

Pearson BTEC Level 4 Higher Nationals in Business (RQF)

Unit 9: A1-A2

Entrepreneurship and Small Business Management Information Pack

in a series of 1 for this unit

Learning Outcome 1-4

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INTRODUCTION

This unit provides students with an understanding of the definition and scope of entrepreneurship and an understanding of the enablers and barriers to business start-up. Students will learn about the influence of national culture and economy on entrepreneurship and will explore the personal characteristics of entrepreneurs and the impact of personal situational factors, including education and background. Students will also learn about the role and importance of small firms to the economy, and about social enterprise and the social economy. Students will also be expected to understand the balance of risk and reward in starting a new venture and they will investigate and reflect on their own entrepreneurial and enterprising characteristics. Examples of entrepreneurs and start-up organisations will be discussed, and students will be expected to draw on local, personal, and general knowledge together with their learning to be able to identify the characteristics of entrepreneurial ventures.

This information pack is designed to give you the information and guidance that you will need to complete your assignments for this unit. This information pack will look at the first 2 learning outcomes which make up assignment 1, these being.

1. *Explore and illustrate the range of venture types that might be considered entrepreneurial.*
2. *Assess the impact of small business on the economy.*
3. *Determine and assess the key aspects of an entrepreneurial mindset.*
4. *Examine the different environments that foster or hinder entrepreneurship*

GUIDANCE

This document is prepared to break the unit material down into bite size chunks. You will see the learning outcomes above treated in their own sections. Therein you will encounter the following structures.

Purpose

Explains *why* you need to study the current section of material. Quite often learners are put off by material which does not initially seem to be relevant to a topic or profession. Once you understand the importance of new learning or theory you will embrace the concepts more readily.

Theory

Conveys new material to you in a straightforward fashion. To support the treatments in this section you are strongly advised to follow the given hyperlinks, which may be useful documents or applications on the web.

Example

The examples/worked examples are presented in a knowledge-building order. Make sure you follow them all through. If you are feeling confident then you might like to treat an example as a question, in which case cover it up and have a go yourself. Many of the examples given resemble assignment questions which will come your way, so follow them through diligently.

Question

Questions should not be avoided if you are determined to learn. Please do take the time to tackle each of the given questions, in the order in which they are presented. The order is important, as further knowledge and confidence is built upon previous knowledge and confidence.

Challenge

You can really cement your new knowledge by undertaking the challenges. A challenge could be to download software and perform an exercise. An alternative challenge might involve a practical activity or other form of research.

Video

Videos on the web can be very useful supplements to your distance learning efforts. Wherever an online video(s) will help you then it will be hyperlinked at the appropriate point.

Information Pack

Explore and Illustrate the range of venture types that might be considered entrepreneurial

Scoping and Defining Entrepreneurship

What Is Entrepreneurship?

There is no universal consensus on defining entrepreneurship. Enormous number of definitions has been forwarded by the researchers in the recent academic studies on the area of entrepreneurship. Even though defining entrepreneurship has occupied the scholars for years, yet there is lack of consensus on its exact meaning. This lack of consistent definition of the term entrepreneurship has been a challenge to the researches in the field (P.J. Peverelli and J. Song 2012; Alan Guterman 2012; Nadim A. & Richard G. 2008).

For instance, according to Davidson, there is no shared understanding of what entrepreneurship precisely is (Davidson 2004; Hill & Levenhagen 1995, as cited in P.J. Peverelli and J. Song 2012). A. Cole lamented that besides ten years he run a research centre in entrepreneurial history, they could not succeed defining entrepreneurship. Each time they tried to define, they had a notion of it that they thought to be useful definition (A Cole 1969).

Besides lack of agreement on the definition of entrepreneurship, the word originally is derived from a French verb “*Entrenprendre*” which means ‘to undertake’ and Richard Cantillon is said to have first coined the phrase in his manuscript in 1730. Substantial amount of research on entrepreneurship focused on the economic importance and risks of entrepreneurship. These economic definitions of entrepreneurship focus on the economic significance of entrepreneurship and the economic environment. For Cantillon offers one of the earliest definitions of the field and he defined entrepreneurship as self-employment of any kind and entrepreneurs as non-fixed income wage earners and risk takers as they invest known amount without knowing how much

amount it will generate (P.J. Peverelli and J. Song 2012: 3; Rothbard 1995: 351). For Drucker entrepreneurship means creation of new business and anyone who manages to establish a new business is an entrepreneur outright (Drucker 1985). Global Entrepreneurship Monitor defines entrepreneurship as creation of new business or any attempt to do it, expansion of existing one, new business organization, or established businesses (GEM 2001).

