independence. Successful entrepreneurship career can lead to financial independence. It can also lead to wealth creation and accumulation.
- ✓ Personal traits. Some individuals feel that they are born to lead, and not to be led. Such individuals are mentally programmed not to accept orders, instructions, or directives from others. On the other hand, they derive enormous satisfaction and self-respect by being business owners and instructing employees as what ought to be done.
- ✓ Cultural orientation. The free enterprise culture encourages individuals to value business creation as a career. In this culture, successful entrepreneurs assume special status.
- ✓ Meeting a challenge. Some prospective entrepreneurs enjoy the challenge of venturing into new activities, facing new challenges, assuming new risks, and solving novel problems.
- ✓ Need to commercialize an invention. Many new ventures are created by inventors who prefer to introduce their own inventions and/ or innovative business concepts/models over selling them to other businesses, or giving others licenses to bring them to the marketplace.
- ✓ Availability of a partner. Some individuals are encouraged to start their own businesses if they manage to identify a partner who is willing to share in the financing and management of the new venture. Partners can also provide support and encouragement.

- ✓ Easy access to capital. The availability of funds acts as a motivator for the establishment of business ventures.
- ✓ Benefiting society. Some entrepreneurs see the value of starting new ventures that can solve some social problems or have some special benefit to society, e.g. ventures that create job opportunities for ex-offenders.

Competing with the Vultures

Competition among business firms has greatly intensified in recent years. What makes it difficult to compete nowadays is the rapid spread of globalization, that is, the movement of goods, services, technology, investment, and people across national borders. In addition, increasing numbers of countries, including Canada, China, and Mexico, have become major trading partners of the United States, whose products and services are sold in the domestic market. Furthermore, the U.S. economy has become more interdependent as a result of growing economic ties with the rest of the world. To illustrate U.S. involvement in globalization, Table 8 shows the country's merchandise trade with top ten trading partners in 2009.

Table 8. *U.S Merchandise Trade with Major Trading Partners, 2009 (In $ billions)*

Country	U.S. Exports	U.S. Imports	Trade Balance
Canada	204.7	224.9	-26.2
China	69.6	296.4	- 226.8
Mexico	129.0	176.5	- 47.5
Japan	51.2	95,5	-44.7
Germany	43.3	71.3	- 28.0
United Kingdom	45.7	47.5	- 1.8
South Korea	28.6	39.2	- 10.6
France	26.5	34.0	- 7.5
Netherlands	32.2	16.1	+16.2
Taiwan	18.4	28.4	- 10.0

Source: U.S. Census Bureau, 2009.

A few observations are in order about Table 8. First, Canada was the largest trading partner of the United States in 2009, with total trade -- exports and imports -- of $429.6 billion, followed by China ($366.0 billion) and Mexico ($305.5 billion). Second, The U.S. had a trade deficit (i.e., imports exceeded exports) with all except one of its top ten trading partners in the year under consideration. As a matter of fact, the country has been experiencing chronic trade deficit for a long period of time. Third, the sheer magnitude of trade relations with other nations is a clear indication of international business opportunities available for entrepreneurial companies, in both exports and imports sectors. Fourth, the magnitude of the country's imports of goods and services reflects the intensity of foreign competition in the U.S. market. This means that foreign firms, like U.S. firms, are vying for a greater share of consumers' spending. This fact makes it imperative for entrepreneurial firms to constantly seek competitive advantage.

So, how can a fledgling entrepreneurial firm compete with a larger and stronger firm (the vultures as they are often called)? This is a daunting task as evidenced by the exceptionally high rate of company failures. It could be within the reach of would-be entrepreneurs to compete if common sense is followed in setting-up and administering the business enterprise. The following steps indicate what should be done for: (A) exploring opportunities, and (B) assessing resource needs. They help potential entrepreneurs avoid making poor choices in selecting unattractive industries or business ventures:

To start on the right foot, accordingly, a potential entrepreneur should:

1. Generate at least three realistic business ideas;
2. Become familiar with the ins and outs of each of the identified lines. Successful ventures are typically founded by individuals who have invested enough time in studying the business and market before making any decisions or commitments. Market study should focus on historical and recent developments in demand for the products/services being considered, sources of supply, market conditions, competitors, prices, etc.
3. Make a list of factors that can help in the analysis and evaluation of the alternatives that are being considered. Such a list should include:
   a. Initial start-up costs such as licensing and legal fees, facilities set-up expenses, rent, etc.
   b. Projected expenses for two years of operations. These should include the cost of doing business such wages, salaries, rent, insurance, the purchase of supplies, marketing, and the like.
   c. Total capital needed for each venture during the initial two years of operations, and the amount and cost of funds to be borrowed.
   d. Projected revenues for the first two years of operations. Revenue and cost figures will be the building blocks for preparing pro-forma income and loss statements as well as the balance sheets

e. Attractiveness of the industry. Industry attractiveness is measured by such variables as profitability, growth potential, intensity of competition, and availability and cost of skilled personnel. The greater the attractiveness, the higher the probability of success.
f. Projected demand for the product/service in the short, intermediate and long terms.
g. Relative ease of managing the business venture, especially in terms of labor relations, customer relations, and legal requirements.
h. Probable pace of future expansion. How fast can the venture grow?
i. Probability of attracting investors and/ or going public. Would outside investors be willing to invest in the venture, say, in a year or two from the time of establishment? What is the probability of the venture going public by selling its stocks to investors?

4. Select the most promising alternative.
5. Develop a business plan for the venture selected in order to: (i) convince potential investors and lenders about the viability of the venture, (ii) serve as a road map for the organizational steps to be taken, and (iii) reflect the legal structure, the size and sources of capital and other needed resources (Please see Appendix I for additional details).

Strategic Business Issues

In a competitive environment, decisions to deal with strategic challenges should be given the highest priority and maximum attention by the entrepreneur. While day-to-day recurring issues must be decided upon properly and satisfactorily, decisions about strategic issues should occupy the central stage because they relate to such factors as:

- Requirements for survival in the marketplace;
- Market share;
- Customer relations;
- Financial position of the firm;
- Quality of the product/service provided;
- Employee development;
- Efficiency management;
- Productivity improvement;
- Alliances with other entities such as suppliers;
- Profitability and growth; and
- Attaining and sustaining competitive advantage.

Appropriate handling of these issues requires thinking strategically, and as Avinash Dixit, Barry & Nalebuff (1991) indicated, mastering the "the art of outdoing an adversary, knowing that the adversary is trying to do the same to you". Outdoing rivals does not happen by chance. It is always the product of sound decision- making and good strategic management.

Techniques for Successful Business Idea Generation

Many aspiring individuals believe that they are able to reach their potential by becoming business owners. They feel that they are capable of managing an enterprise, that they can generate the necessary funds to establish it, and that they possess the determination for success. The hurdle they encounter, however, is their lack of knowledge of promising opportunities.

How can those individuals generate meaningful ideas for business ventures from scratch? Mastering few techniques about ideas generation is of utmost help. Here are some of the widely used techniques:

1) ***Check list***. This is a simple technique, which is recommended for decision-making and problem solving in a variety of situations. The technique revolves around questions that begin with the words why, when, what, where, who, and how (the 5Ws and an H). For example, a prospective entrepreneur comes up with an idea of founding a fast food restaurant. The idea might be accepted, refined, or rejected by the individual in question after probing a series of questions.
2) ***Benchmarking***. Benchmarking is a technique whereby an individual (or an organization) attempts to learn best practices from other individuals (or organizations). For instance, a prospective entrepreneur might be interested in knowing how successful entrepreneurs identify opportunities, or manage companies, or "go global". Although benchmarking often requires extensive search for getting information and real-life examples about best practices, the technique is very useful in gaining knowledge about many important issues, because role models can be found in all types of business.

3) ***Case analysis***. Case analysis is another essential tool in the business field. It tells a "story" that is typically based on facts and figures regarding an organizational situation or issue. The purpose of a case analysis is to reinforce learning and stimulate thinking. Case analysis also develops one's ability to engage in strategic thinking.

4) ***Brainstorming***. To utilize this technique, a potential entrepreneur or group of entrepreneurs would invite a number of individuals to talk about problems in the marketplace that no one has yet managed to solve, and needs that no one has so far managed to address. The group could also explore possible solutions to such problems and ways to satisfy the identified needs. Individuals in the group should be asked to provide their views in a sequential manner, that is, one issue and one individual at a time. Opinions should be expressed freely, and should not to be criticized or immediately evaluated. Pros and cons of each idea need to be recorded. A consensus should eventually be reached in regard to the significance of the problems and the identified solutions. Such brainstorming can eventually provide the spark that inspires the start of new ventures.

5) ***Attributes listing.*** The essence of attributes listing is to seek a solution to a problem by breaking it into smaller and smaller components. As an example, let's assume that an entrepreneur, who is already in the business of making athletic shoes, wants to export his/her product to other countries. The problem at hand is, therefore, to "go global". This problem can be broken down into the following components for analysis and decision-making:

- The region to be initially targeted for exporting activities (e.g. East Asia or the Middle East, or East Africa);
- The country or countries within the region to be selected as specific target market(s);
- Target customers in the country/ countries selected;
- Total demand for athletic shoes in the target country/ countries;
- The company's hoped for share of the athletic shoe market in the target country/ countries;
- Intensity of competition (e.g., in terms of price, quality, distribution channels, brand recognition and loyalty) in the target country/ countries;
- Import regulations of the target country/countries;
- Export regulations of the home country;
- Export strategy (e.g., direct vs. indirect exporting); and
- Amount and sources of export financing.

These and other sub-problems can also be broken down further into smaller problems. For instance, the problem concerning "the country to be selected as the target for exports" can be broken down into sub-components by identifying several cities in the target country as the initial destinations for exports, and analyzing the market potential for each city as a target for the company's exports (Please see Appendix III for export procedures and guidelines).

6) ***Method of focal objects.*** This is perhaps the oldest method of problem solving whereby an individual puts the issue that needs to be dealt with into "focus" so as it would be the center of attention. Such an issue is then compared and contrasted with similar issues faced by, and dealt with, by existing firms.

7) **TRIZ Methodology**. TRIZ is the Russian acronym for the Theory of Inventive Problem Solving. This methodology was developed in the former Soviet Union by Genrich Altshuller and his colleagues in the late 1940s. It consists of a set of principles, rules, and guidelines for innovative problem solving and decision- making. Although TRIZ was developed for problem solving in engineering and technology, it has usefully been applied in business situations. There are 40 TRIZ principles as shown in Table 9 below:

Table 9. *TRIZ Principles*

Segmentation Taking out Local quality Asymmetry Merging Universality Nested doll Anti-weight Preliminary anti-action Preliminary action	Before hand cushioning Equipotentiality The other way round Spheroidality Dynamics Partial or excessive action Another dimension Mechanical vibration Periodic action Contiuity of useful action	Skipping Blessing in disguise Feedback Intermediary Self-service Copying Cheap short-living objects Mechanical substitution Pneumatics and hydraulics Flexible shells and thin films	Porous materials Color changes Homogeneity Discarding and recovering Parameter changes Phase transition Thermal expansion Strong oxidants Inert atmosphere Composite materials

Source: TRIZ Journal, TRIZ 40 Principles, [Retrieved from].

Mastering TRIZ can certainly assist prospective entrepreneurs in recognizing business opportunities and solving organizational problems. To illustrate some applications of TRIZ to entrepreneurship, let's explore some of the Principles as discussed below:

- Segmentation (it means dividing an object into independent parts). An application of this Principle is to divide the target market of interest into smaller segments, and focus on the segment that is the most appropriate to the achievement for the company's mission and goals.

- Taking out (it means to separate an interfering part or property from an object, singling out the only necessary part or property of an object). This Principle can be applied to opportunity recognition. For instance, examining a range of available opportunities, selecting and exploiting the most attractive one.
- Merging (bring closer together – or merge – identical or similar objectives, assemble identical or similar parts to perform parallel operations). This Principle can be interpreted to mean the necessity to avoid excessive division of labor in entrepreneurial companies. In hiring employees, for example, entrepreneurs should seek individuals with diversified skills in order for the individuals to be able to hand multiple functions rather than a singe specialized task.
- Universality (it means to make a part or object perform multiple functions; eliminate the need for other parts). This Principle relates to the previous Principle (merging) by saying that employees, including managers, should possess different skills. In addition, the Principle implies that, as the company grows, it does not need to establish many departments. The organizational tasks can be assigned to limited numbers of functional units, thereby reducing structural complexity as well as the cost of doing business.
- The other way around (it means to invert the action or actions used to solve the problem). An application of the Principle is that employees should be trained to be self-managed, and teams to be autonomous. This can enable individuals and teams to resolve technical and other organizational problems they might encounter without the need to wait for decisions from upper management. This Principle also implies the importance of delegation of authority to subordinates.
- Periodic action (it means that rather than continuous action, use periodic or pulsating actions). An application of the Principle is that employees' work activities should not be subjected to constant monitoring and review. Monitoring can be carried out periodically at random intervals.
- Blessing in disguise (it means the use of harmful factors, particularly harmful effects of the environment or surrounding, to achieve a positive effect). An application of the Principle is to enhance productivity during periods of fierce competition by streamlining organizational operations.

Summary

The United States is a bastion for entrepreneurship. It offers the environment and opportunities that encourage potential entrepreneurs to take the steps necessary to start their own businesses. Despite the high failure rate of new businesses, those that succeed contribute significantly to the economy by introducing new products and services, creating new employment opportunities, and increasing exports. Prerequisites for the success of entrepreneurial organizations include the selection of the right business model, raising sufficient capital, willingness to assume the risks associated with the introduction of new products/services and the creation of new businesses, and attracting dynamic entrepreneurial team members. Adopting feasible strategies is also a key element of business success. The entrepreneur and his/her team are responsible for building the firm's competitive advantage to ensure survival and growth. As business owners, entrepreneurs must realize that they assume multiple responsibilities toward their customers, lenders, employees, and the law. As leaders of their own organizations, entrepreneurs need to learn and apply proven methods for opportunity identification and problem solving, such as benchmarking, brainstorming, and TRIZ.

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Chapter 2.
Conceptual Foundations of Entrepreneurship

Rational behavior requires theory.
Reactive behavior requires only reflex action.
Edward Deming

Chapter Objectives are to learn about:

- Entrepreneurship from the economic perspective
- Entrepreneurship from the socio-psychological perspective
- Entrepreneurship from the business perspective

Introduction

Conceptually, entrepreneurship is rooted in four disciplines: Economics, sociology, psychology, and business. Each of these disciplines looks upon it from a different angle. Economists tend to relate it to the theory of the firm, and its impact on innovation, rate of economic growth, trade, and employment. Sociologists approach it as a social phenomenon that impacts culture and life styles, while psychologists treat it from the context of personality traits and the factors that motivate an individual to become an entrepreneur. Some classical writers, however, cut across multiple disciplines in their effort to explain entrepreneurship and its impact of the markets and the society at large.

The Economic Perspective

The treatment of entrepreneurships in economic literature ranges from total neglect to placing it at the center of economic activities. Some economists have dealt with it on an ad hoc basis as an intriguing phenomenon but have fallen short of integrating it in economic theory. In this chapter the contributions of seven classical and contemporary economists are presented for a better understanding of the diversity of views and explanations of economic/business entrepreneurship.

Richard Cantillon (1680-1737): As mentioned in Chapter I, Cantillon was an Irish-French economist and financier who pioneered in the study of value, opportunity cost, the business cycle, and entrepreneurship. As mentioned earlier, he coined the term "entrepreneur" which is a French word that literally means a "go-between" and was also used to refer to a person who transforms innovations into useful goods or services. In his only major publication, "Essai sur la Nature due Commerce en General" that was published posthumously in 1755 he also defined the role of the entrepreneur as that of taking action to satisfy demand for products at a considerable personal risk. In so doing such an individual plays a major role in determining resource allocation in the economy. He further added that due to the risk involved an "unsuccessful entrepreneur will live poorly or go bankrupt, while the successful entrepreneur will obtain a profit or advantage and cause entry into the market." (Cantillon. 1755, p.31).

Adam Smith (1721-1790): Adam Smith was a Scottish economist and philosopher. He has had a major impact of modern economic theory, having advocated lessening government control over the economy; specialization at the national, firm, and individual levels; and letting the invisible hand of competition to regulate markets. In his famous work, The Wealth of Nations, he used the term "enterprisers" to refer to entrepreneurs, whom he described as individuals who had the unusual foresight to "establish new organizations for commercial purposes as a reaction to economic change. In so doing, they act as economic agents who have the ability to recognize demand for goods and services, and transform it into supply" (quoted in Holt. 1992, p.3).

Jean-Baptiste Say (1767-1832): To Say, who was a French economist and businessman, entrepreneurs should be placed at the center of economic activity. He attributed to them such qualities as moral judgment, perseverance, and broad knowledge. Their ability to accumulate wealth/capital, he thought, depended on their creativity, ideas, imagination, and innovation. (Younkins. 2006, p. 1) He indicated that entrepreneurs are not merely managers of the enterprises they run. They are also forecasters of market/consumer needs, entrepreneurial project appraisers, and risk-takers. He associated their success with the welfare of the society at large. Their industriousness, more than anything else, is responsible for the production of the economic goods that society needs.

Joseph Schumpeter (1883-1950): Schumpeter is known as one of the leading champions of entrepreneurship who improved our understanding of this subject. His Theory of Entrepreneurialism links capitalism, the profit motive, innovation, technological advances, and economic progress. In his view, capitalism sparks entrepreneurship which, in turn, sparks innovation and change. He saw innovation as a main force in the business cycle and the basis of creating a healthy economy. By investing in new ideas and technologies, the entrepreneur would engage in what he called "creative destruction", a term he coined to refer to the introduction of innovations that render the status quo obsolete. To the entrepreneur, creative destruction is a way of life. Thanks to entrepreneurs, the creation of the new always destroys the old. Although individual entrepreneurs play a major role in this creative destruction, Schumpeter recognized the equally significant role played by corporate entrepreneurs who work together in groups to introduce entrepreneurial innovations within larger organizations. He further suggested that the resources, corporations possess, sometimes give them some advantages over resource poor individual entrepreneurs in the innovation process.

Relating his notion of "combination" of resources of factors that influence outcomes to entrepreneurship, he introduced a definition of entrepreneurship as a kind of combination "to produce means to combine materials and forces within our reach. To produce other things, or the same things by a different method, means to combine these materials and forces differently". (Schumpeter. 1934, pp.65-66) Based on this perception of entrepreneurship, he divided the innovations that entrepreneurs introduce into: new products, new markets, new sources of supply of raw materials, and new business models.

To Schumpeter, the entrepreneur's reward for innovating is profits which eventually become significant enough to attract the attention of imitators who, at some point, decide to get into the game and become competitors. As the supply and the number of competitors increase, however, profits would decline, and the novelty of the product or process would be a thing of the past. The innovation would end up becoming the standard, and, as a result, the market would be ripe for new innovations and a repeat of the process of "creative destruction". When the new becomes the standard or the common, the entrepreneurial cycle begins anew with other innovations and the creation of new combinations.

Aside from the expected profit reward, which Schumpeter as an economist saw as an essential motivating factor, he emphasized the importance of the entrepreneurial spirit and the satisfaction that comes with venture creation, empire building, societal recognition, and the potential of building a dynasty. He further described the characteristics, which in varying degrees, have a bearing on an entrepreneur's motivation and zeal to include rationality, self-centeredness, egoism, disconnectedness from the constraints of tradition, strong will, the desire to conquer new grounds, and a great personal weight.

Frank Knight (1885-1972): Knight associated entrepreneurship with the theory of the firm, and what he called "judgment". He saw the theory of the firm as "essentially a theory of how the entrepreneur exercises his judgmental decision-making -- what combinations of assets will he seek to acquire, what decisions will he delegate to subordinates, (and) how will he provide incentives and employ monitoring to see that his assets are used consistently with his judgment" (Foss & Klein. 2005, p.10). In Knight's view, therefore, entrepreneurship can be identified in terms of ownership, judgment about uncertain events, and possession of capital goods. He believed that "an entrepreneur without capital goods is…no entrepreneur" (Ibid., p.9). Offering an interesting comparison between insuring against fire or other contingencies and entrepreneurial success or failure, he further explained that anyone can get insurance against fires or floods, but entrepreneurships are uninsurable; hence, when they fail they lose everything. (Bach. 1963, p.559)

T.W. Schultz (1902-1992): Schultz's emphasis was on the human capital theory of entrepreneurship. He equated entrepreneurship with the ability to adjust to change through, among other things, the reallocation of resources. He looked upon entrepreneurship, not as a unique function that can be performed by the few, but as an element of human behavior. Entrepreneurial ability, according to Schultz, can be developed through the right kind of training as a part of a nation's human capital formation and development (Klein & Bullock. 2006, pp.8-9).

