Entrepreneurship & Innovation 2012

Lecture 2 Entrepreneurs and Entrepreneurship

This is a very rich area in the academic literature. Reading is from many recommended textbooks, especially Stokes, Deakin, Carter & Jones-Evans - and many other sources (see Module guide).
See also regular sections in:-

Serious newspapers e.g. Sunday Times Business News, Cambridge Evening News Business

See BBC2 television "**Dragon's Den**" http://www.bbc.co.uk/programmes/b006vq92
Samples also available on **YouTube** http://www.youtube.com/watch?v=LBiUOw7rNps
and Dragon's Den around the world http://www.youtube.com/watch?v=y9smWKtr9bA

There are many other UK television and radio programmes on the themes of enterprise and innovation.

Key source of international research data on entrepreneurship:-

"**Global Entrepreneurship Monitor**" research, see **2010 Report** (published January 2011), especially the chapters on "Why do people become entrepreneurs" and "Who are the entrepreneurs":-

http://www.gemconsortium.org/about.aspx?page=pub_gem_global_reports

Learning outcome: understand the meaning and significance of the terms "Entrepreneurship" and "Innovation"

Significance of entrepreneurs in society and the economy

Entrepreneurs often innovate:-
Innovations
- New ideas
- New methods
- New products
- New processes
- New markets
- New business models

Entrepreneurs tend to start-up and grow an idea. Some entrepreneurs sell their growing enterprise then start again - serial entrepreneurs.

Entrepreneurs are not confined to business. There are social, educational, art and culture, and other kinds of entrepreneur.

Entrepreneurs often create new jobs in the economy,
whereas large organisations are consolidating and cutting jobs.

There has been much research in the 1980s and 1990s into the Personality and Behavioural traits of entrepreneurs. This is a fascinating and complex area. We will adopt simple approach to the subject area in this lecture.

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Types of small business person:- Stokes, Wilson & Mador 2010

Entrepreneurs and Owner Managers

1 Craftsman = owner manager
carpenter, plumber, hairdresser,
glazier, baker, butcher, shop-keeper

2 Promoter = entrepreneur
"wheeler-dealer"
starts, grows & often sells businesses

3 Professional manager
Builds a "little big business"
e.g. accountant, lawyer, doctor

These are all valuable people in society, we are not claiming that one group is better than another.

Motivations for starting a business:-

Opportunity or "Pull" influences:-

1 Desire for independence - *be your own boss*
2 Desire to exploit an opportunity - *satisfy a perceived market gap*
3 Hobby or work experience - *turned into a business*
4 Financial incentive - *possibility of long term financial independence*
Also:- (R Jones' observations)
5 Flexible hours
6 Lifestyle
7 Mobility
8 (These enabled by the internet)
9 Peer example – informal
10 Portfolio careers
Note: these are **opportunistic** (= entrepreneurial)

Motivations for starting a business (continued):-

Necessity or "Push" influences:-

1 Redundancy
2 Unemployment & job insecurity Note: technology, economic cycles, regional
3 Misfit *bored, restless, ambitious*
Also:-
4 Early retirement *spare cash*
5 Part-time job *plus* self-employed
6 Temporary job *plus* self-employed

Question:

How do these factors compare with the "Opportunity" and "Necessity" factors identified in the "Global Entrepreneurship Monitor"
http://www.gemconsortium.org/about.aspx?page=pub_gem_global_reports

Behaviours, Skills and Attributes of Enterprising People

Skills	Behaviours	Attributes
Problem solving Creativity Persuasiveness Planning Negotiation Decision making	Acting independently Actively achieving goals Flexibly responding to challenges Coping with and enjoying uncertainty Taking risky actions in uncertain environments Persuading others Commitments to make things happen Opportunity seeking Solving problems / conflicts	Self-confident Autonomous Achievement-oriented Versatile Dynamic Resourceful

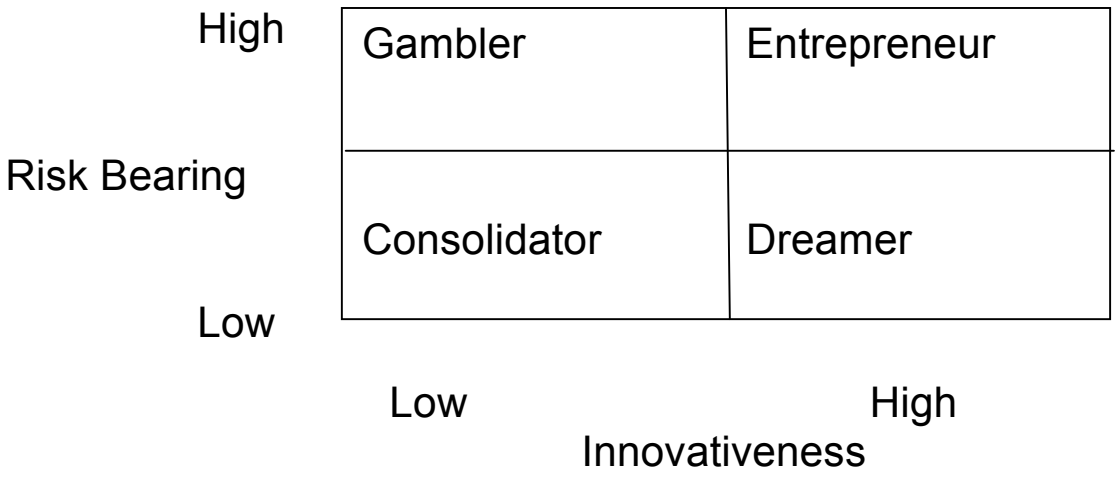
Gibb A. , 1993

Types of Entrepreneurship

Entrepreneurship type	Personality type	Attributes
Innovator	Imagination	Originality, inspiration, love, transformation
New designer / enabler	Intuition	Evolution, development, symbiosis, connection
Leader	Authority	Direction, responsibility, structure, control
New entrepreneur	Will	Achievement, opportunity, risk-taking, power
Animateur	Sociability	Informality, shared values, community, culture
Adventurer	Energy	Movement, work, health, activity

Kirkby, 2004

Landau's classification of entrepreneurial types



(Landau 1982)
cited by: Wickham, P (2001) Strategic Entrepreneurship, FT Prentice Hall, 2nd ed, see ch 1.