Personality trait definitions of entrepreneurship stress on personality traits and life experiences of the entrepreneur. They argue that attitudinal and behavioural factors serve the dividing line between entrepreneurs and non-entrepreneurs. Individual entrepreneur is the focus of them definitions. Unlike Economic definitions of the field that emphasize on money in them definitions, personality trait definitions of the field generally agree that entrepreneur is motivated by his/her higher goals to achieve and it is this type of motivation that makes better entrepreneur (McClelland & 1961). Researchers in this school tend to outline and form number of traits that the person needs to possess to be successful entrepreneur. They attempt to generate list of generally shared entrepreneurial characteristics such as need for achievement, self-confidence, pro-activeness, future orientation and risk taking. For instance, a middleman who facilitates exchanges can be entrepreneur (Kirzner 1983; Knight, 1921; McClelland & Winter, 1969). For Hisrich (1990) entrepreneur is the person who demonstrates initiative and creative thinking. Frank H Knight (1921) and Peter Drucker (1970) viewed entrepreneurship as all about risk taking business. Nevertheless, innovation was added to the definitions of entrepreneurship by Joseph Schumpeter in 1934. Schumpeter strongly contends that the role of entrepreneur was to respond to the economic discontinuances. He defined “entrepreneur as an individual who can exploit market opportunities through technical and/or organizational innovation” (Schumpeter 1965).

Social identity definitions of entrepreneurship contend that entrepreneurial identity is not found in the personality of the individual and social identity is not a trait located in the individual person, but rather entrepreneurial identity is constituted through and with interaction and interrelationship between the entrepreneur, society and culture forthwith social identity is process acquired via the interaction with other members of the society. Therefore, entrepreneurial

identity is constructed via social interaction (Down & Warren 2008) and through socialization process (Falck et al. 2010; Rigg and O'Dwyer 2012).

Sociological definitions focus on the relationship between group characteristics like ethnicity, race, gender etc., and the development of business activity. As they emphasize on the interplay between economic activity and group characteristic, they give special attention to the sociological outcomes that develop as result of ownership of enterprise, not the business per se.

They contend that certain social groups generate business enterprise much better than others (John Sibley, 2005). This is restatement of Max Weber's giant study on *Protestant Ethic and Spirit of Capitalism* (Weber 1930), where certain religious group undergone prominent socioeconomic development in Europe, using ethnic and racial or gender lines.

Shane and Vankataraman (2000) defined entrepreneurship in slightly different manner. For them "entrepreneurship involves the study of sources of opportunities, the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them". For their definition, entrepreneur person does not necessarily need to be a manager or founder of firm, as it has been assumed in many researches of entrepreneurship. Some other studies further contend that people who develop new ways to market services and goods, not only founders or managers, can be entrepreneurs. For instance, Kirzner (1973) acknowledging this idea defined entrepreneur as "The person who recognizes and acts upon profit opportunities, essentially an arbitrageur".

Considering the existing lack of consensus on the area, Nidam and Richard explained it as follows:

Indeed, even the OECD itself has contributed to the confusion since virtually every study that has focused on entrepreneurship has presented a different definition of the term. For example, in an OECD Economic Survey in 1997, it was defined as "the dynamic process of identifying economic opportunities and acting upon them by developing, producing, and selling goods and services". In "Fostering Entrepreneurship", it was defined as "...the ability to marshal resources to seize new business opportunities...". In a 2001 publication on Youth Entrepreneurship,

the term was equated with self-employment: "... an entrepreneur is anyone who works for himself or herself but not for someone else...". Finally, another 2001 publication entitled Drivers of Growth, referred to, "The concept of entrepreneurship generally refers to enterprising individuals who display the readiness to take risks with new or innovative ideas to generate new products or services." (Nidam A. Richard G. 2008: 3)

All in all, the existence of varieties of definitions of entrepreneurship is evident, however that does not mean that there are no common elements among the definitions put forward by the scholars. Thus, from the above definitions, we can conclude that there are some agreements among the definitions of different authors. Thus, we can summarize the commonality of those authors as follows:

1. Entrepreneurship involves creation or expansion of business.
2. Risk taking or acceptance of failure
3. Talent to identify and exploit new opportunities to produce new products or processes/markets

One perspective of what entrepreneurship is, comes from MIT lecturer Bill Amulet, who breaks down some various definitions.