I. Kirzner (1930-): Kirzner (1979) defined an entrepreneur as "a decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities", and the entrepreneurial function as that of "reveating to the market what the market did not realize was available, or indeed, needed it at all." (pp.38-39, 181). To that extent, he applied Jean-Baptiste Say and John Maynard Keynes' proposition that "supply creates its own demand" to entrepreneurship. Deviating from the traditional description of entrepreneurship and entrepreneurial vision, Kirzner also identified entrepreneurship as a discovery process, and the entrepreneurial vision as a subconscious hunch that turns into a resource once it moves to the realm of consciousness. In other words, "as soon as the entrepreneur gets to know that he possesses an item of knowledge, that item ceases to correspond to entrepreneurial vision" since acting on the basis of conscious belief or complete knowledge is a deliberate choice that no longer corresponds with the entrepreneurial vision (pp.168-169).

The Socio-Psychological Perspective

From this perspective, entrepreneurship is studied and analyzed in regard to its impact on concentration of economic power and wealth, culture, change, leadership, and social status. Entrepreneurial characteristics and motivation are also given central stage.

Max Weber (1864-1920): Weber viewed entrepreneurship as a transitional stage in the development toward capitalism. At the beginning, entrepreneurs practice effective monopolization of capital and the assumption of the power of management of the process of production, and control of the product and credit. In the meantime, the entrepreneur would maintain the right to the product on the basis of his monopolization of the market. Eventually, the entrepreneur loses his monopoly and control over workers and products in the evolution toward a capitalist system, controlled by capitalists and non-entrepreneurs. Despite this negative portrayal of entrepreneurship and associating it with monopolistic practices and control over workers and markets, Weber emphasized the charismatic leadership quality of successful entrepreneurs. He praised their ability to communicate their vision, plans, and rules; which he described as "mental models of reality" (Foss & Klein. 2004, p.7).

David McClelland (1917-1998): McClelland is one of the pioneers in the achievement motivation needs theory, according to which achievement-motivated individuals like entrepreneurs are goals and results-oriented, and seek a sense of accomplishment. They differ from power/authority-motivated individuals who like to influence others and elevate their own status. Achievement-motivated individuals also differ from affiliation-motivated individuals who, as Dinini (2010) explained, tend to be after group harmony and avoidance of conflict.

Murray Johanssen: Among Johanssen's contributions is his identification of the traits he believes are common among entrepreneurs and leaders. Those include: Self-esteem, need to achieve, tendency to continually screen the environment for new opportunities, high internal locus for control, goal orientation, optimism, courage, tolerance to ambiguity, and strong internal motivation. Johanssen also is known for distinguishing between five phases in the organizational life cycle. The first is the start-up phase in which an entrepreneur develops a new business model, secures funding, and launches the new venture. The second is the growth phase in which the venture grows and eventually reaches maturity. The third is the decline phase in which the organization suffers due to commitment to old strategies and resistance to change. The fourth is the renewal phase in which leadership tries to stem decline by transforming key areas and steering the business toward renewal and innovative solutions to persisting problems. The fifth is the death stage in which the organization that doesn't achieve the desirable outcomes as it tries to implement renewal/transformational strategies finds it difficult to survive.

John Vespasian: According to Vespasian, the following elements characterize the entrepreneurial mind: (1) High tolerance for uncertainty and risk, (2) Independent thinking, (3) Consistent ambition, (4) Determination, (5) A feeling of dissatisfaction that can be an engine for change. Questions that come naturally to an entrepreneur include: Why are things the way they are? Can things be improved? If so, how? Is there a better way to attain desirable outcomes? What opportunities lie below the surface? How can one person make a difference in his/her life and the lives of others? And how would a particular innovation or a previously untried idea shape the world of tomorrow?

The Business Philosophers' Perspective

Business philosophers look upon entrepreneurship from multiple standpoints, including action orientation, the ability to perceive opportunities and uncover problems, willingness to take moderate or prudent risk, desire to step ahead of others in trying new ideas, leadership qualities, having the ability to make timely decisions, communication skills, and strategic thinking. Two of such philosophers are: Peter Drucker and Michael Porter.

Peter Drucker (1909-2005): Drucker gained fame and recognition as a writer, professor and consultant. He observed that two hundred years after the term "entrepreneurship" was coined, it still means different to different people. In the United States, it is often associated with the creation of new ventures. In Germany, it refers to those who acquire property. In other societies, it is used to distinguish between business owners and salaried managers and other employees. The definition that he chose as most reflective of what entrepreneurs are all about is similar to Schumpeter's. Both indicated that entrepreneurs are individuals who "create something new, something different; they change or transmute values." He disputed the traits approach saying that in his experience he saw many entrepreneurs with diverse personalities and characteristics. He also dissociated entrepreneurs from capitalists and inventors, saying that they were neither.

He indicated that a good manager has to act, in part, as an entrepreneur, arguing that "the manager always has to administer… But he also has to be an entrepreneur... He has to redirect resources (as entrepreneurs do)… He has to slough off yesterday and to render obsolete what already exists and is already known. He has to create tomorrow" (Drucker, 1974). Dismissing the notion that entrepreneurs are high risk taker and assume more risk than other business operators, he stated that "entrepreneurship is risky mainly because so few of the so-called entrepreneurs know what they are doing" (Drucker, 1985). This implies that entrepreneurs would be better in managing risk if they were better prepared for planning, leading and setting the strategic direction of the ventures they have created.

Michael Porter (1947-**):** Porter is known for his contributions to strategic management and the concept of competitive advantage. He is also known for his advocacy of urban and social entrepreneurship. As Schumpeter advanced the concept of "creative destruction" and Clayton Christensen introduced the concept of "disruptive technologies", Porter turned attention to the concept of "disruptive entry" which also explains transformational changes in the marketplace and new entrants and technologies are introduced. The focus of disruptive entry is on entrepreneurial start-ups that use new technologies and business models to introduce low-cost, low quality versions of established products in order to serve the needs of underserved segments of the market. The reaction of the incumbent firms can lead to an overall change in the marketplace as those firms adopt similar technologies or ignore the change and risk greater future challenges. As porter explained, over time the challengers would be able to improve quality, and challenge incumbent firms on the basis of both cost and quality. As Weiser (2010) also indicated, "That challenge is particularly difficult for the incumbent firm to weather because its willingness to adopt the technology and business model of the upstart would involve cannibalizing itself-that is, undercutting its own legacy model and eroding already profitable lines of business" (p.5). Disruptive entry, then, can transform markets. However, this can only happen when market entry is made easy, and competition is made possible.

Summary

Entrepreneurship has been a focus of attention by economists, psychologists, sociologists, and business philosophers for more than two hundred years. Yet opinions still differ as to what it is and what it is not. In spite of all of the definitions and the concepts put forth by leaders in those disciplines, there remains some mystique about it, and about the way successful entrepreneurs think and behave. Successful entrepreneurs intrigue most observers because they are builders, innovators, perceptive, energetic, and ambitious; and most of all they are always ready to step ahead of others in order to take advantage of new opportunities and perceived trends. While many economists have associated entrepreneurship with the theory of the firm, psychologist often focus on the motives and the traits that distinguish entrepreneurs from others. At least one business philosopher, however, Peter Drucker, has disputed the traits approach to the study of entrepreneurs. He believed that entrepreneurs are a diverse group of individuals, and don't share the same personality traits. Drucker also disagreed with the common perception that entrepreneurs faced more risk than the average manager or business leader. He felt that all those who are active in business face different kinds of risk, but those risks can be reduced to manageable levels with better preparation and planning. One area of agreement among all observers on the business scene is that entrepreneurship and innovation are inseparable.

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Chapter 3.
Innovation and Entrepreneurship

All journeys have secret destinations
of which the traveler is unaware
Martin Buber

Chapter Objectives are to[2]:

- Distinguish between innovation and invention.
- Recognize the dimensions of innovation.
- Learn about the benefits of innovation.
- Be familiar with the process of innovation.

Introduction

Innovative capacity is the most potent competitive weapon that entrepreneurs possess. It makes it possible to stay ahead of the competition, maximize customer satisfaction, and address consumer problems and previously unmet needs. Since the innovative entrepreneurs lead the change in the marketplace, their influence on what people buy and the quality of their lives are limitless. . One of the contemporary examples of entrepreneurial firms that continue to mazmarize customers with its innovative products is Apple Computers. Its entrepreneurial president, Steve Jobs, what was named by Fortune magazine in 2009 as the CEO of the Decade, create a cultural environment that valued innovation and change. This culture resulted in the rejuvenation of the company and the introduction of a series of innovative products like the I-Phone, I-Pod, and I-Pad within a short time span. These products radically and profitably changed three industries: the mobile phone, music and movie industries. Joseph Schumpeter (1934) described the relationship between entrepreneurship and innovation, stating that "the function of entrepreneurship is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one a new way, opening a new source of supply of materials or a new outlet for products by recognizing a new industry" (p.72). In this

[2] The authors acknowledge the contributions of Dr. Marian H. Harris of Bowie State University to this chapter.

statement, he repeated the word "new" five times to highlight the relationship between entrepreneurship and departure from the past.

Innovation versus Invention

O'Sullivan & Dooley (2009) define innovation as "the process of making changes, large and small, radical or incremental, to products, processes, and services that result in the introduction of something new to the organization that adds value to customers and contributes to the knowledge store of the organization". According to this definition, an innovation:

- Needs not always to be an earth shattering event to have an impact; it could be a small change undertaken to a product, service, or process. For instance, the business model of home delivery adopted by Domino Pizza many years ago was an innovative approach that seemed simple but had a major impact on product consumption pattern and profitability.
- Should add value to end-users of the product, process, or service in questions.
- Could lead to series of innovations that significantly add to its importance and impact. For instance, the invention of the Internet has led to a large number of subsequent innovations devised by entrepreneurial organizations, individuals and companies of all sizes. Many entrepreneurial companies have emerged and survive on small internet-related innovations of their making.
- May and may not be an outcome of an invention.

The benefits to be gained from innovation could be substantial both for the short and the long-terms. They include one or more of the following:

- ✓ Adding new products/services.
- ✓ Enhancing product value, quality and customer satisfaction
- ✓ Increasing revenues and market share.
- ✓ Adding to the firm's competitive advantage.
- ✓ Contributing to the company's profitability and growth.
- ✓ Enhancing the company's image and prestige within its industry.

How does invention differ from innovation? Invention and innovation are different, but frequently interrelated, concepts and processes. According to Wikipedia (2010), "invention is an exploratory process, with an outcome that is uncertain or unknown. It extends to boundaries of knowledge or experience. It involves combining concepts or elements from different realms that would not normally be put together". In business, "invention is the conversion of cash into ideas. Innovation is the conversion of ideas into cash". Similarly, Webster's New World Dictionary (2006) defines invention as "something thought up or mentally fabricated". These definitions indicate that invention is a product of mental processes that has not been transformed into products or technologies that are of value to consumers or end-users.

Since inventions are a foundation on the basis of which innovations are created, they are vitally important for advances in many sectors of the economy, including electronics, petrochemicals, biotechnology, telecommunication, among many others. At any rate, invention and innovation reinforce each other. While invention is commonly associated with scientists working in laboratories, innovation is usually associated with entrepreneurs and entrepreneurial organizations.

Types of Innovation

Innovations are typically classified into several categories, based on their nature and outcomes. Damanpour & Evans (1984), for example, identified three categories of innovations:

1. Technological innovations (resulting from the use of technology);
2. Technical innovations (related to the primary function of the organization); and
3. Administrative innovations (that take place in the social system of the organization).

OECD (2005), in the meantime, classifies innovations into four groups:

1. Product innovations (significant change in goods or services' capabilities);
2. Process innovations (significant changes in production or delivery methods);
3. Marketing innovations (implementation of new marketing methods); and
4. Organizational innovations (implementation of new organizational methods).

In this book, a distinction is made between organizational and technological innovations. The first refers to:

- Administrative innovation
- Process (technical) innovation;
- Service innovation;
- Strategy innovation;
- Marketing, finance, and human resource innovation; and

▪ All other non-technological innovations.

On the other hand, technological innovation refers to:

- Product design
- Product improvement/modification
- New production technology
- New communication technologies

Except for technological innovation, it is difficult, if not impossible, to precisely measure the effect of each kind of innovation on the performance of the enterprise. After all, internal innovations are interrelated and intertwined. Some take a long time to show results.

Sources of Innovation

Business firms usually indicate in their mission statements that their purpose is to do one or more of the following:

1. To produce and market selected products and/or services;
2. To acquire and manage needed resources;
3. To innovate in the products made, services provided, and methods of production used;
4. To contribute to the solution of societal problems and environmental challenge; and
5. To reward investors for the risk-taken by realizing reasonable returns.

Entrepreneurial organizations flourish through their innovative products, services, and methods of production and delivery. They see in marketplace problems causing consumer dissatisfaction that they can convert into opportunities for growth. Demand can be generated through innovation, and what Schumpeter described as "creative destruction", that is doing away with the old order and introducing the new that is more desirable. Demand, therefore, can be created or sustained through innovation.

How do firms generate ideas for new products, services, and/or processes? There are two sources of information that can assist firms in the innovation process: external and internal sources as indicated below:

External Sources

- **Significant new events.** Major or significant external developments often lead to a series of other events that individually or collectively may influence demand, production, and new product introduction. For example, the introduction of smart telephones has led to the development of a variety of software applications. Similarly, the decision of The National Aeronautics and Space Administration (NASA) to explore the outer space has not only spurred the demand for spacecrafts, and rockets, but has also led to the development of new products that have many applications in a range of industries.

- **Changes in consumer demand for certain goods and services**. As demand grows, so do the opportunities for new businesses. For example, increasingly consumer demand for health food and sugar-free drinks has led to the emergence of new ventures in the food and beverage sector and in related sectors.

To benefit from outside sources, a firm must be in a position ready to gain access to the information. This requires the creation of a systematic process, say a functional unit, by which the firm monitors and analyzes the external environment, particularly changes affecting its industry to identify attractive opportunities. It also requires the firm to establish strategic relationships with potential sources of information such as consumers, suppliers and other firms. In this respect, research shows that such cooperative arrangements are becoming important strategic initiatives for many large firms (Freel & Harrison, 2006). As an example, Jusko (2008) reports that Kraft Foods has adopted "open innovation" by working with external innovation partners to speed up the process of new products development and introduction. The author indicates that the company has multiple avenues of engaging with its partners, including the deployment of the so-called supplier relationship segmentation assessment.

As another example, Nambisan (2009) indicates that the Rockefeller Foundation had a question: "How can you turn a solar-powered flashlight into all purpose room light?" At the time, no one knew the answer. The desired invention/innovation was intended to be used in poor, rural developing countries that lack electricity. The Foundation, then, paired with InnoCentive, a private innovation intermediary company, to ask 160,000 independent inventors worldwide how they could transform the flashlight. The author points out that the inventors were part of a Web-based network of "solvers" that the company has established. An engineer in New Zealand finally came up with a solution for a much powerful flashlight that utilizes the solar battery and LEDs. Likewise, customers can be very important source of creative ideas for the firm. Manjoo (2009) reveals that Twitter instituted its system known as @replies only after Twitterers invented it. The author points out that the users of MySpace have also been a source for the company's innovation efforts.

Internal Sources

By instituting proper communication and information gathering systems, firms can receive brilliant ideas form their own employees (e.g., managers, skilled workers). Some companies, for instance, have created a Website through which employees can submit their suggestions. The suggestions usually involve both incremental and radical innovations. Employees have long been recognized as the most important assets for the firm, because they are the source of output and profit. They are indeed an indispensable source for new ideas about goods and services, as well as other organizational innovations. Employees should be encouraged by means of incentives (financial and nonfinancial) to participate in the initiation, diffusion, and adoption of changes through innovation. Incentives can influence the behavior of employees to become more productive, cooperative, and creative. As Rock (2009) indicates that neuroscience has long discovered that the brain is highly elastic. Even the most entrenched behaviors can be modified. Moreover, Robertson & Hjuler (2009) points out that LEGO Group – toys and games manufacturer –established a leading team called the Executive Innovation Governance Group to guide and strategize the company's innovation efforts. The team divided the responsibilities for innovation across four areas:

(a) The functional groups (to create core business processes).
(b) The concept lab (to develop new products).
(c) Product and marketing development (to develop the next generation of existing products).
(d) Community, education, and direct (to support customers and tap them for new ideas).

The author says that the creation of the company-wide team has resulted in many benefits for the firm. India's Tata Group, a conglomerate organization that controls 15 large businesses, incorporates innovation as one of nine categories on which employees are evaluated (Scanlon, 2009). The company provides employees with training programs on creative thinking, so that they might think and act like innovators. As the author indicates, the company formed the so called Tata Group Innovation Forum, a 12-member panel of senior executives who oversee the conglomerate's overall innovation efforts.

The Entrepreneurial/Small Business Advantage

Entrepreneurial/small business firms have several advantages that enable them to introduce product, process, and service innovations faster than larger enterprises. In the first place, entrepreneurs, by definition, are innovators. They start their ventures with some innovative concept, product, or technologies that distinguish them from the rest; hence, they constantly look for, and are receptive to innovations. Secondly, they are personally interested in making their ventures as competitive and successful as possible.

Jeff Cornwell (2009) identified six entrepreneurial /small business innovation enablers that give them an edge as innovators:

1. Personal passion that is fueled by the desire to make the venture successful.
2. Strong relations with customers that make it possible to learn about their problems, needs, and expectations
3. Ability to change course within a short time in reaction to changes and development in the marketplace
4. Willingness to experiment with new ideas despite the risk of failure
5. Ability to do more with less
6. Reliance on social networks for information sharing (Cornwell. 2009, p.1).

Gupta (2008) also explains that small and entrepreneurial firms may have a greater comparative advantage over larger firms in the "variation type of innovations rather than fundamental innovations" (p.5). This is due to the fact that small firms don't have the large sales volumes that allow them to spend as much on innovation. Both forms of innovation, however, can be profitable to the companies concerned.

Consequencies of Failure to Innovate

What does it happen to a business enterprise in the absence of innovation? The short answer is stagnation and eventually becoming irrelevant player in the marketplace. This means lagging behind, losing sales and customers, losing market share, and eventually facing probable death. As Chris Newham (2007) wrote, "Innovation is what gives life to a business in a market economy. The businesses that never get going or if they do, then fail or fail later under pressure of a changing economy or marketplace have all failed to innovate appropriately" (p.1). Table 1 shows the number of firms that were born and those that went out of business for 2000/2001 and 2004/2005. During the period under consideration, the number of newly born firms increased from 585,100 to 644,000, an increase of 10 percent. On the other hand, the number of firms that were squeezed out of the market increased from 553,300 to 565,700, an increase of 2.2 percent. Although the number of firms that entered the market far exceeded the number of firms that exited the market, 'firms death' is indeed astonishingly high. The ratios of 'firms death' to 'firms birth' were 94.5 percent and 87.4 percent in 2000/2001 and 2004/2005, respectively. Although there are many reasons behind such failures, lack of innovation has to be one of the top few.

Table 1. *Firms Births and Deaths in the United States (2000/2001-2004/2005)*

TYPE	2000/2001	2004/2005	DIFFERENCE	% CHANGE
Firms birth	585,100	644,000	58,900	10.0
Firms death	553,300	565,700	12,400	2.2

Source: U.S. Department of Commerce (2009). Statistical Abstract of the United States, p. 492.

The Innovation Process

In the business world, innovation is a team effort whereby several individuals from different units of the organization collaborate together to provide ideas about a solution for an existing problem. The ideas then examined and evaluated by senior managers. An idea from among other recommended ideas is typically selected, and employees are inspired to adopt it. Idea execution takes place after necessary resources are allocation for its implementation. The outcomes of execution are assessed and, if needed, changes are instigated. Now, let's explain in detail the innovation process as depicted in figure 1.

