

Chapter 2
Entrepreneurship
and the
Entrepreneurial Mind-Set

Nature and Development of Entrepreneurship

- Entrepreneur – An individual who takes initiative to bundle resources in innovative ways and is willing to bear the risk and/or uncertainty to act.
- Being an entrepreneur today:
 - Involves creation process.
 - Requires devotion of time and effort.
 - Involves rewards of being an entrepreneur.
 - Requires assumption of necessary risks.

Nature and Development of Entrepreneurship (cont.)

- Entrepreneurial action - Behavior in response to a judgmental decision under uncertainty about a possible opportunity for profit.

Table 1.1 - Aspects of the Entrepreneurial Process

Identify and Evaluate the Opportunity	Develop Business Plan	Resources Required	Manage the Enterprise
<ul style="list-style-type: none"> • Opportunity assessment • Creation and length of opportunity • Real and perceived value of opportunity • Risk and returns of opportunity • Opportunity versus personal skills and goals • Competitive environment 	<ul style="list-style-type: none"> • Title page • Table of Contents • Executive Summary • Major Section <ol style="list-style-type: none"> 1. Description of Business 2. Description of Industry 3. Technology Plan 4. Marketing Plan 5. Financial Plan 6. Production Plan 7. Organization Plan 8. Operational Plan 9. Summary • Appendixes (Exhibits) 	<ul style="list-style-type: none"> • Determine resources needed • Determine existing resources • Identify resource gaps and available suppliers • Develop access to needed resources 	<ul style="list-style-type: none"> • Develop management style • Understand key variables for success • Identify problems and potential problems • Implement control systems • Develop growth strategy

The Entrepreneurial Process

- Opportunity identification - The process by which an entrepreneur comes up with the opportunity for a new venture.
- Market size and the length of the window of opportunity are the primary bases for determining risks and rewards.
- Window of opportunity - The time period available for creating the new venture.
- Business plan - The description of the future direction of the business.

How Entrepreneurs Think

- Entrepreneurs in particular situations may think differently when faced with a different task or decision environment.
- Given the nature of their decision-making environment, entrepreneurs need to sometimes:
 - Effectuate.
 - Be cognitively adaptable.
 - Learn from failure.

How Entrepreneurs Think (cont.)

- Causal process
 - Starts with a desired outcome.
 - Focuses on the means to generate that outcome.
- Effectuation process
 - Starts with what one has (who they are, what they know, and whom they know).
 - Selects among possible outcomes.
- Entrepreneurial mind-set involves the ability to rapidly sense, act, and mobilize, even under uncertain conditions.

How Entrepreneurs Think (cont.)

- Cognitive adaptability describes the extent to which entrepreneurs are:
 - Dynamic, flexible, self-regulating and engaged in the process of generating multiple decision frameworks focused on sensing and processing changes in their environments and then acting on them.
- It reflects in an entrepreneur's metacognitive awareness
 - Metacognitive awareness means being aware of how you think

How Entrepreneurs Think (cont.)

- Achieving cognitive adaptability
 1. **Comprehension questions** – Aids understanding of the nature of the environment before addressing an entrepreneurial challenge.
 - In general :
 - What is the problem all about? What is the question? What are the meanings of the key concepts?
 - Specific to entrepreneurs:
 - What is this market all about?
 - What is this technology all about?
 - What do we need to achieve by creating this new firm?
 - What are the key elements to effectively pursuing this opportunity?
 2. **Connection tasks** – Stimulates thinking about the current situation in terms of similarities and differences with situations previously faced and solved.
 - Specific to entrepreneurs:
 - » How is this new environment similar to others in which I have operated?
 - » How is it different?
 - » How is this new organization similar to the established organizations I have managed? Of how is it different?
 3. **Strategic tasks** – Stimulates thoughts about which strategies are appropriate for solving the problem (and why) or pursuing the opportunity (and how).
 - Specific to entrepreneurs:
 - » What changes to strategic position, organizational structure, and culture will help us manage our newness? How can the implementation of this strategy be made feasible?
 4. **Reflection tasks** – Stimulates thinking about their understanding and feelings as they progress through the entrepreneurial process. These tasks prompt entrepreneurs to generate their own feedback to provide the opportunity to change.
 - Specific to the entrepreneurial context:
 - » What difficulties will we have in convincing our stakeholders? Is there a better way to implement our strategy? How will we know success if we see it?