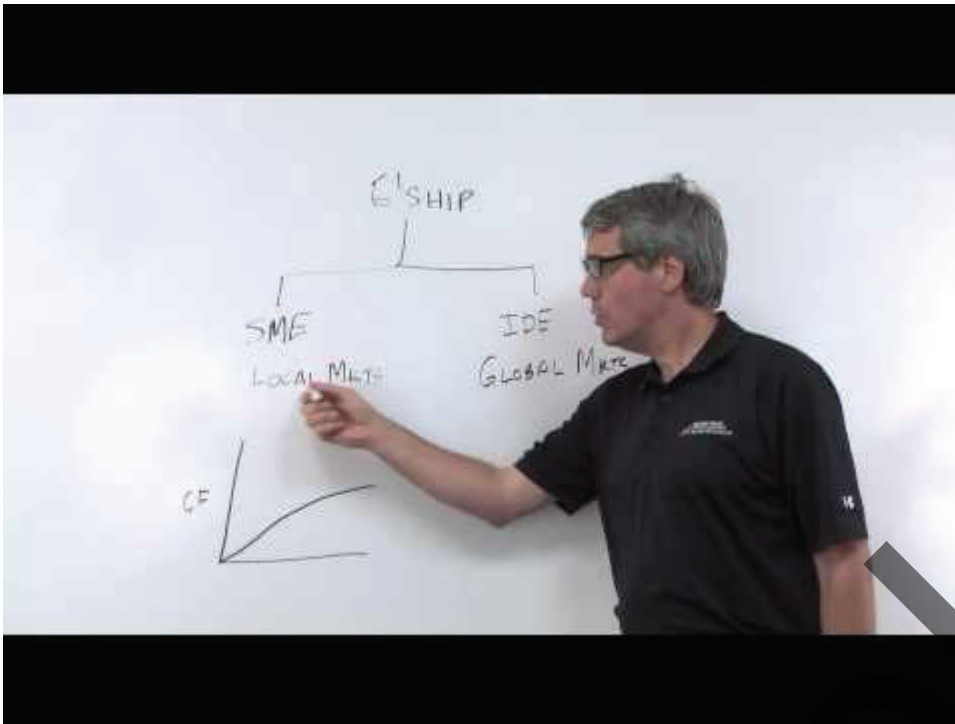


Figure 1 MIT Entrepreneurship

Serial Entrepreneurship

An entrepreneur who continuously comes up with new ideas and starts new businesses. As opposed to a typical entrepreneur, who will often come up with an idea, start the company, and then see it through and play an important role in the day to day functioning of the new company, a serial entrepreneur will often come up with the idea and get things started, but then give responsibility to someone else and move on to a new idea and a new venture. This can be a good thing if the individual has lots of unique ideas and is the best one suited to get each one started, but can be a bad thing if the individual stops putting time into a company that needs his or her help, in order to try to move forward with a new idea that may or may not succeed.

The Profile of a Serial Entrepreneur

An intrapreneur is an employee who is tasked with developing an innovative idea or project within a company. The intrapreneur may not face the outsized risks or reap the outsized rewards of an entrepreneur. However, the intrapreneur has access to the resources and capabilities of an established company.

How Intrapreneurship Works

Intrapreneurs are employees of a company who are assigned to work on a special idea or project. They are given the time and freedom to develop the project as an entrepreneur would.

However, they are not working solo. Intrapreneurs have the resources and capabilities of the firm at their disposal.

Intrapreneurs and entrepreneurs have different objectives. An entrepreneur envisions creating a company from the ground up. An intrapreneur has a broader vision for an established company. This vision may involve