A. Problem identification. Innovation is an orderly, systematic process. It is launched because a problem exists that needs to be addressed. A problem is defined as a gap between actual state of affairs and desired state of affairs, such as the gap between actual performance and desired performance. Whatever the problem might be, it should be clearly understood and defined. As an example of a problem, a business firm is facing a declining market share for one of its lines of products (children shoes).

B. Generating ideas. Top management asks senior managers to study the problem and to submit proposals to deal with it. Or, a committee might be formed to analyze the problem. Often, employees on their own propose ideas to top management for consideration. The ideas could be about the introduction of new products, services, strategies, procedures, and the like. In any case, an investigation of the problem reveals that the shoes, despite their durability and good quality, are perceived by many children to be 'old fashioned' and seemed as if they were designed for 'older people'. This means that the problem is identified as a design flaw of the shoes rather than anything else. Recommendations received by top management are (a) hire two new designers, (b) purchase new design software, (c) purchase more advanced machines, (d) purchase two high-powered computers and other related accessories, and (e) create a' focus group' that consist of twenty five families each of which with at least two children in the target age groups (3-9 years old).

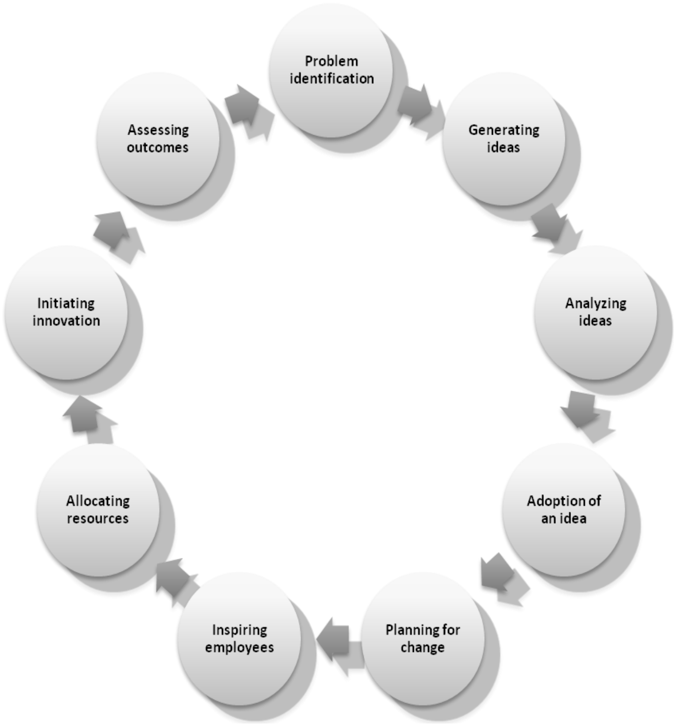

Figure 1. *The Innovation Process*

C. Analyzing ideas. The proposed ideas are analyzed by top management.

D. Adopting of an idea. Of the five ideas, two recommendations, a and e, are adopted (hire two new designers and create a focus group).
E. Planning for change. At this stage, a decision is finalized about the adoption of the two proposals.
F. Inspiring employees. Inspiring employees is an important task for the firm in order to persuade them to accept and support important changes in the workplace. In this case, only the product design group is asked to cooperate among themselves to improve the shoes design.
G. Allocating resources. Resources (e.g., funds) are allocated to implement decisions.
H. Initiating innovation. Once resources are fully allocated, innovative activities are carried out. In this example, the innovation is about new, attractive shoes design for children.
I. Assessing outcomes. At this stage, the outcomes of changes resulting from the innovation process are reviewed and evaluated. In this example, top management established a team of senior managers form production, marketing, and finance areas to assess, on a quarterly basis, the outcomes of changes instituted. During a four-quarter period, the team found a steady increase in the sales of children shoes for all age groups. The average increase during the entire period was about 6 percent, a performance outcome that was welcomed by the company's leadership. Clearly, if the problem under consideration has not been resolved, then additional ideas and decisions need to be contemplated.

As alluded to earlier, innovation could lead to minor, moderate, or drastic changes in products, services, or processes. In this example, the design innovation could be considered moderate, because it involves a change in an important aspect of the product. However, it cannot be considered drastic, because it does not result in new shoes.

In Search of Innovation

Joseph A. Schumpeter (1883-1950) believed that innovation is the engine of economic growth. His creative destruction concept implied constant flow of innovations and change. It also implied that entrepreneurs must understand the nature and full implications of potential the innovation cycle by analyzing its scope and planning for it. The search for innovative ideas, products, services must be unabated in order to take advantage of market opportunities. Well-managed firms of all sizes are aware of the importance of innovation to their survival, growth and competitiveness, as evidenced by the 2009 list of the world's 40 best global companies, compiled by A.T. Kearney for Business Week magazine.

The criteria, Kearney used comprised:

- ✓ Commitment to innovation;
- ✓ Diversified business portfolios;
- ✓ Aggressive market expansion;
- ✓ Strong leadership; and
- ✓ leadership vision.

Table 2. *Best U.S. Companies on the 2009 BusinessWeek List*

RANK	NAME	INDUSTRIES	2008 SALES ($MILLIONS)
2	Google	Internet Services	21,796
3	Apple	Electronics	32,479
8	Monsanto	Chemicals	11,365
12	Jacobs Engineering	Engineering & Contracting	11,252
13	World Fuel Services	Oil & Gas Services	18,509
14	Fluor	Engineering & Contracting	22,326
17	Amazon.com	Online Retail	19,166
19	Occidental Petroleum	Oil & Gas	24,217
28	Schlumberger	Oil & Gas Services	27,163
30	Apache	Oil & Gas	12,390
31	Oracle	Software	22,430
35	ConocoPhillips	Oil & Gas	225,424
36	Praxair	Industrial Gas Supplier	10,796
38	ExxonMobil	Oil & Gas	425,071

Source: BusinessWeek (2009). The World's Best Companies, October 1.

Summary

Innovation, like air, knows no boundary, nationality, or culture. It is, however, an organized process (i.e., a series of activities) intended to instigate change through the introduction of something new or modified, normally a product, service, or process. The change might be minor or major, depending on the desired end result as well as available resources. An invention becomes innovation after it is being translated into a useful output. In general, scholars classify innovation into three types: technological innovation, technical innovation, and organizational innovation. Successful firms are invariably innovative firms; they survive longer, and grow faster. Information that motives the firm to innovate comes from two sources: external (e.g., customer demand) or internal (e.g., management decision). The firm's leadership plays a decisive role in the orientation of the firm to engage in innovative efforts. For the firm, the benefits of innovation are many and include increasing sales, profits, and growth. The firm could be forced out of the market because of lack of innovation. Creative organizations will take its place. The process of innovation includes problem identification, ideas generation, planning for change, enlisting the support of employees, and allocating resources.

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Chapter 4.
The Path to Innovation and Creativity

Inside my empty bottle I was
constructing a lighthouse while
all the others were making ships.
Charles Simic

Chapter objectives are to:

- Learn about corporate and innovation cultures
- Grasp the driving forces of innovation and creativity
- Understand the relationship between innovation and creativity
- Recognize the paths to sustainable innovation

Introduction

The creation of an innovation culture and the pursuit of an innovation strategy enhance a company's ability to thrive in today's global and highly competitive business environment. To achieve success as an innovative enterprise, entrepreneurs and other business leaders and managers must view innovation as a continuous process that enhances the firm's long-term performance, and prospects for survival. As stated earlier, O'Sullivan & Dooley (2009) defined innovation as "the process of making changes, large and small, radical or incremental, to products, processes, and services that result in the introduction of something new to the organization". This definition shows that the relationship between innovation and creativity is invariably strong. This viewpoint has also been affirmed by Cheng & Chen (2009), who pointed out that "creativity is the basis of innovative knowledge; innovation is the embodiment of creativity. Creativity and innovation are supportive of each other" (p.79). This chapter examines the relationship between culture, innovation, and business strategy.

Organizational culture and innovation

Organizational culture is generally defined as a set of value, beliefs, and attitudes that are shared by the members of an organization. It reflects organizational priorities, and a common perception of what is important and what it is not, what is acceptable and what is not, and what is right and what is not.

Sriramesh, Grunig, & Dozier (1996) point out that organizational culture is commonly considered "the rules of the game for getting along in the organization, or as the ropes that a newcomer must learn in order to become an accepted member" (p.32). Although such culture is a source of stability and continuity in business organizations, it can be changed with a change in leadership as well as by a number of internal and external forces like technology and competitive challenges.

On a daily basis, organizational culture is reflected in attitudes toward:

- Innovation and change
- Product quality
- Customer service
- Individualism versus team work
- Open communication
- Long term versus short term orientation
- Risk taking

The benefits of organizational culture pervade many aspects of a company's behavior. As Singh (2009) explained, organizational culture unifies the members of the organization in terms of their priorities and ways of thinking. It contributes to the team's cohesiveness, and value system. It should be noted, however, that an organizational cultures can stagnate and cause a firm to fall behind others. When this is experienced, a drastic change in culture, perhaps under new leadership, would be necessary to save the organization from decline.

The innovation culture should be an important part of organizational culture. In the least, the two cultures should complement each other so that both would enable innovation to become a part of the organization's fabric and value system. It also leads to the creation of an innovation capability that not only makes it possible to generate innovative ideas but also transform such ideas into projects for product development, and the commercialization of the products and services created.

According to Coffman (2007), there are three approaches for the creation of the innovation culture: Top down, horizontal and diagonal networks, and a hybrid. The top down approach amounts to the creation of a command and control system in which top management aggressively moves the organization to see innovation as a strategic priority. Top management navigates and pilots such a system that would also rely on the establishment of a well financed R&D program.

The second approach is that of facilitating the emergence of the innovation culture by supporting the creation of innovation networks within the organization that serve as innovation engines. Such networks would be empowered to "generate their own ideas, conduct experiments, build support, and help transition some of the ideas to formal pilots or direct implementation" (Coffman, 2006, p. 1). The main ingredients for having effective functioning networks, aside from the facilitating information infrastructure and financial backing, include trust, self-reliance, information and idea sharing, and collaboration within and among the networks. Explaining this approach, Coffman (2007) further wrote,

> In an innovation culture, the network is embedded into everyone's daily work: to stimulate the generation of ideas; the testing of these ideas; the sharing of the results of these tests; …and the recombination of ideas, experiments and tests… The final destination for ideas is not at the feet of senior management, but at the feet of other members of the network" (p. 9).

Individual members of the networks would be expected to take their responsibilities seriously, strive for success, learn from their mistakes, learn from the unfamiliar, and exchange information and documents. In the meantime, the effectiveness of the networks would depend on the extent of support received from management. Company policies, rules, and procedures should be designed so that they wouldn't become an obstacle to innovation and the success of the network structure.

Why is a Strong Culture Important?

Singh (2009), among other writers, emphasizes the importance of strong culture in attaining a range of desirable objectives. Among the benefits the following four are worth noting:

1. Culture unifies organizational members to work toward common objectives.
2. Culture enhances healthy competition.
3. Culture enhances internal motivation to increase productivity, eliminate conflict, and reduce waste.
4. Culture encourages employees to work as a team and share information.

Integration of Innovation and Overall Company Strategy

Innovation strategies can be customer, market or technology driven. The first is inspired by customer needs, expectations, and/or frustrations. The second is driven by staying ahead of, or catching up with, the competition. The third relies on new technological discoveries that lead to the development of products or some innovation that potential customers may not have thought about need (Jaruzelski & Behoff. 2010, p.53). Regardless of which of these innovation strategies an entrepreneur may choose, it has to be integrated with the firm's broader business strategy that usually focuses on overall growth, profitability, and market standing as well as with functional strategies. The innovation strategy, in fact, is one of a network of strategies that the entrepreneur has to balance and harmonize with each other.

Technological Innovation

In discussing technological innovation, Martino (1993) contends that the process consists of seven stages, as explained below:

- ✓ Scientific finding. This is the knowledge phase that provides a solution to a specific problem. It is the stage whereby an idea, theory, concept, or model is being formulated in the mind of an individual.
- ✓ Laboratory feasibility. In this phase, a model or some other innovation is tested under laboratory conditions for its workability and verify its compatibility with physical or natural laws.
- ✓ Operating prototype. In this phase, the model is built in a practical and satisfactory fashion to be tested in the real-world before large scale or commercial introduction.
- ✓ Commercial introduction. In this phase, the device is introduced on a small scale to the market for further assessment of its technical, marketing and financial feasibility.
- ✓ Widespread adoption. Because of its superior performance and its acceptance by customers, the product can be introduced on a larger scale.
- ✓ Diffusion to other areas. In this phase in the life of the innovation, the product may be considered for other applications or uses for which it was not originally intended.
- ✓ Social and economic impact. A successful technological innovation would reach its ultimate success if it ends up having a broader economic or social impact as a result of which life styles may change, quality of life improve or previously unsolvable problem finally solved.

Of course, not all innovations reach the final stages in this process. Some fail to achieve the expected outcomes or prove to be financially viable. Others become irrelevant in a short period of time because of the quick introduction of superior competing innovations.

In general, successful technological innovations must meet the following conditions:

- Timeliness. An innovation should be introduced when it is mostly needed. A delay would reduce its value and impact.
- Actual Need Satisfaction. The innovation must satisfy an important need in the marketplace.
- Price/ Value. The end-users should perceive that the innovation is reasonably priced relative to its functions, usefulness, and competing brands.
- Product Features. Features of a product are important criteria in buying decisions. Features include quality, durability, convenience, and physical characteristics.
- Competition. The intensity of competition from similar products can greatly influence the success or failure of an innovation.
- Promotional activities. Marketing and sales activities are the vehicles by which potential customers are induced to purchase the goods or services offered by the firm.

Organizational Innovation

Organizational innovation covers a wide range of areas and activities. They include:

- ✓ Company strategy governing growth, competitiveness, position in the industry, diversification.
- ✓ Managerial decision making and leadership styles.
- ✓ Production strategies, covering product design and distinctiveness, production method and technology, product quality, and production efficiencies.
- ✓ Marketing strategies, covering product selection, branding, pricing, distribution, and customer relations.
- ✓ Financial strategies, covering sources and uses of capital, financial controls, and returns.
- ✓ Human resources strategies, covering human resources acquisition, training, compensation, evaluations, promotion, and career paths design,
- ✓ Organizational structure and its impacts on the distribution of responsibility; horizontal, vertical and diagonal relationships; and information flows throughout the organization.
- ✓ Approaches and techniques to be used to identify market opportunities.

- ✓ Incentive and employee motivational systems: Approaches, methods and systems that help managers and business owners in their efforts to motivate employees.

These examples imply that organizational innovation is not always earth about shaking events. Some of the activities represent relatively minor (i.e., incremental) changes undertaken by business firms. It is necessary to point out, however, that many observers believe that for changes to be considered innovations, they must be significant rather than minor occurrences. For instance, the 2005 Oslo Manual of the Organization for Economic Development and Cooperation (OECD) equates innovation with changes that involve major degree of novelty for the firm. It excludes modifications that are minor, or do not involve an adequate degree of novelty.

Conditions for Organizational Innovation

As is the case with technological innovation, successful organizational innovations must meet certain conditions, among them are the following:

- Timing of the innovation.
- Meeting an existing need.
- Delivering expect results.
- Cost burden. The cost to the adopting firm should be acceptable relative to expected benefits during the life span of the innovation.

Driving Forces of Innovation

As mentioned before, innovation is influenced by multiple forces and conditions, including:

- Consumers.
- The entrepreneurial spirit.
- Government contracting, policies, and regulations
- Enlightened leadership.
- Creative employees.
- Fear of losing market share.
- Team collaboration.
- Collaboration with external entities such as strategic partners
- Organizational culture that encourages innovation and risk taking.
- Sufficient financial resources.
- Quality enhancement drive.
- Performance improvement desire.

Some of these forces, like the entrepreneurial spirit, customers and creative employees, are the spark of innovative ideas. Others, like financial resources and enlighten leadership, are enablers that make possible the pursuit of innovations and the start of relevant projects.

Gradual versus Bold Innovation Initiatives

Germany's *Mittelstand* firms, which are small to medium-sized firms, provide a clear example of firms that have maintained competitive advantages by regularly introducing small innovations. Those firms concentrate primarily on the business-to-business market, and avoid head-to-head competition with larger firms, both domestically and in foreign markets, by focusing on selected market niches. Their slogan is "don't dance where the elephants play" although they still do business with those elephants as suppliers of equipment, tools, and services that the big players don't care to produce for themselves. *Mittelstands* service what they sell, and often draw a large percentage of their revenues from customer service. They see their strengths and competitive advantage as a product of their sophisticated niches and their continuous innovation strategy. "They constantly innovate (and) are willing to focus and innovate. Theodore Levitt, one of the doyens of Harvard Business School once observed that sustained success is largely a matter of focusing regularly on the right things and making a lot of uncelebrated little impovements every day" (Mittel-Management. 2010, November 27, p.74).

Roger Hammer (2006), who is the President of Strategic Business Innovation, sees the value of both the *mittelstanders'* incremental approach that has been helping them stay ahead of their rivals, and the bold innovative initiatives that result in drastic changes in product lines and/or production technologies. In a paper on strategic innovation, he wrote, "product development generally covers some of the territory of innovation by coming up with incremental improvements and continually working to hold off competition. This works in stable industries where everyone plays the rules. It becomes more difficult to upgrade and incrementally improve products and services that hold the customers attention. When this happens, most companies… begin a major initiative to come up with new ideas" (Hammer. 2006, p.2). Even taking a major initiative under those circumstances is defensive in nature and results in a company reacting, to a competitor's major innovations rather than being proactive pace setter.

Challenges to Sustained Innovation

Commitment to innovation could decline over the years unless negative developments and competing values are continually checked, contained, and eliminated. The main developments that emerge to challenge the sustainability of the innovation culture and capability include:

- Decline in leadership engagement and commitment to innovation and change.
- Emergence of competing values that result in internal conflict and division over the need to choose between stability and systematization versus continuous innovation and change, focused and limited innovations versus broad-based innovations, uncertain versus certain outcomes, and radical versus staged prudent innovations.
- Budgetary and revenue challenges that require changes in priorities and direction.
- Changes in the organization structure that unintentionally interfere with innovation and obstruct change.
- Loss of key personnel that helped in maintaining the innovation capability and momentum.
- Disappointment with innovation outcomes.
- Emergence of new rigidities that obstruct change.
- Decline of competitive forces in the marketplace.

To ensure innovation sustainability, Skarzynski and Gibson (2008) addressed entrepreneurs and organizational leaders in general, stating:

> "Don't rely only on a charismatic few to drive innovation… Ensure that company leadership takes principal ownership… Take a holistic view of your organization's innovation… Allign processes, matrices, rewards, rhetoric, and leadership behavior around making innovation a core value… Make sure that everyone understands that innovation is everyone's job" (p.253).

Creativity and Innovation are Related

Creativity is an essential ingredient in the innovation process. It is defined by Barron & Harrison (1981) as both an ability and a socially recognized achievement. To Amabile, *et al.,* (2005), it is the ability to come up "with fresh ideas for changing products, services, and processes so as to better achieve the organization's goals" (p.367). Ward & Kaminski (2008) see it as "the ability to generate novel associations that are adaptive in some way" (p.127).

Sternberg, in the meantime, associated creativity with "the ability to produce work that is novel, high in quality, and appropriate" (p. 89). Regardless of which definition one prefers to use, creativity fuels and encourages innovation. Together, they add to competitive advantage.

Creativity Enhancing Strategies

Pollock (1987) pointed out that entrepreneurs and other individuals need a steady stream of new ideas in order to nourish their creativity and innovative capacity. To do so, he suggested adopting the following modes of thinking:

- Using analogies in problem solving situations.
- Building tolerance to ambiguity.
- Asking provocative questions to learn what other people have overlooked.
- Maintaining fresh curiosity about the different and the unknown.
- Taking a receptive stance toward unexpected responses.
- Capitalizing on the unusual, original, and seemingly impertinent ideas, suggestions, and information.
- Read creatively in order to synthesize, analyze, recombine, and rearrange information.