How Entrepreneurs Think (cont.)

- Entrepreneurs who are able to increase cognitive adaptability have an improved ability to:
 - Adapt to new situations.
 - Be creative.
 - Communicate one's reasoning behind a particular response.

How Entrepreneurs Think (cont.)

- Learning from Business Failure
 - Uncertainty, changing conditions, and insufficient experience can contribute to failure among entrepreneurial firms.
 - An entrepreneur's motivation is not simply from personal profit but from:
 - Loyalty to a product.
 - Loyalty to a market and customers.
 - Personal growth.
 - The need to prove oneself.

How Entrepreneurs Think (cont.)

- Loss of a business can result in a negative emotional response from the entrepreneur.
- It can interfere with:
 - Entrepreneur's ability to learn from the failure.
 - Motivation to try again.

How Entrepreneurs Think (cont.)

- Recovery and Learning Process
 - Emotional recovery from failure happens when thoughts about the events surrounding, and leading up to the loss of the business, no longer generate a negative emotional response.
 - Primary descriptions of the process of recovering are:
 - Loss-orientation.
 - Restoration-orientation.

How Entrepreneurs Think (cont.)

– Loss-Orientation

- Involves working through, and processing, some aspect of the loss experience and, as a result of this process, breaking emotional bonds to the object lost.
- This process gradually provides the loss with meaning and eventually produces a changed viewpoint.
- Involves confrontation, which is physically and mentally exhausting.
- Characterized by feelings of relief and pain that wax and wane over time.

How Entrepreneurs Think (cont.)

– Restoration-Orientation

- Based on both avoidance and a proactiveness toward secondary sources of stress arising from a major loss.
- Involves suppression, which requires mental effort and presents potentially adverse consequences for health.
- Provides an opportunity to address secondary causes of stress.
- May reduce emotional significance of the loss.

How Entrepreneurs Think (cont.)

- A Dual Process for Learning from Failure
 - The dual process of oscillating between the loss-orientation and restoration-orientation enables a person to:
 - Obtain the benefits of each.
 - Minimize the costs of maintaining one for too long.
 - This dual process speeds the recovery process.

How Entrepreneurs Think (cont.)

- Practical implications of the dual process:
 - Knowledge that feelings and reactions being experienced are normal.
 - Realizing that psychological and physiological outcomes caused by the feelings of loss are “symptoms” can reduce secondary sources of stress.
 - There is a process of recovery to learn from failure, which offers some comfort that current feelings of loss will eventually diminish.
 - Recovery and learning process can be enhanced by some degree of oscillation.
 - Recovery from loss offers an opportunity to increase one’s knowledge of entrepreneurship.

Ethics and Social Responsibility of Entrepreneurs

- Entrepreneurs usually develop an internal ethical code.
- Personal value systems tend to be influenced by:
 - Peer pressure.
 - General social norms in the community.
 - Pressures from their competitors.
- Business ethics - The study of behavior and morals in a business situation.

Role of Entrepreneurship in Economic Development

- Innovation is depicted as a key to economic development.
 - Product-evolution process - Process through which innovation is developed and commercialized.
 - Iterative synthesis - The intersection of knowledge and social need that starts the product development process.

Role of Entrepreneurship in Economic Development (cont.)

- Three types of innovation:
 - Ordinary - New products with little technological change.
 - Technological – New products with significant technological advancement.
 - Breakthrough – New products with some technological change.