Cleveland (2008) also proposes a five-part strategy to enhance individual creativity:

- Connecting with the external environment/world to keep thinking.
- Avoiding overload and possible burnout by carefully selecting the tasks and issues at hand.
- Learning the dangers of conformity.
- Giving problems time to simmer.
- Thinking of the new and different even in the absence of opportunities to exploit such ideas.

As individual creativity can be nourished, so can organizational creativity, which has been defined by Woodman, Sawyer & Griffin (1993) as the capacity to create new products, services, business ideas, procedures, and processes by individuals working together in a social system (p.293). Alsever (2009) proposed following a number of steps that together can foster creativity:

- Look behind you. Before initiating an important action, gather information about the background of the issue under consideration.
- Lose the routine. Expand your knowledge through readings and learning about a variety of subjects and topics
- Use the brains that you hired. Encourage employees to think creatively, and ask them to share their ideas.
- Get cozy with customers. Learn from customers about their product/service needs, and do your best to fulfill their wishes.
- Share the load. Search for partners among vendors and other organizations to implement useful projects or ideas.
- Try to fail quickly. Upon discovering promising ideas, try to implement them. Have no fear of failure.

Organizational Support for Creativity

What can organizations do to augment the process of idea generation? It is widely believed that there is a positive correlation between employees' creativity and success in the workplace. Organizational leadership, especially senior managers, can play an important role to support the employees in their efforts to become more creative. This could be accomplished by several methods. For instance, Amabile (2005) suggests that leaders can promote creativity in their organizations by:

- Obtaining information about work progress without undercutting the subordinates' sense of autonomy.
- Openness to the subordinates' ideas.
- Keeping subordinates informed.
- Recognizing subordinates for their achievements and contributions.

Stressing the importance of creative design thinking into organizational culture and strategy, Brown (2008, June) explained that design thinking is a methodology and a discipline

> "that imbues the full spectrum of innovation activities with ahuman centered design ethos… It is a discipline that uses the designer's sensibility and methods to match people's needs with what is technologically feasible and what a viable human strategy can connect into customer value and market opportunity" (p.86).

According to Brown, this is one of the approaches used by Thomas Edison, who was a scientist with a business sense. To broaden his perspective beyond the R&D laboratory and experimental investigation, he surrounded himself with gifted tinkerers and improvisers. Today's business leaders can benefit from this approach as they try to identify problems that can be converted into opportunities for innovative change in products, services, and methodology.

Summary

Innovation, like air, knows no boundary, territory, or nationality. Its language is creativity, which can be defined as the ability of the individual and the organization to create something useful, original, and marketable. Innovations can be introduced in small doses on continuous basis or on the basis of bold initiatives. The former may be effective in stable competitive environments, while the latter may be necessary in more dynamic markets in which major innovations are periodically introduced by the competition. A distinction is made between creativity of individuals and organizational creativity although in practice they are interrelated and interconnected. A number of strategies have been proposed to bolster individual and organizational creativity. Entrepreneurs should be in the forefront of individuals who can use creativity and innovation as enriching tactics and strategies.

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Chapter 5.
E-Entrepreneurship

Competition should not be for a share of the market…
but to expand the market.
Ron McCoy

Chapter objectives are to learn about:
- The importance of e-entrepreneurship
- Characteristics of e-entrepreneurship
- Setting up e-business
- E-business legal environment

Introduction

Firms engaged in e-business activities have grown substantially in number, scope of operations, and sales volume during the last two decades, thanks to the growing acceptance, if not popularity, of purchasing products and services through the Internet and the advances in technology that have made it possible to electronically transmit commercial documents safely and efficiently. The development of present-day's Information Communication Technology (ICT) infrastructure in the mid-1990s, in particular, has opened the door to e-business transactions to secure connections and maintain electronic payment services. As Mahmoud & Yu (2005) described this crucial infrastructure, it is composed of a "set of electronic means to collect, store, process, and present information, constituting computer systems, knowledge systems, office systems, consumer electronics and Internet network infrastructure" (p. 153).

This chapter provides an overview of e-entrepreneurship and e-commerce. It discusses the characteristics and growth pattern of e-business, the advantages of e-business, and the planning of e-entrepreneurships. It also looks into the problems faced by e-businesses.

Opportunities for E-Entrepreneurship

According to Turbo Online Business, "there are thousands and thousands of people all over the world who make money on the Internet, either as full-time online businesses, part-time businesses, or just as an extra income". Those full- and part-time e-business persons engage in many kinds of business activities, including Internet consultancy, multi-media applications, web development, online training, and web hosting support services, dealers, buyers, and sellers. Those businesses have transformed traditional dependence on the physical location of the business for success to conducting online transactions.

In e-business, location becomes irrelevant to business-customer relations. This reality offers several benefits to both buyers and sellers. As Canzer (2003) put it, "the opportunity to shop on the Internet (has become) virtually unrestricted, as the Internet removes such barriers to retail shopping as limited store operating hours and the inability of some customers to get to a conveniently located outlet" (p.7).

Scope of E-Commerce

Forester Research, which is an outfit that monitors e-commerce activities and trends, reported that businesses that were active in the electronic marketplace in the United States in 2009 sold $156 billion worth of goods and services. This sales volume is likely to reach $229 billion by 2013. (Heather Green. 2009, February 2). While these totals still represent a small percentage of total retail sales, Forrester estimates that overall about "42 percent of all retail sales in 2009… were influenced by the web in some way, and by 2014 that figure is likely to jump to 53 per cent" (Fowler, 2010).

Five Advantages of E-Business

Of the many advantages of e-business and e-entrepreneurship, the following five are most noted:

1. It has broadens marketing opportunities by making it possible for home-market and global customers to purchase merchandize without the limitations of time and geography.
2. It reduces the initial capital requirements for start-up businesses.
3. It reduces business operating costs; thus, resulting in greater efficiency that can be reflected in lower prices.
4. It reduces the number of employees required per dollar earned.
5. It adds to customer convenience by making it possible for online shopping to take place from any location and on 24/7, 365- day a year basis.

Planning E-Entrepreneurship

There are some similarities and differences between planning an e-business and setting the foundations of a traditional bricks-and-mortar enterprise. Following are some of the common start-up planning steps:

1. Selecting the product(s)/service(s) to be provided,
2. Writing a mission statement.
3. Surveying the technologies needed for e-business operating systems.
4. Studying demand and the competitive environment.
5. Determining the financial resources /capital needed and possible sources of initial capital requirements.
6. Assessing ways to establish competitive advantage.
7. Choosing the legal form of the business.
8. Determining the skill requirements and training needs.
9. Selecting a name and a logo for the venture.
10. .Determining sources of supplies.
11. Selecting operating systems.
12. Registering the company and obtaining proper licenses.
13. Using the above information to prepare a complete business plan.
14. Designing website for the venture.
15. Arranging for the Website hosting and maintenance.
16. Securing funding.

Key Success Factors for E-Entrepreneurial Firms

As virtual organizations, e-entrepreneurial companies can be distinguished from other businesses in many respects, including business models used, technology infrastructure, organizational settings, and communication modes. E-entrepreneurial companies must fulfill certain requirements for their success in addition to meeting the success factors relevant to their broader industrial sector. For instance, in order for an online real estate company to flourish, it must possess the ingredients of success associated with e-business as well as those that are associated with the real estate industry in general.

Following are key factors that enable e-entrepreneurial organizations to succeed:

- ✓ A business plan that identifies:
  - o The technology infrastructure of the company.
  - o Skills needed.
  - o Segment of the market to be served.

- Profile of target customers and their needs for the good or service under consideration.
- Marketing and sales strategies.
- Main competitors, their strategies, weaknesses, and strengths.
- Sales and cost forecasting for the intermediate term (3-5 years).
- Company's vision, goals, and business strategy.
- Company's business model.
- Planned strategic alliances.
- Sources of supplies and outsourcing strategy.
- Sources and availability of funds.
- Organizational structure (to identify division of work, responsibilities, flow of information, and so on).
- Exit strategy (to go public, sell the company, etc.).

✓ Easy to navigate, informative, secure, and customer-focused company Website store.
✓ A management team skilled in the technology of the enterprise as well as the functional areas of the business (finance, marketing, sales, human resources, etc.).
✓ Deployment of Web-based promotional system to advertise the company's products by means of banner advertising, direct listing, classified listing, search engine, and the like.
✓ Leveraging the Internet capabilities and technologies to penetrate new markets and reach potential worldwide customers.
✓ Introduction of innovative products and/or services.
✓ Electronic integrating of the company's operations with its value chain such as suppliers.
✓ Attention to customers' needs, market developments, and rivals' strategies.
✓ Utilization of "virtual teams" (i.e., outsiders talented individuals) to speed up innovation, increase productivity, and reduce costs.
✓ Continued improvement of employee skills and the technology deployed.
✓ Adoption of viable business model and technology architecture to enable the company to translate the model into practice.
✓ Careful selection of company's name and logo because they, along with other intellectual property, contribute to competitive advantage and growth.
✓ Create a brand name for your products. A brand is made up of marketing elements such as logos, symbols, and packaging.

✓ Attainment of economies of scale and scope. The first can be achieved through, for example, higher output with less proportionate increase in input, while the latter can be reached via synergy creation.

E-Entrepreneurship Business Models

E-entrepreneurs choose from four main business models:

1. Business-to-Consumer (B2C)
2. Business-to-Business (B2B)
3. Business-to-Government (B2G)
4. Customer-to-Business (C2B)

The first model (B2C) involves transacting business directly with the final user/consumer of the product/services provided. The second (B2B) reflects a business that focuses on doing business with other businesses as a supplier of ra materials or component parts, provider of services as an outsource firm, or subcontractor. The third model (B2G) stands for doing business with the government s vendor, contractor, or service provider. The fourth model (C2B2C) reflects a business that acts as an intermediary between different customers.

Why Do Some E-Entrepreneurial Firms Fail?

Given the breadth and depth of economic opportunities available to e-entrepreneurial firms, why do some of them fail? The following are the most cited reasons:

- Inadequate enterprise infrastructure such as servers and software.
- Lack of internal operational integration.
- Poor Website design and functionality.
- Inappropriate selection of the business line (goods and/or services).
- Lack of technical knowledge.
- Lack of managerial, marketing, selling, and financial experience.
- Absence of well-researched business plan.
- Inability to stand competitive challenges.
- Failing to match internal strengths with available opportunities.
- Neglecting to invest in technology and employees.
- Insufficient capital and cash flow.
- Inadequate knowledge about customer needs and market segmentation.

- Absence of channel integration with supplies and other constituencies.
- Excessive focus on the technical aspects of the enterprise at the expense of building customer relations.
- Absence of strategic alliances.
- Inappropriate product and/or service for Internet-based commerce.
- Persistent internal conflict.
- Misuse of critical resources

Characteristics of a "Good" Online Store

The strategic window of an e-entrepreneurial company to the world is its online store. It is through this outlet that the company sells its wares and communicates with its customers. Therefore, the company should treat the "window" with utmost attention and care. Well-established entrepreneurial companies such as Amazon.com, for instance, make it safe, easy, fast, and enjoyable purchasing experience for customers to interact with the widows. Of course, having a secure and efficient Website store is not a simple task. It requires technology, funds, and constant update and upgrade. Because of its critical importance to the company's long-term growth, the creation, maintenance, and upgrading of "eye-catching" Website demands that it be:

- Designed in such a way as to make it easy for the average customer to navigate without having to worry about the complexities of the technology employed.
- Adequately clear and informative.
- Secure and trustworthy (since potential customers avoid Websites that do not convey trust and reliability).
- Void of unnecessary details and irrelevant information.

Reflective of the importance of website design from the artistic, business, and technical standpoints, the World Best Enterprise initiated an award, called the World Best Website, for companies whose Websites meet the following two- level criteria:

Level One:

1. Website functionality (accessibility, speed, quality, legality, and navigating and links).
2. Website design (graphic design, user friendliness, aesthetics, beauty, and integration).
3. Website content (purpose, human interactivity, information process, verbal expression, and attention to detail).

4. Website originality (innovation, creativity, technology, distinctiveness, and vision).
5. Professionalism and effectiveness (customer service, value, focus, components, and overall site effectiveness).

Level Two:
1. Website significance.
2. Exemplary innovation.
3. Quality standards.
4. Site performance.
5. Search engine visibility.
6. URA clarity.
7. Serving security.
8. Hosting efficiency.
9. Customer endorsement.

Growing the E-Entrepreneurial Firm

E-entrepreneurial firms, like other companies, move in stages during their life cycle: start-up, take-off, growth, and maturity. Managing organizations through these stages requires skills, strategies, and competencies. In the start-up stage, the emphasis is on creating a viable enterprise; in the take-off stage, the focus is on survival; in the growth stage, the stress is on innovation; and in the maturity stage, importance is placed on renewal. In every state, the company must learn as well as adapt to its environment in order to be able to withstand the challenge of rivals as well as to take advantage of opportunities. E-entrepreneurial companies thrive on vital assets including knowledge, technology, and intellectual property. The assets must be augmented improved, and nurtured during all the stages, because they are the source of competitive advantage and profit.

Growth should not be left to circumstances or chance; it must be strategized and managed. There are a number of strategies for managing growth. Krogh & Cusumano (2006), for example, suggest three distinct strategies: scaling, duplication, and granulation. Scaling refers to the creation of a vision of products, technologies, and customers. It revolves around aggressive investing, specialization, standardization, and employing the right mix of individuals. Duplication means repeating the same business model in new geographic areas. Granulation means growing the different parts of the business aggressively through product and /or service diversification. Dependence on a single line of business will, sooner or later, run out of fashion or face stiff competition from low-cost, more efficient, producers. It should be noted that growing via diversification is likely to be a winning strategy for e-entrepreneurial companies.

Learning from, and adapting to, the external environment are necessary behavior for organizations of all kinds. The process is invariably disruptive and difficult, because learning and adaptation necessitate change. Change refers to shift (or alteration) in the environment. Sources of change include technology, regulations, markets, and consumers. According to the "white water rapids" metaphor, the external environment is dynamic and uncertain. To sail safely, the organization must act fast to adapt to the environment in order to survive and grow.

Typically, members of the organization resist change for various reasons among them are the fear of the unknown, the perception that the change will adversary affect them, or that they consider the change unnecessary. The following is an approach to prepare employees to be more receptive of pending change:

- ✓ Discuss the intended change with employees prior to implementation.
- ✓ Explain the reasons for change.
- ✓ Indicate the benefits of change for employees and the organization.
- ✓ Clarify how the change will be implemented.
- ✓ Share a timetable for initiating change with employees.
- ✓ Enlist the support of supervisors/managers to convince other employees to implement the proposed change.

As indicated earlier, organizations must learn and adapt. Now, what is to learn? What is to adapt to? Learning in this context indicates the accumulation and application of knowledge by the organization. The knowledge is about markets, processes, products, best practices, and whatever else that enhance the organization's competitive advantage. Adaptation, on the other hand, means to change (or modify) the organization's products, strategies, structure, and business practice to suit the requirement of the external environment. Output, for example, must meet customers' needs, while strategies should match market conditions.

In an interesting article entitled "The Fifth Disciple", Senge (2008) observes that there are five disciplines required for a learning organization: personal mastery, mental models, shared vision, team learning, and systems thinking. The essence of the author's thesis is that:

- ✓ Employees should learn and grow because the organization can learn only when its members learn;

- ✓ It is necessary to form perceptions that reflect the new environment;
- ✓ Employees should share the company's vision and goals;
- ✓ Team members should master both dialogue and discussion; and
- ✓ The organization should be managed as a living subsystem functioning in the context of larger national and international systems.

E-Entrepreneurs and Competitiveness

The commerce sector is a field of global economic activities. Commerce is the birth place of competition, a game that must be understood, and played wisely, by e-entrepreneurs. Entrepreneurial companies should be competitive to realize productive opportunities. Developing competitiveness is, therefore, a vital strategy for entrepreneurial success. It could be achieved if the company is able to match its strengths with economic opportunities while, at the same time, recognizes its weaknesses and the threats in the environment. Accordingly, building a strong company is the key for achieving competitive advantage. The sources of organizational strengths are core competencies –doing something exceptionally good internally – and distinctive competencies – doing something exceptionally good relative to rival companies. The way companies create core and distinctive competencies as indicated earlier in regard to all types of entrepreneurial companies includes:

- Espousing a strategic purpose.
- Developing superior technology and technical skills;
- Building effective organizational processes, procedures, practices, and systems; and
- Creating productive relationships with constituencies.

E-Entrepreneurship and the Law

E-businesses have to comply with at least two sets of law:

1. Laws and regulations that apply to all interstate and foreign trade that are enforced by the Federal Trade Commission and other government agencies.
2. Laws that have been enacted to specifically regulate e-business activities and transactions such as:
   (a) The CAN-SPAM Act which bans misleading header information; and requires that ads include the originating domain and postal address, and give recipients the right to opt-out.

(b) The Children's Privacy Protection Act.
(c) The Uniform Electronic Transactions Act (UETAJ) that standardizes e-commerce regulations in relation to such things as electronic contracts.
(d) The Electronic Signature in Global and National Commerce Act (ESIGN) that legalizes electronic signatures, and provides some state-by-state uniformity in regard to their legal effect and validity.
(e) The Anti-cyber squatting Consumer Protection Act.
(f) The Selling on the Internet Prompt Delivery Rules.

Chegg.Com: A Case Study

Economic theory assumes that people are rational and that they try to get things done with the least possible sacrifice in money, time, and effort. This applies to the general population as well as to college students who have recently seen a fast rise in tuition and textbook prices. They may find themselves paying as much as $1,000 a semester for their textbooks alone. Appreciating this problem, an entrepreneurial company, Chegg.com, came up with a practical solution_ an online textbook rental system. The founders of chegg.com saw an opportunity in what was seen by others as an unsolvable problem.

Chegg. Com's mission, therefore, is to provide college students with relatively low-cost rented textbooks. By renting the books they need, students save more than 50 percent of the list price (King, 2009). The story of Chegg is interesting. Its name is derived from the words "chicken and egg", which reflects another concern by its founders—namely, the difficulty faced by many students who are often told that they need experience in order to get a job, while experience can be only be gained if they are given a chance to work in their fields; hence the chicken and egg dilemma. (Helft, 2009).

Chegg's roots date back to 2001 when it was established to be a network of a university-based Website (Wikipedia). The Website was intended to enable college students to buy and sell such used items as textbooks, bicycles, televisions, and the like. The company's business strategy was modeled after Craiglist[3], whose revenues came from advertising. However, with advertising as its sole source of revenue, Chegg's survival was in jeopardy.

[3] Craigslist is a version of the want advertising found in local newspapers around the United States. The Website lists such information as local job opportunities and items for sale.

A viable business model was needed. The founders realized that the bulk of the traffic for their Website was due to student demand for used textbooks. At the same time, the founders became fascinated by the business model developed by Netflix – the Internet-based movie rental entrepreneurial company (Schmit, 2009). The adoption of a similar model was the beginning of Chegg's phenomenal growth in recent years. The company was incorporated under the name chegg.com in 2005. In 2007, it was launched nationally to serve students at more than 6,000 colleges and universities with inventory estimated at 2.4 million titles.

Chegg's fast growth rate in a short period of time attracted the attention of investors including venture capitalists. In 2009, for instance, press accounts indicated that Chegg raised $57 million in fourth round of funding (San Jose Business Journal, 2009). It was also mentioned that the company employed 40 full-time individuals and an equivalent number of part-time employees.

During the early days of its inception, when an order to rent a book came in, employees were prompted to search for, and order a cheap copy to be directly shipped to the customer. This tedious system of doing business has long been replaced with technology through automation. In any event, the company's rapid growth is mainly attributed to the vision and tireless efforts of its cofounders – Osman Rashid and Aayush Phumbhra. They raised substantial amount of capital to expand the company's operations throughout the United States, build its technology base, improve customer relations, and enhance market position.

Today, Chegg.com is not alone in the business of renting books. The market opportunity has also been recognized by other entrepreneurs and business firms. Among its rivals are CampusBookRentals.com and BookRenter.com. As the demand for used textbooks increases, Competition in this kind of business will undoubtedly intensify. Barnes and Noble, the book seller, has, for example, recently entered the market of book rentals. Market leadership will, however, remain with those companies that exhibit not only competency but also excellence in customer relations.

Summary

Web-based business has grown at a fast pace since the mid-1990s, thanks to the development of the Information and Communication Technology (ICT) and the related infrastructure. Despite such growth, e-commerce still constitutes a small percentage of total global sales of goods and services. As a relatively new business model, e-business had to overcome customers' fear and reluctance to change the way they transacted business, and also had experienced growing pains as it tried to acquire better understanding of market dynamics and establish their own niches.

Among the factors that contribute to e-businesses competitive advantage are lower operating costs, the fact that such businesses operate on 24/7/265 day a year basis, and have the ability to conduct business without the geographic barriers and inconveniences that brick-and-mortar businesses face. The convenience of doing business on the Internet adds to e-business competitive advantage, and by overcoming the traditional geographic boundaries, e-business can also become instantaneously global.

Due to such global nature of e-business, however, e-entrepreneurs, and e-business in general, are apt to face a more complex and challenging competitive environment. This reality necessitates crafting dynamic marketing strategies that will make it possible to identify and take advantages of the endless opportunities in the global marketplace. Those who don't face up to the challenges are likely to fail. The factors that cause e-businesses to fail are not dissimilar to those that other types of business face. They include poor planning, poor selection of products, under-capitalization, failure to adapt to market changes and developments, poor customer service, and failure to take advantage of the latest technological advances. Such problems can be avoided with the adoption and implementation of appropriate and realistic strategies.

Looking to the future, It is seems inevitable that e-entrepreneurs will continue to grow in number and gain larger shares of domestic and global trade in goods and services. The speed at which they will be able to grow their businesses, however, depends on their ability to learn and innovate. Learning in this context comes from better understanding of the customers, the competitors, and the full dimensions of management functions and responsibilities.

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Chapter 6.
Social Entrepreneurship

Develop a sense of urgency; move fast on opportunities and problems.
Brian Tracy

Chapter Objectives are to learn about:

- The meaning and importance of social entrepreneurship
- The differences between social and business entrepreneurship
- Examples of successful social entrepreneurships

Introduction

Social entrepreneurship is not new, but has gained greater visibility and recognition in recent years due to its growing worldwide impact. As in the case of business entrepreneurship, social entrepreneurship starts with an entrepreneur who has a novel idea, an innovative product or service, a creative approach to solving a perceived problem, a new business model, and/or a previously untried approach to product or service delivery. However, social entrepreneurship differs from business entrepreneurship because it is after sustainable solutions to societal problems and aims at social change rather than market expansion. It is, therefore, seen more as an agent of change than a profit-seeking enterprise.

This chapter explores the characteristics of social entrepreneurship, and the factors that make a difference in its success or failure. It also sheds some light on what a social entrepreneurship is and what it is not. Finally, it examines the missions and contributions of six successful social entrepreneurships: The Grameen Bank of Bangladesh, ADAPT of Egypt, BRAC of Bangladesh, Instituto de Pesquisas Ecologicas of Brazil, the Aravind Eye Care Hospitals of India, and Televerde's Prison Call Centers of the United States. The impact of the first four has spread beyond their countries of origin, either through the geographic expansion of their operations or the application of the same concept or business model by social enterprises in other countries.

Characteristics of Social Entrepreneurship

Due to the varying definitions and descriptions of social entrepreneurship, a recent article on the subject asked: Will the real social entrepreneur please stand up? According to some, the term applies to any out-of-the-box effort that focuses exclusively on solving societal problems, be they social, educational, economic, or environmental. Others view social entrepreneurship from the perspective of establishing a social enterprise that will introduce an innovative approach to deal with a social problem. Based on the all inclusive first definition, reformers who lead a movement for a social cause would be categorized as social entrepreneurs. This group would include historic figures like Suzan B. Anthony, who fought for the rights of women; Vinoba Bhave, who called for the redistribution of land to help poor Indians; Jean Monnet, who led the rebuilding of the French economy after World War II; and John Woolman, who led U.S. Quakers to free their slaves. (List of Social Entrepreneurs. 2010)

Martin & Osberg (2007) follow the narrower definition of social entrepreneurship that will be followed in this study. They see the word "social" simply as a modifier of the term "entrepreneurship". Accordingly, "social entrepreneurship" is a form of entrepreneurship that has a great deal in common with "business entrepreneurship". What this modifier does is reflect some adjustment in mission, approach, and orientation. As a result, social entrepreneurship can be distinguished by having three components: (1) an ability to identify "a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity", (2) an ability to identify an opportunity in this unjust equilibrium and develop a social value proposition, and (3) willingness to take action in order to forge "a new, stable equilibrium that releases rapped potential or alleviates the suffering of the targeted group… and even the society at large" (p.2).

Social Entrepreneurship versus Social Activism

In an attempt to set the boundaries that separate social entrepreneurship from social activism and social service, Martin and Osberg further observed that social entrepreneurship involves taking direct action that would have a transformational impact. From a generic standpoint, its aim is to change an inferior and stable equilibrium to a new superior equilibrium. This is the concept of "creative destruction" that was advanced by the champion of entrepreneurship, Joseph Schumpeter, who described it as incessantly destroying the old order and creating a new one. According to Schumpeter, however, entrepreneurial success in this creative destruction would lead to imitators. At that point the new way of doing things will become the common and normal way. The entrepreneurship process and, with it "creative destruction" can, therefore, be seen as a cycle in which entrepreneurs continually lead the way from one state of equilibrium or order to a new and superior one.

Attracting imitators at some point is, therefore, a part of the entrepreneurial success story as well as a part of the entrepreneurial cycle. Imitators would, however, change what was once new or radical departure from the old order into a new normal or a stable equilibrium. For example, Mohamed Yunus who, as will be explained in greater detail later, is widely regarded as a social entrepreneur, having introduced the microloan system through his Grameen Bank, has invited imitators from all over the world. The system created became a new order in lending, and the concept has become more widespread than he originally envisaged. Another example from the 19th century is Andrew Carnegie's library system. Carnegie was both a business entrepreneurs and a social entrepreneur. As a social entrepreneur, he introduced the concept of having a library system that would have the broadest impact, and could be imitated by others all over the world for the purpose of providing the broadest access to information. With this vision, the new superior equilibrium has been re-enforced by imitators.

Like social entrepreneurs, social activists may be motivated by an unfortunate but stable equilibrium. However, instead of taking direct action, a social activist "attempts to create change through indirect action, by influencing others… governments, NGOs, consumers, workers, etc. to take action" (Martin & Osberg. 2007, p.2). Thus, a social entrepreneur would create a social organization to realize his/her dream which brings about a new superior equilibrium, while the social activist would try to influence others to take action in the hope that that would lead to the desirable superior equilibrium. As for social service, it would differ from social entrepreneurship and social activism because its impact is more localized. (Ibid.)

Social Entrepreneurship versus Sustainability Entrepreneurship

Social entrepreneurship and sustainability entrepreneurship are different but have a great deal in common. Both emphasize the importance of conducting their activities in a manner that emphasizes saving and/or preventing harm to the environment so that the quality of life of future generations would not be harmed by the irresponsible behavior of today's businesses and consumers. The two types of enterprises differ, however, in that social enterprises see themselves and behave as social enterprises primarily pursuing a social mission while sustainability enterprises are business or economic enterprises that pursue their business and profitability objectives in a socially and environmentally responsible manner. Sustainability entrepreneurships emphasize the goal of promoting sustainable living and protecting the environment from further damage due to present and past business practice. They also view profits as a resource that should be reasonably divided between rewarding investors for the risk taken and re-investment in sustainability R&D, infrastructure, and responsible use of energy and natural resources.

Who are the Social Entrepreneurs?

As definitions of social entrepreneurship vary widely, so do the definitions of social entrepreneurs. Ashoka, which is a foundation focusing on developments in social entrepreneurship, provides one of the most reflective definitions. It describes them as "individuals with innovative solutions to social problems. They are ambitious and persistent, taking major social issues and offering new ideas for wide-scale change. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the solution, and persuading entire societies to take new leaps" (Ashoka. 2010, p.1).

In addition to having a vision, determination, and an ability to identify problems and innovation solutions, a social entrepreneur has to be a persuasive communicator and a good organizer. He/she is usually driven by the desire to open new pathways and attain measurable outcomes. Like business entrepreneurs, they also have a higher than average risk-taking propensity and tolerance to uncertainty.

The 4Cs of Entrepreneurial Success

When would a social entrepreneurship have what it takes to succeed? According to Tim Morral (2010, July 30) , there are four prerequisites for success, the 4 Cs: Compatibility, connections, communication, and commitment.

1. Compatibility: Having a good match between the product/service to be provided and the stated purpose of the enterprise.

2. Connection: The extent to which the entrepreneur/leader has succeeded in creating a passion for the venture and its mission among stakeholders, customers, associates, and the community at large.
3. Communication: The ability to convince stakeholders of the capability of the venture to deliver what its promises and reach measurable outcomes.
4. Commitment: Having the ability and the desire to persevere, and overcome barriers, doubts, and resource limitations. (pp.1-2)

The Profit Factor

It is often said that entrepreneurs are excited mostly by making their vision real. Thus, neither business entrepreneurs nor social entrepreneurs see profit-making as the sole or primary motive behind what they do. This is particularly true of social entrepreneurships, which are frequently perceived as non-profit organizations that are after generating "social value", not necessarily profits. In the view of some, however, there is nothing wrong with profit-making if that is not the primary goal. As Andy Horsnell (2010) observed, a "social enterprise is not balancing the double bottom lines of profit and social impact as though they are equally important. The real bottom line for a social enterprise, the goal by which its success should ultimately be evaluated, is its social (or environmental) impact; and being profitable (or at least financially sustainable) is the entirely necessary means to that end. Of course, there can be no social mission without money, but the first goal is mission" (p.2).

Therefore, operating as non-profits does not mean that social enterprises would not engage in revenue-generating activities which may be needed both for sustainability and raising additional capital. As Eikenberry (2009) observed, unlike philanthropic foundations that often follow the "transactional model" of fund-raising, social entrepreneurships have to follow the "transformational model which commensurate with their nature as innovative enterprises (p. 55).

The Risk Factor

Entrepreneurship is primarily associated with innovation and change. This applies to both of the social and business entrepreneurships. In the meantime, entrepreneurs are often described as risk-takers because they are willing to introduce previously untried ideas and approaches, and in so doing accept the possibility of failure. One dissenting voice, as mentioned in Chapter 2, is that of Peter Drucker (1985) who believed that all managers and leaders should be risk- takers, and well-prepared entrepreneurs do not necessarily assume added risk. In selected quotes from his famous Innovation and Entrepreneurship book, he stated that "entrepreneurship is risky mainly because so few of the so-called entrepreneurs know what they are doing. They lack the methodology. They violate elementary and well-known rules." This is not to say that he thought that entrepreneurship was risk-free. He just believed that risk could be reduced or better managed if entrepreneurs were better prepared to become leaders and managers of the ventures they created.

Organizational and Operational Necessities

Social entrepreneurships have to establish external relations as well as the kind of management and operational systems that would allow them to function as viable enterprises. They also have to build dedicated teams that believe in the mission, are committed to the cause, and have the skills needed to: (1) build and maintain strong relations with all external stakeholders, (2) attract the resources required for the financial viability of the organization, and (3) assist in the development and implementation of strategic and operational plans. The external stakeholders, upon whom social entrepreneurships depend, and to whom they should give special attention, include: "constituents intended to benefit from the initiative (e.g. poor and marginalized people); (2) resource providers, who offer financial, technical, or political resources; (3) allies who help carry out programs; and (4) actors who are targets of programs or campaigns" (Alvord, Brown, & Letts. n.d. pp.150).

Team building is one of the skills entrepreneurs need to have. They may start their ventures on the basis of a vision or an identified opportunity, but acting alone at first has to give way to acquiring and working with a team and other constituents. Quoting social entrepreneur, Mohamed Yunus, & Robertson (2009) wrote: "Community helps to encourage, enable, and value what the entrepreneur starts. If nobody notices, there is no reward for the entrepreneur, others, or the world… When entrepreneurship lasts, what you create becomes the person rather than the persons who make it. It is ageless. It is a combined personality, not just one. It is a life unto itself" (p.31). What this means is that the social enterprise that an entrepreneur creates should be organized to have a personality and a life of its own, and this can't be done if the founder continues to stand alone. (Ibid.)

The administrative structure, set by Brazil's Instituto de Pesquisas Ecologicas (IPE), reflects the importance given both to its organizational structure, and the selection of its team-members. IPE is a community-based biodiversity protection social entrepreneurship. One of its main objectives is saving what is left of the Atlantic Rainforest. At its highest echelons, it has been set up to have three separate boards: The first determines the overall direction and strategy; the second is responsible for fund raising and fund management; and the third focuses on creativity and is actually called the Creativity Council. Ashoka (2001) described IPE's personnel selection criteria indicating that "a person is accepted as a part of IPE's team first and foremost for… attitude. While the candidate must certainly demonstrate intelligence, an agreeable personality ranks as high as technical knowledge… right after a positive attitude comes talent and commitment" (p. 7).

Social Entrepreneurship Success Stories

The following social entrepreneurships, which vary in location, size and objectives, have been selected as examples of successful models that have exceeded expectations. Two have originated in Bangladesh, and the others in Egypt, India, Brazil, and the United States.

The Grameen Bank:

After taking some of his students on a field trip to a village in Bangladesh, Professor Mohamed Yunus of Chittagong University encountered a poor woman who made a living by making bamboo stools in her home. He learned from her that to make those stools, she had to borrow 15 pennies per stool from a middleman at as high a rate as 10% per week. At such rate, she ended up with a profit margin of only one penny per stool. Upon hearing that story he realized that that poor woman and others like her had to depend on those middlemen because they were shut out of conventional banking institutions' lending programs. The amounts they needed were too small for those banks to consider. Therefore, he came up with the microloan concept, and shortly after established the Grameen Bank (which means village bank) to pioneer in providing microloans for women and men who needed such small amounts to finance their micro-size businesses. The loans to be provided by Grameen could be as small as $50, and could be used to buy such things as sewing machines to make clothes to be sold to neighbors, chicken to produce eggs that can also be marketed, or start any kind of business. Along with this kind of financing, borrowers can get some technical and business advice from the Bank to help them get started. The loans provided are to be paid pack in six months, and do not require any collateral.

Since its establishment in 1976, Grameen has added 1,084 branches and 12,500 employees, and grew to serve 2 million clients in 37,000 villages. According to its records, "on any working day, Grameen collects an average of $1.5 million. Of the borrowers, 94% are women, and over 98% of the loans are paid back, a recovery rate higher than any other banking system. Grameen's principles and methods have eventually been applied in projects in 58 countries, including the U.S., Canada, France, the Netherlands and Norway." (Grameen Communication, 2010, p. 1) Success magazine (2010, October) described Yunus as the Banker to the Poor who pioneered microlending and launched a global movement (61).

Since the spread of micro-finance to other countries, adaptations were added and more lives have been touched by its benefits. India, for example, became one of the biggest countries to adopt it, and microfinance financial institutions began to provide millions of loans ranging mostly from $108 to $431. The annual micro-finance growth rate in India was recently reported to have reached 40%, benefiting 25 million borrowers. With such fast growth, however, there is a potential of an increase in the rate of defaults. According to Business Week (2010, June 27, p.51), there has been an erosion in lending standards in India due to the lack of a nationwide system to track borrowers, and the potential impact could be as dangerous as a monsoon or some other natural disaster. But such a possibility does not discredit the concept and its future potential in India and other countries.

Appropriate Development Architecture and Planning Technologies (ADAPT):

This social entrepreneurship was established by architect/ entrepreneur Hany El-Miniawy to introduce low cost construction technology that would make possible the building of affordable housing for the poor in Egypt and other countries, using local recycled materials. The concept is to adapt construction technology to local conditions and resources. In addition to directly using this technology in building thousands of housing units, ADAPT teaches others to do the same in order to extend the benefit to the largest number of needy families who may otherwise continue to live in slums for the rest of their lives. About 70% of ADAPT's clients are poor or marginalized members of society who live in sub-standard residences. In addition to its activities in Egypt, ADAPT has extended its activities to Algeria, Saudi Arabia, and other countries (Knowledge @Wharton. 2010. P.1-2).

The Bangladesh Rural Advancement Committee (BRAC):

Established by Entrepreneur Fazle Hasan Abed al Sulla in 1972, BRAC has a broad mission to help the poor and landless, particularly women and children. Its aim is to help its clients to transition from being public aid recipients into productive citizens. In 1979, it started a program to cut down child mortality through immunization and oral rehydration. Its holistic approach to reduce poverty grew to include disaster relief, microfinance, and educational and social development projects. After initial success in its home country, BRAC has established offices in 14 countries, performing activities in 64 countries all over the world. Through its 120,000 employees and volunteers, it is estimated to have positively touched the lives of 110 million people. To finance its non-profit programs, it has acquired several commercial enterprises whose revenues finance 80% of its operations (BRAC. 2010, pp.9-11).

Instituto de Pesquisas Ecologicas (IPE):

As mentioned earlier, IPE was established to run a community-based biodiversity protection system, save the Pontal forest, and reduce the continued fragmentation of the Atlantic Rainforest by poor settlers. The geographic area of interest has been settled by thousands of poor people as a part of Brazil's Landless Movement. Some of the settlers claimed the land for themselves, and some were placed there by the Government, and since they were not originally from that area, they had no historic or emotional connection to the land, and were not opposed to deforestation. Houses, roads, industries, and agriculture replaced the forest trees. As a result, only 2% of indigenous trees in the Pontal's forest avoided deforestation. To reverse this trend, and get the cooperation of the settlers who have no other place to go, IPE came up with the following creative approach:

First: gain the settlers' confidence and cooperation.

Second: Develop an environmental protection educational program.

Third: Develop a community-based biodiversity protection program.

Fourth: Train professionals and community members.

Fifth: Influence public policies toward biodiversity conservation.

The community's cooperation is manifested in what IPE calls "The Green Hug", according to which the settlers would be organized "to plant trees surrounding nature reserves in order to ward off assaults by cattle, fires, and windstorm. After taking classes in planting trees, these settlers plant a mixture of fast-growing trees from which they can harvest much needed fruits, firewood, and wood for building, as well as slow-growing indigenous trees that have more economic value… With this practice, people are less likely to go deep into the forest and disturb habitat of endangered animals" (Ashoka. 2001, p.5). This strategy has helped avert further in depth cutting of indigenous trees.

Aravind Eye Care Hospitals:

Founded in India in 1977 by a visionary Ophthalmologist and social entrepreneur, Dr. Govindeppa Venkataswamy, who also came to be known as Dr. V, these hospitals have saved the vision of 2.4 million poor Indians over a 30-year period. Dr. V's vision was to set up a largely free eye care system to help in eradicating needless blindness in India, a country in which over 2 million people lose their eye sight annually, mostly due to Cataract. To realize this vision, he: (1) designed an eye care and surgical procedure that resembles an assembly line in order to maximize the number of patients to be treated, (2) reduced the cost per surgery by keeping the operating rooms open for performing surgeries 24 hours per day, (3) trained nurses to perform pre-op and post-op care in order to free doctors to perform the maximum number of surgeries, (4) offered free eye care for the poor who made up two thirds of his patients, (5) initiated a training program to help other doctors and entrepreneurs to establish and run similar systems, and (6) instituted a research program for continuous improvement that would benefit the patients. Referring to his vision and the innovative system that he set up to serve the largest number of patients, Dr. V once stated that "he wanted to market good eye-sight to the world the way McDonald's sells hamburgers" (Wikipedia. 2010, August 7, p.1).

In fact, the similarities between McDonald's story and Dr. V's are striking. Both started with a goal and both devised systems that enhance efficiency, reliability, value, market expectation, and consistency in the services/products provided; and both have done well through the years. Peter Drucker's (1985) description of McDonald's story shows such similarities. He wrote that McDonald "first designed the end product; then it redesigned the entire process of making it; then it redesigned or in many cases invented the tools so that every piece of meat, every slice of onion, every bun, every piece of fried potato would be identical… Finally, McDonald's studied what value meant to the customer, defined it as quality and predictability of service, absolute cleanliness and friendliness, then set standards for all of these" (Guzzardi. 1985, p.270).

Televerde's Call Centers:

Recognizing the difficulties prisoners face in re-starting their lives after they serve their sentences, Televerde, a company that sells expensive software packages, established four Call Centers, staffed by female prisoners inside the Arizona State Prison complex at Perryville. Through those call centers, Televerde tries to reach and convince businesses to buy their software. The reward of those prisoners is getting paid at the federal minimum rate, and more importantly eventually walking out of prison with a job waiting for them and up to $15,000 in savings. The benefit to society is a reduction in the rate of return to the slammer due to their resort to a life of crime. Some of those same individuals, not only did well in those jobs, but ended up getting advanced degrees that made it possible for them to get responsible positions on their own in the United States and Canada. According to Forbes reporter, Victoria Barret (2010, June 28), "of Televerde's out-of-prison alumni, (only) 11% have gone back to the slammer over the last 14 years, (while} nationally, 40% of female felons return within just three years" (p.55).

Summary

Social entrepreneurship is catching up with business entrepreneurship as a borderless agent of change. It is after the kind of transformational change that makes a difference in solving societal and environmental problems and reversing actual or threatening negative social, economic and environmental trends. Some, social entrepreneurs have, therefore, emerged as modern heroes who take up the challenge of changing a stable, but inferior, equilibrium to a superior and more desirable one. Because they are not for profit maximization or increasing market share, they don't discourage competitors and imitators. In many cases, they show others how to follow a similar path to also make a difference.

Although a social entrepreneurship may take the form of a for-profit enterprise, it is for the most part a social enterprise that uses the profits realized for sustainability, or for attaining clear social and/or environmentally-related objectives. India's social entrepreneurship, the Aravind Eye Hospital system, for example, uses the profits realized from serving financially able patients to offer free treatment to two- thirds of their patients who can't afford to pay; thus, reducing unnecessary blindness among the poor members of society. Social entrepreneurs like Dr. Venkataswamy, Aravind's founder, and Mohamed Yunus, who pioneered in microfinance, are likely to continue to grow in number and impact because they offer the world an effective and credible alternative to complete reliance on for-profit businesses and governments to address market failures, environmental challenges, and social ills.

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Chapter 7.
International Entrepreneurship

An entrepreneur would approach building
a business with vision, plan, goals, and metrics
to measure progress.
Ted Leinsis

Chapter objectives are to learn about:

- Entrepreneurship as a global phenomenon
- Changes leading to international entrepreneurship
- Modes of entry into the international market
- State of entrepreneurship in different markets

Introduction

Entrepreneurship has been getting worldwide attention in recent years. Despite the persistence of some old negative attitudes and excessive regulatory constraints in some societies, entrepreneurs and their businesses have never been more welcomed in as many countries as they are today. As mentioned earlier, they are now universally associated with economic expansion, job creation, innovation, wealth creation, and financial independence. This chapter will treat international entrepreneurship from two perspectives: first, its world-wide appeal and expansion, and secondly, the pattern and entry strategies it takes in different markets.

Geographic Spread of Entrepreneurial Companies

An extensive survey conducted by the Global Entrepreneurship Monitor in 29 countries in Asia, Australia, Europe, North and Latin America, New Zealand, and South Africa in 2001 revealed the growing importance of entrepreneurship in the areas covered as well as the similarities and difference in the entrepreneurial environment and types of entrepreneurial firms established. As the following points indicate, there are clear differences among the economically advanced and the developing countries included in the survey:

- As entrepreneurship spread throughout the 29 countries covered in the survey, it has become a global phenomenon with a significant impact on economic growth and global output of goods and services. Out of 1.4 billion working age inhabitants in those countries, about 150 million were found to be involved in some entrepreneurial activity.

- About 54 percent of those 150 million were engaged in opportunity entrepreneurship, i.e. the type that was based on personal interest and promising opportunities identified.
- About 43 percent (63 million) were involved in necessity entrepreneurship, i.e. the type that individuals get into out of necessity because they don't have any prospects for better income generating activities.
- The highest ranking countries in the number of opportunity entrepreneurship were the United States, Australia, Mexico, and New Zealand.
- The highest ranking countries in necessity entrepreneurship were India, Mexico, Poland, and Brazil.
- Developing countries in general had higher rates of necessity entrepreneurships.
- Opportunity entrepreneurship flourished in countries that had less intrusive government regulations.
- The percentage of necessity entrepreneurship was higher in countries that did not have viable social welfare systems, and in developing countries that had significant income disparity.
- Individuals who were convinced that they had entrepreneurial skills were more likely to participate in opportunity entrepreneurship.

Why Go Abroad

One of the main explanations of why firms get into the global market is that in this age of globalizaion, markets have been integrated, trade barriers have been lowered, and worldwide investment opportunities have grown; hence, companies that limit themselves to one market would be limiting their growth and future profitability. Accordingly, companies that orient and prepare themselves to enter growing foreign markets can benefit from the diversity and strengths that those markets and the players in them currently enjoy.

Although there are differences between what large and small businesses can accomplish in foreign markets, those markets have ample opportunities for all types and sizes of business enterprises. In addition, the returns on investment are usually higher in the international market than they usually are at home. As Andrew Tanzer of the Washington Post (2010, December 25) advised the American business community:

> "Don't forget that S&P 500 companies earn 40 percent of profits abroad, where growth is higher than at home. David Bianco, chief stock strategist of the Bank of America Merrill Lynch, calculates that profit margins of U.S. companies are far higher overseas… Profit increases in 2010 at global companies… were powered by buoyant growth in developing countries' economies that Merrill Lynch project will generate no less than 75 percent of the world's economic growth in 2011… U.S. companies gain when they produce abroad or export goods and services to foreign consumers, factories or infrastructural projects" (p.G3).

The emerging economies of Brazil, Russia, India, and China -- known at the BRICs -- offer new opportunities for international business. These countries have abandoned restrictive ideologies in favor of open market-oriented economies that are friendly to expansion of trade and foreign investment. Beyond the BRICs, market growth rates in many developing countries, which have been rising due to population increases and surge in personal incomes, also encourage foreign-based enterprises to get into those markets. On average, the economic growth rate in the developing countries has exceeded that in the developed countries for several years. Increased urbanization in many countries, for example, has raised demand for prepared food and resulted in an increase the number of food production and service establishments because urbanites eat out more often than the rural population does. Urbanization also has boosted demand in the service industries as well as in construction and construction-related businesses. This reflects widening opportunities for entrepreneurial companies in the world market.

Global Start-ups

One of the explanations of how and why firms get into the global market is that growth happens incrementally to all types of businesses, and could eventually leads to entry into foreign markets. This incremental growth theory suggests that firms which start as local firms and gradually grow and expand their horizons and capabilities, becoming regional, national, and eventually international as they redefine their markets and the scope of their operations. A prerequisite for this progression is the ability of the firm to build, over time, on the initial small-scale success as a local firm.

Oviatt & McDougall (2005) saw a different path to getting into the global market that can be traced back to the 1980s. This path begins at inception, and has been made possible by increased economic integration, modern technological advances in communication and other areas, and a better prepared class of entrepreneurs. They defined this type of "Born Globals" as:

> "A business organization that, from inception, seeks to derive significant competitive advantage, from the use of resources and the sale of outputs in multiple countries. The distinguishing feature of these start-ups is that their origins are international, as demonstrated by observable and significant commitments of resources (e.g. material, people, financing, time) in more than one nation. The focus here is on the age of firms when they become international, not on their size. The location advantage of such new ventures lies in their ability to discover imbalances of resources between countries where none previously existed" (pp.31, 37).

To enhance their competitive advantage, those international new ventures, the " Born Globals", use global networks and alliances to enhance their strategic positions in multiple markets. This strategy makes possible the sharing of resources, information, and know- how within the network so that the members would attain their individual objectives. The advantage of such networks and strategic alliances is that they enhance the chances of success in less familiar markets, but remain as loose arrangements that last as long as the members find them mutually advantageous.

Modes of Going Global

Internationalization is a complex and risky process particularly for small firms. It requires having sufficient capital, familiarity with foreign markets, superior product/service, exceptional ability to identify opportunities, and willingness to learn. However, not all firms get into the global market fully prepared; thus, unnecessarily adding to the risk of failure. Some find themselves doing business in other countries simply by reacting to foreign buyers' periodic orders. As Leigh Buchanan (2007, April) wrote in an Inc. article on globalization:

> "Many small businesses end global unintentionally as nascent search engines directed foreign customers to their websites. Now businesses use low-cost tools such as Skype and WebEx to assemble coherent virtual enterprises… These company owners (work) out the rules as they go, drawing lessons from failures and successes alike" (pp.8, 91).

Companies that carefully plan their entry into foreign markets not only choose from alternative markets on the basis of the opportunities available, the business environment, and market considerations, but also weigh and compare different modes of entry such as the following:

- ✓ Exporting and/or importing goods or services
- ✓ International contracting or subcontracting
- ✓ Foreign direct investment (i.e., establishing and owning subsidiaries for manufacturing, assembly operations, or services)
- ✓ Real estate investment (e.g., office buildings, residential homes, etc).
- ✓ Licensing agreements (e.g., granting independent companies production rights for a share in the profits)
- ✓ Franchising (e.g., granting independent companies the right to offer services using the parent company's brand name and trade mark for a share in the profits)
- ✓ Management service and consulting contracts

For a small or an entrepreneurial firm, the internationalization process might involve only one mode. For example a firm may prefer direct exporting or indirect exporting through intermediaries. (Please see Appendix IV). Others may engage in franchising or licensing activities. Still some companies may prefer to establish joint ventures with other firms or individual investors, or simply have branch offices in selected markets. Foreign direct investment, whether in the form of wholly-owned subsidiaries or joint ventures is probably the most risky mode of entry, and requires extensive planning and many preparatory steps.

Additional Success Boosters

Are there other factors – in addition to the ones mentioned earlier – that can influence the successful entry of small and entrepreneurial firms into the international market? Ball *et al.,* (2003) believe that the answer is yes. Therefore, they introduced the following factors to further explain further the phenomenon of going global:

- o Goals. The firm's goals should aim at occupying the position of 'first-mover' in foreign markets to lock-in potential customers, expand market niche, or exploit readily available opportunities.
- o Motivation. The firm's management should be committed to explore global markets and to challenge competitors.
- o Pace. The pace of going global is different among firms, but should depend on the firm's capabilities. Some firms might want to move gradually to a desired foreign market, while other firms might plan to enter into multiple markets simultaneously.

On the other hand, Dimitratos & Plakoyiannaki (2003) developed a conceptual framework of international entrepreneurship that consists of the following six dimensions:

1. International market orientation – decisions and actions taken by the firm to create outstanding value for its goods/services in international markets.
2. International learning orientation –the ability of the firm to collect and analyze relevant information about overseas markets, customers, and competitors.
3. International innovation propensity – the ability of the firm to generate and utilize new ideas in the introduction of innovative goods/services in foreign markets.
4. International risk attitude – the willingness of the firm to undertake a greater degree of risk in its operations overseas.
5. International network orientation – the ability of the firm to create strategic alliances overseas that enable it to enhance its performance and competitive advantage, domestically and abroad.
6. International motivation – the factors that influence the firm's founders and other organizational members to create overseas operations.

Cross-Country Comparisons of the Business Start-Up Environment

Despite the overall trend to welcome foreign-based businesses and their products, entering new markets is sometimes an uphill battle because of host country policies, cultural resistance, and foreign policy disputes. Unless the product and the deal to be offered are superior to the rest, the road ahead may be difficult, though not necessarily insurmountable. The host country government must see the benefits from a foreign-based venture or some import to be greater than costs; otherwise it would most likely impose entry restrictions, close scrutiny and stifling regulations that some foreign businesses may not be able to tolerate.

In Africa, for example, decades of economic stagnation, caused by experimentation with various forms of socialist and economic independence policies, have caused many governments, over the last two decades, to start to perceive private domestic and foreign investment as the key to better economic future. Those countries have adjusted their policies as a welcome sign for such investors. However, a few are still suspicious of investments by foreign-based enterprises, fearing the return of foreign economic domination and the loss of control over the domestic economy. Accordingly, it would be safe to conclude that the foreign investment and trade environments are not the same everywhere, and international business enterprises have to adjust their policies and strategies from time to time, and from market to market, in order to protect their assets without forgoing worthwhile opportunities.

In an article titled the ***Best Country to Start a Business,*** published in the Wall Street Journal on November 15, 2010, Jeff May reviewed the environment of entrepreneurship in different countries, compared attitudes and policies toward entrepreneurs, and classified some in terms of the time it takes to start a business and the ease of running a business in light of the regulatory environment and red tape. More specifically, the analysis showed:

- The ranking of the least and not-so-good spot (i.e., country) to start a business.
- How difference countries stand in regard to red tape.
- Overall ranking of countries as good or bad places for doing business.
- Time needed to complete legal procedures to establish a business.
- Average amount of cash needed to establish a business.

Table I, II, III, and IV reveal some of the rankings established:

Table 1. *The best and not-so-good spots to start a business*

Rank	Countries	Rank	Country
1	Denmark	65	Iran
2	Canada	66	Ecuador
3	United States	67	Bolivia
4	Sweden	68	Syria
5	New Zealand	69	Guatemala
6	Ireland	70	Philippines
7	Switzerland	71	Uganda

Source: May, Jeff (November 15, 2010), *the best country to start a business*, the Wall Street Journal.

As the table shows, Demark occupies the best spot to start a business, while Uganda is ranked 71 of the countries studied. Table 2, in the meantime, shows a measure of red tape in some selected countries. This measure indicates how easy for potential entrepreneurs/ business owners to start a business, taking into consideration costs, time, capital requirements, and legal procedures.

Table 2. *A measure of red tape*

Rank (easiest)	Country	Rank (hardest)	Country
1	Singapore	179	Congo, Republic
2	New Zealand	180	Sao Tome and Principe
3	Hong Kong	181	Guinea-Bissau
4	United States	182	Congo, Democratic Republic
5	United Kingdom	183	Central African Republic

Source: May, Jeff (November 15, 2010), *the best country to start a business*, the Wall Street Journal.

As shown in the table above, Singapore is considered to be the easiest country in the world to found a business enterprise, while the Central African Republic is the hardest. Table 3 below gives us another measure of the ease of doing business in selected countries. This measure in the time required to gain needed approval and complete the necessary steps to start a business in the countries indicated.

Table 3. *Time required for establishing a business*

Days	County	Days	County
1	Switzerland	13	United Kingdom
2	Australia	37	China
3	Singapore	47	Spain
4	Belgium	195	Haiti
6	United States	694	Suriname

Source: May, Jeff (November 15, 2010), *the best country to start a business*, the Wall Street Journal.

As can be seen in the table above, while it takes a single day to create a business in Switzerland, the time needed in Suriname is 694 days, a very complicated legal process. Finally, Table 4 below shows the amount of cash needed on average to establish a business enterprise in selected countries:

Table 4. *Average amount on money needed to establish a business (U.S. dollar)*

Country	Amount	County	Amount
Netherlands	$302,766	Brazil	34,128
Denmark	256,527	China	29,280
United States	174, 958	Russia	16, 489
Germany	142, 500	Malaysia	5,648
United kingdom	125, 328	Uganda	942

Source: May, Jeff (November 15, 2010), *the best country to start a business*, the Wall Street Journal.

As the table above shows, the average cost of creating a business firm varies among countries, depending on the country's standard of living, price level, interest rates, and other economic factors.

One can conclude from the information compiled above that foreign investors, be they entrepreneurs or large multinational firms, face different conditions and entry requirements and procedures in different parts of the world. Some countries, like Denmark, Canada, New Zealand, the United States, and Singapore, have welcoming attitudes and policies. Other countries, like the Central African Republic, Haiti, and Suriname do not make the entry of foreign investors easy and less time consuming.

Summary

Entrepreneurship has become a global phenomenon. Although it is the oldest form of doing business, predating the Industrial Revolution, the worldwide growth in entrepreneurial activities in the last twenty years is unprecedented. Many firms follow an incremental growth strategy before getting into the world market -- growing from being local market oriented into regional or national companies and finally expanding their operations to one or more foreign markets. However, some entrepreneurial firms have started in recent years to enter foreign markets from their inception. Those firms have be given names like born globals, international new ventures and global start-ups. This new business model has become possible, thanks to increased global and regional economic/market integration, advances in communication technology, networking strategies, and the rise of a new generation of globally-oriented and savvy entrepreneurs. Due to the added risks of doing business in less familiar foreign markets, thorough planning is particularly important before committing resources to foreign operations.

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Chapter 8.
Entrepreneurship in India and China: A Case Study

Chapter objectives are to learn about:

- The role of entrepreneurial organizations in the revival of the economies of India and China
- The similarities and differences between the business environment in India and China
- The problems faced by entrepreneurs in India and China
- The characteristics of Indian and Chinese entrepreneurs

Introduction

After China undertook its first measures toward economic liberalization in 1978, it has followed a path that separates its economic policy from its communist ideology and political system. It has adopted a series of policies that have made it possible for Chinese entrepreneurs and foreign investors to participate in its economic revival and export-oriented growth programs. The success of this major economic shift in transforming it into an economic powerhouse and in lifting a major segment of its population out of poverty has amazed skeptics who believed that political reforms should have preceded or, at least, accompanied such liberalization measures. Although the government and state-owned enterprises continue until today to play a major role in the economy, China's official policies have gradually opened the door to private initiative, and have made possible the emergence of a new class of business owners that has been allowed to generate personal wealth and enjoy the rewards of entrepreneurial risk-taking. Even some Communist Party officials have become a part of the new wealthy business class by participating in new ventures and using their influence to promote others. This economic liberalization policy has also allowed many women to start their own businesses. According to China's Association of Women Entrepreneurs, one in five Chinese entrepreneurs were women in 2002, and 80 percent of those enterprises were established after 1995. Moreover, those women-owned and run firms were active in manufacturing, wholesaling, retailing, and social services (Qingqi, 2006, p.2).

The circumstances in India were different at the time its economic reforms were introduced in 1991. Although India had a system, in which the state played a major role in the economy, it has had a democratic system of government since independence, and the private sector continued to operate alongside the public sector. Like China, however, India suffered for decades from economic mismanagement, lack of capital, under-investment, skeptical and fearful attitude toward foreign investment, and an inclination among its citizens to avert the risk involved in business start-ups. In addition, it lagged, even behind China, in its physical infrastructure. As also happened in China, it had to allocate substantial resources to the basic needs of its large population. Although India started in the 1990s to welcome more foreign investment than it did in the previous three decades, it did not go out of its way to encourage the flow of such investment, the way China did soon after the institution of its reforms. It has also lagged behind China in "embracing its diaspora". According to one estimate, there are more than 50 million Chinese and over 20 million Indians living outside their home countries (Lagace, 2008, p.3).

To operate within the Chinese system, in which the government itself acts as an entrepreneur that owns and operates a large number of industrial and business enterprises (SOEs), Chinese entrepreneurs found it necessary to establish alliances with local governments and other businesses as well as informal networks (*guanxi*). Many of them have also adopted what Michael Porter calls an "overall cost leadership strategy", emphasizing lower operating costs and lower prices in order to maintain a competitive advantage both at home and abroad. This has often resulted in entrepreneurial ventures becoming imitators who would take advantage of lax enforcement of intellectual property rights and anti-piracy codes; thus, de-emphasizing product innovations that require substantial investment in R&D. By ignoring violations of intellectual property rights, the Chinese government reduced the urgency to adopt risky product innovation strategies.

Background

It wasn't long ago when one wouldn't associate entrepreneurship with either India or China. The Indians have traditionally been known as risk averters, and "entrepreneurship and China used to be oxymoron" (Liao & Sohmen, 2001, p.27). The Communists who rose to power in China in 1948 suppressed private businesses and eliminated private property. China's private sector officially came to an end in 1956, except for street peddler, smugglers, and some micro-businesses that were too small to attract attention, while the public sector rose and established a monopoly over manufacturing and distribution. Out of an estimated 9 million business establishments that existed in 1949, only 150,000 managed to survive until 1978 (Liu, 2001, p.1).

After going through decades of economic stagnation, during which China was described as a sleeping giant, the Chinese government began a series of reforms aiming at the modernization of its economy. These reforms eventually opened the door for the re-emergence of private/entrepreneurial and for-profit enterprises. These reforms also ended the antagonistic view toward foreign investment and the involvement of multinational firms in the Chinese economy. By 1990, township and village enterprises (TVEs) and other privately-owned businesses began to play a significant role in China's economic revival (Liao & Sohmen, 2001, p. 27).

Some of the newly established small entrepreneurial firms found their niche in the shadow of state-owned enterprises (SOEs), filling in gaps in manufacturing, services and distribution. These businesses, called individual businesses or *getibu*, have been limited to hiring a maximum of five workers. In the event that they needed to hire more workers, they would be re-classified and called Private Enterprises or "*saying qiye*". By 1988, about 500,000 businesses qualified to be classified as Private Enterprises (Liu, 2008, p.3).

As those Private Enterprises (saying qiye) continued to grow in size and importance, the Government started to classify them into four groups:

1. "Red hat firms" that operate as township or village enterprises (TVEs) or Urban Collective Enterprises (UCEs)
2. Rented collective firms that can be operated by entrepreneurs or some other private operators
3. Shareholding firms that distributed shares or profits to employees
4. Foreign investment joint ventures that may partner with local collectives or state-owned enterprises (SOEs)

Since India never outlawed private businesses, as China did for decades, the 1991 reforms didn't seem as drastic, though still significant in boosting entrepreneurship. As those reforms changed the political, legal, and regulatory environment in favor of privately owned businesses, entrepreneurship flourished in new industries like Information Technology (IT) and pharmaceuticals, and traditional industries like apparel and textiles.

Barriers to Entrepreneurship and Survival Strategies in China

Despite a sequence of steps taken by the Chinese government toward economic liberalization, entrepreneurs continued to face barriers that complicated, and sometimes threatened, their firms' growth and survival. The problems they faced have included political and legal uncertainty, a banking system that was not geared to serve private enterprises, social stigma about leaving regular jobs in order to sell things, lack of venture capital, and governmental institutions that favored state-owned enterprises (SOEs). In many cases, private businesses have found the central government, which sets the rules of the game, itself playing the role of a competitor. As Jing Yu Yang & Jiatan Li (2008) observed, "in the initial stage of reform, the non-state sector has only been assigned a supplementary role to the dominant public economy. This status has led to discrimination against the small entrepreneurial firms in obtaining factor inputs" (p.347). Lamenting this reality, one Chinese entrepreneur once stated: "As entrepreneurs we are condemned either to being the concubines of state enterprises or the mistresses of multinationals" (McGregor, 2006, p.11).

Yasheng Huang of MIT's Sloan School of Management also commented on the difficulties faced by small entrepreneurs stating: "While China (has) made genuine progress toward establishing elements of a market economy, it is far from establishing a level playing field for those capitalists who actually matter -- the market-driven humble entrepreneurs unattached to the government" (Financial Times, February 2, 2007). In another article, he observed: "The root cause of China's corporate woes is the inefficient economic system that allocates vast financial resources, market opportunities and legal protection to the SOEs… at the expense of private enterprises. Some economists may be impressed by the high number of new non-state companies entering the economy, but they miss a fundamental fact: while bad economic institutions do not deter the entry of new businesses, they do stunt their growth" (Financial Times, April 23, 2004).

In reaction to such challenges, Chinese entrepreneurs have successfully adopted defensive strategies, based on the Chinese concept of "guanxi" (pronounced *gwan shee*), which provides a rationale for the use of personal contacts to get things done outside normal channels and legal procedures. Yang & Li (2008) described those strategies, stating that "in order to thrive and grow, entrepreneurial firms were often forced to collide with local governments or other major constituents holding valuable resources" (p.347). Irene Hau-Siu Chow of the University of Hong Kong (2009) sees *guanxi* as a kind of social capital that is "based on the principle that who you know is more important than what you know" (p.45).

Entrepreneurs have also established hybrid businesses by virtue of which arrangements are made with other entities for sharing and/or exchanging resources and governance structures, thus reducing the uncertainties caused by discriminatory and confusing regulations, and a weak legal system. In addition, alliances have been created to attain horizontal and vertical integration for the benefit of all participants. Explaining the nature and benefits of these inter-organizational alliances, Yang & Li (2008) pointed out that they "can reduce institutional uncertainty and enhance firms' competitiveness in domestic and international markets by providing subsidies, access to credit capital, and supporting infrastructure and related resources. In addition, they offer greater capacities for generating and transmitting information. Such trust-based relationships act as a cushion against failure" (p. 349).

To remedy the systemic problems that continued to constrain private enterprises, new measures have been taken in recent years in order to expand the granting of loans to private medium and small-size businesses, eliminate discriminatory practices by SOEs, and encourage entrepreneurial firms to get involved in infra-structural projects. Furthermore, listing of private enterprises in the stock market has been made easier and less costly. A survey by the People's Bank of China indicated that by the end of the year 2000, the loans granted to the private sector had reached 4.8 trillion RMB Yuan. That amounted to 48 per cent of all banking loans. This represented a major progress for entrepreneurship in China (Liu, 2008, p.19).

Ease of Doing Business in India and China

Although the Chinese and Indian governments have greatly improved the political, legal and regulatory environments of doing business in their respective countries, both nations still fall behind others, according to a 2008 study conducted by the Organization of Economic Cooperation and Development (OECD). As Table I indicates, both countries still don't rank highly in the ease of starting a business and the ease of employing workers. China does better than India in the ease of exporting, enforcing contracts, and closing a business, while India surpasses China in the ease of getting credit.

Table 1. *East of Doing Business (Rank out of 181 Economies)*

Measure	China	India
Ease of Starting a Business	151	121
Ease of Employing Workers	111	089
Ease of Getting Credit	059	028
Ease of Exporting	048	081
East of Enforcing Contracts	018	180
Ease of Closing a business	062	140

Note: Based on the World Bank Group's Doing Business, 2009

Modernizing the Infrastructure for Sustained Growth

At the time China began its modernization and reform program, it had only four state-owned banks whose mission was not to serve privately owned enterprises. In 2008, it had at least 14 major banks in addition to many regional, and over 100 city commerce banks. Of the reforms and adjustments that are still needed to improve the environment and business practice in China, the following are worth mentioning:

1. Full restoration of private property rights to make possible the passing of businesses from on generation to the next
2. Improving accounting and auditing standards
3. Developing codes of ethics in accounting and other professions
4. Developing quality assurance review processes (Chipman)
5. Strengthening consumer and environmental protection laws
6. Better enforcement of anti-piracy and intellectual property rights codes
7. Improving the accuracy of financial reports

For India, sustaining its high rate of economic growth, which raised its population's per capita income by 230% in one generation, would be difficult unless additional reform steps are taken. Eliminating infrastructure bottlenecks, promoting competition and innovation, increasing social harmony, and streamlining governmental decision making processes are crucial for continued growth at the rates experienced over the last two decades (Wolf). In addition, the government needs to give greater support for start-ups by providing training for potential entrepreneurs, particularly in rural areas; and by sponsoring programs that would assist entrepreneurs in obtaining the initial capital required for their new ventures.

Attracting Foreign Investment

One of the main differences between India and China since the adoption of their reform programs is the extent of interest shown in foreign investment. Post-1978 China has courted multinational firms, and has offered them tax and other incentives that domestic entrepreneurs did not enjoy. It has, therefore, surpassed India in the number of ventures established by foreign-based investors and multinational enterprises. While allowing the entry of multinationals, India has subordinated their role to domestic businesses, many of which continued to lobby for the continuation of the old protectionist policies.

Meanwhile, India has emerged as a haven for outsourcing both by domestic IT firms and multinational corporations. In the first half of 2009, outsourcers in India have earned $19 billion despite a 22% reduction in global demand for IT services (Stivastava & Hamm, 2009). Outsourcing has also been recently spread to the pharmaceutical industry after five major western firms signed agreements with Indian companies to "take promising compounds discovered by the multinationals, run tests to weed out the weakest candidates, and develop some of the others into marketable drugs" (Engardio & Weintraub, 2008, p.49).

Thanks to their production efficiency, many Chinese private/entrepreneurial firms have become attractive as contract manufacturers by foreign-based enterprises. One such firm is the American- owned R&H Designs, which is a women's apparel company that operated for decades in California. R&H Designs decided to consider moving its manufacturing operations to China to take advantage of lower production costs. After considering several Chinese firms as potential contract manufacturers, the search was narrowed down to two firms. However, as a final test before making a final decision, R&H asked each of the two firms to "copy five of its garments without any specifications, patterns or instructions. To everyone's surprise, all the versions produced in China came back nearly perfect. There was more detail, and the clothes were of equal craftsmanship to the ones made in California. However, the dress that costs $18 to make in the United States… would cost just $10, including the freight and customs charges to ship it… The difference becomes more pronounced if the dress has any kind of detail work, such as embroidery or beading. In the United States, the extra labor involved will push the cost up to $25, while in China it adds only… to around $12.00" (Adler, 2001, p.61). Such a cost differential has been a primary factor in moving a large portion of manufacturing operations from the United States and Europe to China over the last two decades. India has benefited from similar cost differentials, at least in its IT industry.

Summary

Both India and China continue to amaze the world with their economic progress and the achievements of their entrepreneurial ventures since they introduced a series of major reform measures over the last three decades. Present day China is not the China of the 1965 Proletarian Cultural Revolution, and India is not the country that Winston Churchill dismissed as a "mere geographical expression, a land that was no more a united nation than the equator". In opposition to India's demand for independence in the late 1940s, he warned that independent India could "fall back… through the centuries into the barbarianism and privations of the middle ages" (Johnson, 2007, p.1A). Obviously, he was wrong. Both India and China are now more confident about their future than at any time in their long history.

The economic progress achieved by those neighboring countries has boosted their aspirations for big power status on a global scale. In both of these countries, entrepreneurs have emerged as s source of positive energy and change as they helped in accelerating the pace of economic development. Despite this progress, however, both nations continue to depend to a significant extent on imported technologies and innovations. "Last year, 70 per cent of (China's) machinery and electrical exports… were produced at foreign-funded factories" (Areddy, 2010, p.B6). Both countries also lag behind the advanced economies in the development of globally-recognized brands. Speaking to John Pomfret of the Washington Post (2010, May 25), Fan Chunfong, the Secretary General of China's Industrial Overseas Development & Planning Association, lamented the industrial giant's dependence of foreign technologies and brands stating "we have lost a bucketload of money to foreigners because they have brands and we don't… We need to create brands, and fast" (p.A1). Such dependence on foreign designs and innovations has also caused China to pay significant amounts of money to foreign corporations as royalties and licensing fees. The same applies to India. Meeting this challenge would require the commitment of more resources to R&D; and the elimination of more of the bureaucratic, political, financial, and legal barriers that continue to stand in the way of entrepreneurial ventures attaining more of their growth objectives.

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Chapter 9.
Leading and Managing a Growing Firm

Chapter Objectives are to:

- Learn about leadership styles and team building
- Growth strategies
- Strategic management

Introduction

Entrepreneurs have to assume the leadership role in the organizations they create. Unlike managers and other business leaders who make their way up the ladder over a long period of time, entrepreneurs start at the top of their businesses and are expected to lead their teams from the first day, and handle the crucial task of strategic management despite the fact that many of them might not be fully prepared or trained to handle such responsibility. Those of them, who lack leadership and managerial capability, have to learn fast about the science and art of leading and managing. In addition, they must select their deputies or second in line persons on the basis of their managerial skills and experience.

Leadership Orientation and Style

Willie Davis of the Green Bay Packers attributed the success of the famous football coach, Vince Lombardi, to six elements: " First, he cared… Second, he worked hard… Third, he knew the right answers… Fourth, he believed in himself and his players… Fifth, he kept the bar high… Sixth, he knew people…" (Manning & Curtis, 2003, p.25). With this account, Davis implied that Lombardi was both a job-centered as well as a people-centered leader.

Stogdill (1981) offered a more comprehensive list of leadership qualities which includes:

- Vision

- Knowledge of the task
- Emotional stability
- Enthusiasm for the task at hand
- Empathy
- Concern for others
- Self-confidence
- Persistence
- Self-confidence
- Vitality
- Charisma
- Integrity

One should add to those qualities the ability to inflame passion, inspire, communicate, invite confidence, and influence events. Finally, a good leader must be a team builder, a shrewd observer, and a pace setter. Realistically, it would be difficult to find all of those qualities in one person. However, since most of these are acquired qualities an entrepreneur/manager can develop more of them during the course of his/her career.

Leading and Managing for Growth

Entrepreneurial firms frequently, if not always, begin as small firms that aspire for growth into medium or large enterprises. Such growth, however, doesn't come by chance. It requires crafting and following appropriate strategies. During the course of implementing such strategies, firms would inevitably experience growth pains and face many challenges that may threaten their existence. But the stick-to-itiveness and persistence qualities of entrepreneurs help in wording off such threats and challenges.

However, strategies are not equally risky, demanding, or ambitious. Some are too costly and too ambitious for a small firm to pursue. Realism dictates that entrepreneurial firms, while pursuing innovative and novel strategies, avoid unnecessary risks. They should also focus on strategies that help them attain and maintain positive synergies that add to their competitive advantage in the marketplace.

Of the various strategic alternatives available to choose from, Professor Michael Porter's competitive/ growth strategies are most noted: Overall cost leadership, differentiation, and focus strategies. The first emphasizes growth by emphasizing efficiency and the ability to produce products of similar quality like the rest but at a lower cost. The second emphasizes producing products that are distinctive and different from the rest. The third results in focusing on specific markets, groups of customers, or geographic areas (Porter, 1980, pp.40-41).

Organic/internal Strategy

The most prevalent, and perhaps the least risky, growth strategy for an entrepreneurial firm is the organic or "growth from within" strategy, according to which a company would develop new or improved products and/or services, and seek to find promising markets for them. The success of this organic strategy depends largely on internal capabilities and resource endowment. This strategy can help the company increase its profits in the long-term, and boost its financial position.

There are other benefits to be derived from the adoption of the organic/ internal growth strategy that are important to mention, including the following:

- Helping the company grow incrementally, that is, to develop gradually as resources become available, and as market opportunities permit;
- Allowing the company to hone its expertise, and build a knowledge base;
- Assisting the company to adhere to what it can do best, that is, focusing on utilizing its core competency;
- Helping the company avoid assuming huge financial obligations as is the case, for example, with the acquisition of other businesses to get into the production or distribution of new product lines;
- Helping the company avoid excessive or unnecessary risks;
- Enabling the company to take advantage of economies of scale, as a result of expanding output;
- Supporting the company in its efforts to endure drastic change in market conditions; and
- Assisting the company in creating operational synergy and organizational excellence.

Operational Synergy

The concept of synergy is often discussed in the context of diversification (e.g., Chakravarthy & Lorange, 1991; Wright, Kroll & Parnell, 1996). It is asserted that synergy is realized, for example, when a company buys its rival. In such as case, synergy implies that the sum is greater than the parts (Kinicki & Williams, 2008). Synergy comes about because of the realization of economies of scope as well as revenue-enhancing opportunities (Carpenter & Sanders, 2007). Furthermore, the concept is viewed as performance gains that result when employees and organizational units coordinate their activities (Jones & George, 2008). In essence, synergy implies cost savings and productivity gains due to appropriate matching of multiple elements, opportunities, and resources. Specifically, synergy can enable a company to realize benefits in the following areas (Dess, Lumpkin, & Eisner, 2007):

- Eliminating unnecessary jobs and facilities;
- Minimizing expenses;
- Achieving efficiency;
- Reducing costs associated with product/service differentiation;
- Leveraging customer relationships;
- Gaining from economies of scale in such areas as purchasing and advertising; and
- Utilizing technical, marketing, and managerial skills throughout the company.

The term operational synergy, on the other hand, is used in this book to refer to a company-wide synergy that can result from well-coordinated efforts among the organization's members with the aim of getting tasks done properly, efficiently, and in a timely manner. Operational synergy requires strategic thinking on the part of top management to establish, among other things, unambiguous linkages between market demand – actual and potential - and the company's internal capabilities. With a qualified management team in place, entrepreneurial companies can enhance organizational performance by exploiting the benefits of operational synergy.

Organizational Performance

Organizational performance is traditionally measured by a company's economic performance, customer and employee satisfaction, stock price, and responsibility to society (Kanji, 2005). In recent years, however, the emphasis in measuring performance has been on the company's ability to increase the wealth of shareholders (i.e., increasing the real value of its stock). At any rate, various techniques have been developed to measure organizational performance. Pun & White (2005) explore ten of the techniques, including the Balanced Scorecard (BSC) and Consistent Performance Measurement Systems (CPMS).

Because of the importance of performance as the key indicator of both short-and long-term success of the business enterprise, scholars' interest in the subject has intensified, especially since the publication of ***In Search of Excellence*** by Peters & Waterman in 1982. According to Peters and Waterman, the attributes that influence organizational performance and, hence excellence, revolve around the so-called the "McKinsey 7-S framework". The framework consists of seven variables: strategy, structure, systems, style, staff, skills, and shared values. As one may figure out, these variables are interrelated and interdependent. For example, strategy influences the attribute of shared values and, in turn, is influenced by it. Organizational performance is invariably the embodiment of competitive advantage. Companies with competitive advantage are those that possess critical success factors such as technical and managerial skills. Michael Porter (1985), on the other hand, postulated that five forces affect organizational performance: industry competition, bargaining power of consumers, bargaining power of suppliers, threats of substitutes, and new industry entrants. The five forces model has, incidentally, become a standard tool in the analysis of business strategies. In contrast to the five forces model, the resource-based approach to competitive advantage contends that internal resources, rather than external factors, are the main determinants of organizational performance (e.g., Wernerfelt, 1984; Barney, 1991).

As far as the emphasis on internal factors is concerned, Prahalad & Hamel (1990) point out that competitiveness is derived from an ability to build, at lower cost and at a faster rate than competitors, the core competencies of the business enterprise. Then again, Collins (2001) believes that organizational excellence is largely attributed to the so-called level 5 leadership, which is the highest level in a pyramid of executive capabilities in organizations. The pyramid is made up of five categories of capabilities: level 1, highly capable individuals; level 2, contributing team members; level 3, competent managers; level 4, effective leaders; and level 5, level 5 leaders. According to Collins, level 5 executives demonstrate personal humility and professional will; they first get the right people on the bus, the wrong people off the bus, and the right people in the right seats. Spitzer & Evans (1997) indicate that proficiency in critical thinking is the most enduring source of competitive advantage. This is because without an underlying competence in assessing complex situations, solving problems, and planning for opportunities, an organization is unlikely to advance any other initiative successfully. Moreover, Katzenbach (2000) declares that organizational success belongs to the efforts and commitment of the workforce. Successful organizations believe in their employees, engage them on emotional level, and track their job fulfillment. Employees, therefore, would be willing to go the extra mile. In brief, the views discussed in this section show that organizational performance is a complex issue, and influenced by many factors.

Role of the Entrepreneurial Team

The entrepreneurial team has a crucial role to play in both strategy making and strategy implementation. Hence, it is essential to have the right team in place as alternative strategies are being considered. The team should be motivated and prepared to think strategically. This strategic thinking orientation can be most effective if it is initiated at the beginning of the employee relationship with the organization when the group is being molded into a cohesive team. This way of thinking should, in fact, pervade all human resources management functions from the employee selection stage to the initial training and orientation, job definition, compensation, and performance evaluation. The participative leadership/ management style can add to the team's empowerment as well as its contribution to the attainment of the strategic objectives. When asked about the secret of his company's success, Ben Cohen, the co-founder of Ben & Jerry's Ice Cream Company, attributed all to employee participation. Also describing the success of her company, Zipcar, Robin Chase once stated: "I'd always tell the staff that the good things happening were honestly and absolutely a result of what everyone on the team was doing well" (Robertson, 2009, p.32).

Four types of teams are particularly important in shaping strategic thinking. First are the "employee involvement" teams that are usually composed of volunteers who show interest in the big picture and the long-term direction of the firm. Second, are the "cross functional teams" that are composed of employees from the various functional areas (production, marketing, finance, etc.), with the mission to participate in decisions that have strategic impact on the entire firm. Describing the role of this type, Charles Parnell of Miller Brewing Company stated:

> If Marketing wants to launch a group of products, they will set up a Task Force and call in someone from Finance, Human Resources, and Operations. The Operations people will explain to the Marketing Group the realities of brewing, packaging, and shipping…This means that if Marketing had been thinking about introducing 10 new brands next year, they will understand that's a virtual impossibility…Based on these discussions, they mutually agree on just how many new products Miller can introduce in an effective, profitable manner. (Parnell, 1996, p.46).

Third are project teams that work on specific out of the ordinary undertakings. Project teams ensure that the entire organization would cooperate to attain project objectives. They also make sure that projects are completed within budget. (Williams, 2000, p. 517)

Fourth is the Innovation Teams that were mentioned earlier whose responsibility is to introduce innovative ideas about products, processes, marketing models, etc. The mission of this team is to come up with ideas to improve the firm's competitive standing, production and marketing capabilities, and sustainability.

Company Examples

The following are examples of companies that have adopted the entrepreneurial culture and internal growth strategies in their search for market dominance and success:

- ***Starbucks.*** Starbucks leadership, by emphasizing an internal growth strategy, has adopted five key principles. The principles are (Michelli, 2007): make it your own (e.g., be welcoming and considerate), everything matters (paying attention to minute details), surprise and delight (adding that extra something that differentiates Starbucks from others), embrace resistance (accept and learn from criticism), and leave your mark (participate in community issues). As Michelli indicates, Starbucks has taken an ordinary product – coffee – and transformed it into extraordinary business success.
- ***Mary Kay Cosmetics.*** The success of Mary Kay Cosmetics is another example of an internal growth strategy. The company's founder, Mary Kathlyn Wagner, built a billion dollar business from $5,000 in personal savings (Ross & Holland, 2006). The company success is the outcome of the founder's strong emphasis on the human side of the enterprise. As reported by Ross and Holland, Ms. Wagner's task was to energize, recognize, teach, and motivate the company's sales force. She believed that there are two things people want more than money: recognition and praise. The founder's way of recognizing exceptional performance was by offering her successful sales representatives luxury cars, jewelry, fully paid vacations, and the like.
- ***Sony.*** The relevance of an internal growth strategy is also illustrated by the Japanese company Sony. Drucker (1999) notes that all of the company's consumer electronics are based on a product that was not even invented by Sony: the tape recorder. The success of the product was used to design the next product and then another product and so on.

- ***GlobeTrade.com.*** Delaney (2007), an entrepreneur who runs GlobeTrade.com, points out that, when she first started exporting foodstuff, she formed a strategic alliance with a Japanese trading company, Mitsui & Co. Ltd. She found out the arrangement had been fruitful, and encourages entrepreneurs to form, or join, the so-called strategic global alliances (GSAs). She adds that partnership with overseas companies such as suppliers or distributors is a good way to rapidly penetrate international markets. Clearly, GSAs can also be formed with domestic business firms.
- ***Google.*** Very few entrepreneurial companies have reached the level of prominence in a short period of time as Google. Although the company is involved in a number of major projects such as digitizing millions of books, its contribution to information dissemination is immense. It has made the task of data collection by researchers and others much more pleasant and handy. The founders, Larry Page and Sergey Brin, who took the world's premier search engine public in August 2004, have emphasized company growth mainly through internal resource accumulation, and service expansion. This is particularly true during the early years of the company formation[4]. The company's overall strategic thrust can be summarized as follows (Vise & Malseed, 2005):
  - Attracting the best and brightest employees;
  - Providing employees with a healthy work environment;
  - Instituting a culture of team work and innovation; and
  - Allocating sufficient assets to help employees accomplish their tasks properly.

Summary

The ultimate purpose of entrepreneurial companies is to achieve success in the marketplace, and attain their growth objectives. Such success is influenced by leadership quality and tactics and the chosen strategies, which vary from industry to industry, and company to company. They also vary in terms of cost, risk, and time required for execution. Strategic options are limited for many entrepreneurial companies, mainly because of resource constraints. Organic growth – internal assets accumulation over a period of time – is perhaps the best strategic initiative available to many entrepreneurial firms. This kind of growth is the least risky and the

[4] In early 2007, Google sought to expand its market domain and accelerate growth by acquiring DoubleClick and YouTube for more than $5 billion.

most promising, especially for less experienced entrepreneurs. The essence of internal growth is the development of "company capability" which is translated, in the marketplace, into competitive edge. The recommended strategy revolves around five initiatives: the development of human capital, efficient resource utilization, the deployment of appropriate information technology, the adoption of suitable production methods, and accumulation of knowledge about the market. Finally, as is the case with some other business strategies, the internal growth strategy may, at some point, become too limiting for a fast growing firm that is interested in unrelated product diversification. In this case, it should be augmented or replaced with a more appropriate growth strategy.

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Chapter 10.
The Last Word

It is your attitude and
not your aptitude that
determines your altitude.
Zig Ziglar

Entrepreneurship is associated with venture creation, innovation, individualism, economic expansion, job creation, independence, and risk taking. It intrigues members of society who admire successful prioneering entrepreneurs like George Eastman, Andrew Carnegie, and Henry Ford; and contemporary ones like Bill Gates and Steve Jobs for building business empires that introduced innovative products and new technologies. Eastman started his career at the age of 13 as a worker, earning $3 per hour. Shortly after, he worked at the Rochester Savings Bank as assistant bookkeeper. In 1877, he bought a camera for about fifty dollars that was very difficult to operate. His love of photography led him to establish a camera company with the purpose of democratizing photography, making it within everybody's reach by introducing a more affordable camera. This vision became a reality in 1894 when his company, introduced the Kodak Brownie camera that retailed for one dollar and was easy to operate.

Andrew Carnegie's story adds to what some call the entrepreneurial mystique. He started his career also at the age of 13 at a textile mill in Pittsburgh earning $1.20 a week; then moved to the Pennsylvania Railroad company, advancing to the position of superintendent of the western division. Eventually, he moved to steel to take advantage of new production technology and the expected growth in demand after the Civil War. As Tedlow (2010, Winter) remarked:

> "During the 1860s, Carnegie was hit with a searing insight. Technological breakthroughs… opened up the possibility of producing steel in undreamed-of quantities. Knowing railroads and their desperate need for strong, all weather rails, Carnegie was convinced that steel would change the material basis of civilization in the last quarter of the nineteenth century. His conviction proved justified" (p.77).

Another famous entrepreneur, Henry Ford, founded Ford Motor in 1905 with an initial capital of $28,000 contributed by 12 investors, including himself. He was determined to produce a more affordable car. This dream was realized when he introduced the Model T car in 1908. It was the first of a long series of models that made Ford what is it today, a global enterprise. In 1913, he changed the old production system by introducing the assembly line mass production system which made it possible to roll out a car every 10 seconds. Although he was criticized for his ruthless leadership style, he surprised all companies in the industry by doubling his worker's daily wage in 1914 to a minimum of five dollars per day.

According to Tedlow (2010, Winter), those pioneers and other entrepreneurs like them were successful because they had a clear vision of market potential, shaped their vision into a mission, delivered to the customer more than they promised, were dedicated to their companies to a fault, and didn't look back. With these core principles, they did not hold themselves hostage to their past mistakes.

Two questions should be asked at this point: who can and who can't become an entrepreneur? Is entrepreneurship for everyone? There has been ample reference in this book and others to the characteristics of entrepreneurs, and why they succeed or fail. It has also been stated that entrepreneurial qualities can be acquired or learned. However, a reality check is needed before one starts to romanticize about becoming an empire building entrepreneur.

Therefore, before taking the initial steps needed to start a business, a potential entrepreneur should ask himself/herself the following self-assessment questions, and try to answer them as honestly and objectively as possible:

(1) Am I a self-starter, and can I really be my own boss?
(2) Am I ready to work harder than I have ever done, for long hours, and for extended periods of time before I receive any tangible reward?
(3) Am I a creative problem solver?
(4) Can I inspire and lead others?
(5) To what extent can I tolerate uncertainty?

(6) Do I easily get discouraged in the face of failure or criticism?
(7) Am I a prudent/moderate risk taker?
(8) Am I the kind of person who can take bold steps without knowledge of all the facts?
(9) Do I have a sense of curiosity?
(10) Am I by nature inquisitive and willing to learn?

Evidently, entrepreneurs succeed if they are able and willing to do what is necessary for their ventures to attain a competitive advantage, and accomplish their core objectives, which are usually in multiple areas, including financial stability, growth, sustainability, profitability, and product and process innovation. In addition, entrepreneurs succeed when they create value. Robertson (2009) wrote that "value comes through betterment of the world" (p.34). While some may consider this to be a too idealistic view of what entrepreneurship is all about, it is certainly a reflection of the main mission of social entrepreneurs. Even commercial entrepreneurs often state that profit may be important for sustainability but it is not necessarily an end in itself.

Looking at the future of entrepreneurship, one can't help but be optimistic about its growing role in solving societal problems, introducing innovations in all endeavors, creating more jobs, and improving the quality of life on a global scale. The major industrial powers will continue to associate economic vitality and growth with innovation, and accordingly with entrepreneurship at the individual and corporate levels. Entrepreneurial companies will continue to be their primary innovators. The same can be said about the emerging economies in Asia, Africa, and Latin America where entrepreneurship is fast growing and making a difference.

Although R&D is a major factor behind the introduction of new products, technologies, and other innovations, the amount spent in this area is not the only determinant of innovation capability. The innovation culture is of great importance in boosting creativity and innovation. A look at the huge expenditures by corporations on R&D clearly reveals that smaller enterprises may be at a disadvantage in term of the resources they can devote to R&D programs. However, the greatest innovators are not always those who spend the most on R&D. In a study sponsored by Booz & Company, the top 1,000 innovative companies spent $503 billion on R &D in 2009. Apple, Google, 3M, GE, Toyota, Microsoft, Proctor & Gamble, IBM, Samsung, and Intel were identified as the world's most innovative companies. Among the findings, however, those companies were not the greatest spenders on R&D. Apple was designated as the leading innovator, not by how much it spent but by how it spent the money for that purpose. That company has had a "long history of bringing innovative and stylish products… Yet, it invests just 3.1 percent of its revenue in R&D, less than half the average percentage of the (entire) computing and electronics industry" (Jaruzelski & Behoff. 2010 Winter, p. 48). Among the top innovators, in general, there isn't a statistically significant correlation between R&D expenditures and innovation. This leads us to conclude that although R&D programs are important, what matters is "the combination of talent, knowledge, team structure, tools and processes… that successful companies put together to enable their innovative efforts" (Ibid.)

It should also be realized that, regardless of the size of the firm and the size of its innovation budget, it is the innovative capability that matters. Building this capability is a major responsibility of the leadership on all business entities, including entrepreneurial firm. It should as well be understood that innovation, as valuable as it is, is still not end in itself. It is a means to building and sustaining competitive advantage.

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Appendix I.
Steps in Planning an Entrepreneurial Venture

- Scan the environment for opportunities, or problems that can be converted into business opportunities.
- Identify a number of promising opportunities like products or services to be introduced to satisfy a market need.
- Conduct a preliminary assessment of each alternative's prospects in the marketplace.
- Shorten the list by eliminating the products and/or services that are least likely to succeed.
- Select the product/service that is technically and financially feasible, yet has reasonable chance of success in the identified market(s).
- Conduct a thorough market study to learn about current and potential demand, the competitors and their strengths and weaknesses, and consumer expectations.
- Identify the requirements of success in the specified market/markets.
- Identify the technical and operational system requirements.
- Prepare pro-forma financial statements and sales forecasts.
- Assess resource requirements, including the size and sources of capital.
- Determine the legal and ownership structure (single proprietorship, partnership, limited liability company, C corporation, S corporation, etc.)
- Identify needed registration and licensing requirements.
- Complete your business plan on the basis of above information.
- Obtain the Federal Employer Identification Number (FEIN) from the Internal Revenue Service.
- Obtain the State Tax Identification number.
- Obtain the Basic Business License (BBL).
- Register your company's business name.
- Determine the need for a bank loan, and submit bank loan application.
- Select your desirable site.
- Set up your internal organization structure
- Acquire needed personnel, equipment, materials, etc.
- Orient and train employees.
- Start promoting the business.
- Set a date for grand opening.

Appendix II.
Getting a Bank Loan

WHAT YOUR BANK WOULD LIKE TO KNOW:

1. Your business plan which should include:
    - A description of your business be all about
    - Demand projections and sales forecasts
    - Financial requirements and forecasts
    - Competitive advantage
    - Technical feasibility
    - Cash flow projections
    - Operating systems
    - Managers and organization structure
    - Location advantage
    - Legal structure
    - Availability of needed supplies
    - Human resources required
2. Biography of top managers and their financial standing
3. Expected capital structure and planned sources.
4. Short-term loans expected (line of credit, time loans, etc.)
5. Long-term loans expected (Term loans repayable within a specified time period.
6. Expected revolving letter of credit (that can be renewed annually)
7. Accounts receivable loans expected (loans to finance a specific purchase made by a reliable buyer)
8. Personal loans expected
9. Micro loans expected (to be used for the purchase of some assets)

WHAT FACTORS ARE CONSIDERED FOR LOAN APPROVAL?

In considering loan applications, banks are usually concerned about the five Cs of Credit:

1. **C**apital provided by owners
2. **C**apacity (the ability of the borrower(s) to re-pay the loan and the interest
3. **C**ollateral (assets that can be used to repay the loan in case of default
4. **C**onditions (How the loan would be used
5. **C**haracter (credit history of the entrepreneur)

WHAT SBA-BACKED LOANS ARE AVAILABLE FOR ENTREPRENEURS:

The SBA has three programs:

1. The "7aProgram: This program guarantees up to 85 percent of loans of $150,000 or less, and 75 percent of loans within $1.5 million.
2. The Community Express Loans: These loans are provided jointly by the SBA and the National Community Reinvestment Coalition (NCRC) to extend loans to small businesses that are owned by under-represented groups such as minorities, women, and veterans.
3. The 504 Loan Program: This program extends loans to finance the acquisition of capital assets.

Appendix III .

The Entrepreneurship's Guide for Exporting

WHAT IS EXPORTING?

Exporting is the process of selling goods and/or services to buyers in foreign markets.

WHAT ARE THE DIFFERENT TYPES OF EXPORTERS?

1. **Passive Exporters**: Some entrepreneurs begin their involvement in the global market as passive exporters. They occasionally sell abroad after receiving inquiries or unsolicited orders from foreign buyers/importers.
2. **Active Exporters**: Entrepreneurs who actively and consistently pursue export opportunities in one or more foreign markets. They develop export strategies that would allow them to reach and maintain relations with foreign buyers/importers or export intermediaries like general exporting companies or export brokers. In order to achieve their objectives, they also engage in promotion activities that have been adjusted and adapted to accommodate the diversity encountered in foreign markets.
3. **Direct Exporters**: Entrepreneurs who take responsibility for handling the planning and execution of all activities related to selling abroad, from demand assessment to the shipping of exported products to foreign destinations. Direct exporters are in the export game to stay, and may develop a network or representatives/importers in their chosen markets.
4. **Indirect Exporters**: Entrepreneurs who export their products through domestic intermediaries such as export management companies (EMCs) and export brokers.

WHO SHOULD CONSIDER EXPORTING?

1. Companies that produce quality and innovative products.
2. Companies that have excess production capacity.
3. Companies that like to diversify their revenue sources and lessen their dependence on one market.
4. Companies whose competitors are already present abroad.
5. Companies that developed products especially needed in foreign markets.
6. Companies that produce unique products and enjoy monopolistic control over their markets.
7. Companies that like to benefit the most from their competitive advantage.
8. Companies facing declining demand for their products in the home markets.

HOW DO FOREIGN BUYERS GET TO KNOW ABOUT YOU?

Potential foreign buyers, importers, agents, and distributors have many avenues for learning about your firm and its products, but you have to take an active role in promoting your product(s):

1. A well designed and informative web page can go a long way in attracting broad attention to your product(s).
2. Participation in trade missions, foreign exhibits, and fairs can bring added visibility.
3. Advertising in periodicals that are read by potential foreign buyers and business persons can create consumer demand and arouse interest among potential foreign importers.
4. Becoming a member in Joint Chambers of Commerce and trade associations can bring you closer to business leaders in the desired markets.

What Steps to Take After Receiving an Overseas Letter of Interest:

1. Acknowledge the receipt of the letter and promise a response within the shortest time possible.
2. Check the background and credit worthiness of the foreign company that has sent that letter of interest.
3. If satisfied with the information received, send a pro-forma invoice with a time limit on the commitment to honor the quoted price.
4. If an agreement is reached on the price, quantity, product specifications, method of payment, timing of payment, shipping, and each party's rights and obligations, begin pre-exporting activities.
5. Arrange for shipping with a freight forwarded or a shipping company. Freight forwarders help in arranging for shipping and handling the export license (if needed), and export documentation. They also advise the exporter on packaging and marking requirements.
6. Inform the foreign buyer/importer of the dates the product will be leaving the port of exit and arriving at the port of entry.
7. Forward shipping documents to the buyer as soon as the product(s) leave port, and request acknowledgement of the arrival of the shipment at the foreign port of entry.
8. Stay in touch with the importer.

EXPORT FINANCING/CREDIT

Financing export transactions is a matter of great importance to both importers and exporters. Extending credit to importers is risky unless the buyer/importer is highly reliable. In many transactions, the buyer/importer pays via a Letter of Credit that is issued by a reputable bank. The Letter of Credit is a safe instrument if handled properly. In many cases, the buyer finances the transaction by paying in advance at least a part of the agreed price. Overseas Private Investment Corporation (OPIC) insured loans are a possible option in export transactions involving emerging and developing countries.

COMPANY READINESS AND MARKETING RESEARCH

An active export strategy must be based on both an examination of the company's export readiness and foreign market research. The assessment of export readiness involves an analysis of the company's internal elements and conditions which impact its competitive standing as an exporter. Marketing research, on the other hand, aims at identifying foreign demand, consumer buying habits, the competitive environment, market conditions, and market demographics.

Information on foreign markets can be obtained from multiple sources, including: the Internet, official information published by specialized government agencies, information published by world and regional organizations, Chambers of Commerce, foreign embassies, U.S. embassies/missions located in countries of interest, banks, marketing research and consulting firms, and other exporters.

DETERMINING A PRODUCT'S EXPORT POTENTIAL

The following methods help in determining a product's export potential:

1. Contracting with a marketing research firm that would test the product's acceptability in the markets of interest.
2. Conducting a comparative analysis of product's characteristics such as:
Serviceability, functions, reliability, durability, unique qualities, affordability, size, ease in use, outer appearance, life expectancy, and impact on the buyer's social standing.
3. Testing the product's appeal in international shows and fairs.
4. Soliciting information from potential importers, distributor, and other intermediaries with experience in foreign market performance.

SELECTING FOREIGN REPRESENTATIVES/ DISTRIBUTORS/AGENTS

Exporters would at some point need the services of independent importers/ representatives, distributors, or exclusive representatives in some foreign markets. Those individuals perform the following functions:

- Handle import procedures in their markets.
- Handle the distribution of the products through wholesalers, retailers, etc.
- Study market needs.
- Perform product promotion activities.
- Handle after sale service.
- Use their own capital to finance import transactions.
- Ensure compliance with government policies, procedures and regulations.
- Provide advice on product improvement, adaptation, packaging, and labeling.

Because of the importance of the roles to be played by the representatives or distributors, they have to be carefully selected. Their contracts should be subjected to periodic reviews, and possible termination in case of poor performance. Assistance in the selection or replacement of representatives or distributors can be obtained commercial attaches, chambers of commerce, and U.S. embassies.

INTERNATIONAL BUSINESS CODES

Exporting entrepreneurs need to know how their products are classified for international marketing purposes. The Standard Industrial Classification (SIC), the Standard International Trade Classification (SITC), and commodity codes were established to help in identifying exported products and commodities by category for statistical purposes. A product's classification and code can be identified with the assistance of the Department of Commerce's International Trade Administration (ITA).

EXPORT DOCUMENTATION

Several documents need to be obtained before product shipment takes place. These include the consular declaration and consular invoice, obtainable from the consulates of the importing countries. An export license and certificate of origin may also be required.

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