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Start-up issues based on Deakins and Freel 2009

This makes a useful starting point for those students wishing to do Project A – business start-up plan

Idea

Past experience
Original / creative
Family & friends

Opportunity

Awareness
Attitude to risk & failure (Europe vs USA)
Environmental influences
Role models

Pre-start planning & preparation

Business plan

Macro pressures in the environment (P/LEST)
Market research
Access to finance – finding investors, finding partners
Cashflow forecast optimisic scenario
pessimistic ''
Organisation who does what?
Operation location, location, location
Timing (dot.com !!)
Strengths & weaknesses
Investors bank / partners / business angels / venture capitalists

Entry & Launch

Launch strategy
Marketing finding customers
Operations day to day management
Intellectual property protection / patents
Luck making your own luck

Post-entry, survival and development

Operations day to day management
Cashflow monitor and control
Keeping customers
Achieving credibility
Developing networks

Government policy in the UK etc has in the past supported start-ups, but more recently the emphasis has been on supporting established growth firms.

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Personal attributes of entrepreneurs Stokes et al, 2010

there is no one simple definition that fits all individuals:-

1	Soloist		
2	key partner		
3	grouper		
4	professional		
5	inventor – researcher		**Clive Sinclair**
6	high tech		"techy" "geek" Bill Gates,
7	work force builder		
8	inveterate initiator		**Richard Branson**
9	concept multiplier		franchisor
10	acquirer		Rupert Murdoch
11	speculator		(dot.coms??)
12	turn-about artist		company doctor
13	value manipulator		**Alan Sugar**
14	lifestyle entrepreneur		
15	committed manager		
16	conglomerator		
17	capital aggregator		
18	matriarch or patriarch		family business
19	going public	ipo	
20	alternative entrepreneur		

What is missing from the list above? We also see "social entrepreneur"

Personal attributes of entrepreneurs:-

1 Innovative

Constant search for new ideas
Creative
Practical & adaptable
Conviction – self confident
Good judgement

⇒ *Practical applications*
⇒ *Exploitation*

⇒ *New business areas*

⇒ *"new economy" ??*

USA, especially California, excels at these – American economic growth without inflation based on rapid exploitation of new technologies.

2 Determination

Independence
Control over own destiny
Commitment
Hard work
Self belief
High energy
Initiative
Self motivation

3 *External* <u>and</u> internal focus

Internal ⟷ external environment

Organisation / operations ↔

market
Customers
Suppliers
Network
Informal collaboration

↓

New opportunities

4 Team leader

Delegates
Trains employees
Influences stakeholders

⟶ Sustained growth

5 Need for achievement

Driving force often parental (Kets de Vries), measure success by growth & wealth, but not always

6 Risk taking

Self employment IS risky, BUT there is a spectrum of attitude to risk:-

conservative
careful
owner manager

⟷

opportunistic
entrepreneur

7 Active

reactive
routine

⟷

self-starter
restless
easily bored

8 High profile

extrovert, image maker

9 Generalist or specialist

10 Ambitious, domineering, aspirational

<u>Questions:</u> Are we born as entrepreneurs? Can we be trained to be entrepreneurs?

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Case study video "Mind of a Millionaire" BBC TV series 2003

Programme 3 "Losing it"

Tuesday 21 October 2003, 9pm, BBC2

How do some of Britain's self made millionaires react when things go wrong? What is the fine line that separates failure from the wealth and success of the super-rich?http://www.bbc.co.uk/science/humanbody/tv/millionaire/programme3.shtml

Test your millionaire potential. This survey is taken from a book called Think Yourself Rich by Sharon Maxwell Magnus
http://www.bbc.co.uk/science/humanbody/mind/surveys/millionaire1/

Six entrepreneurs have all suffered failure, 3 bounced back to become some of Britain's richest men:-
Richard Block David Quail Sir Gulam Noon Chris Evans Bill Fleming Tom Hunter

Brothers in law, **Richard Block and David Quail**, invested £3000 each in a discounted hardware store – in a supermarket format - in the 1960s. They launched in Southampton in February and the business took off over that Easter. **B&Q** thrived in the 1970s. Mr B & Mr Q bought bigger homes and bigger cars. They later fell out and cashed in their stakes in B&Q for £5 million. They both bought bigger houses and cars. Both thought they had the Midas touch and both tried other ventures, believing that they had the skills to make more money. Mr Q started an upmarket pottery business, with no experience in this sector, and it failed. Mr B moved to Guernsey, started growing tomatoes, with no experience in this sector, and failed. But one of these men is now again a millionaire, the other has nothing. One eventually found success, did he have a certain mindset or was it luck? Both Mr B and Mr Q were tested within a controlled group in order to identify typical entrepreneurial traits.

Adrian Atkinson, business psychologist, identifies the need to succeed.
http://www.londonspeakerbureau.co.uk/speakers/viewSpeaker.aspx?speakerid=153

Super entrepreneurs don't believe in luck. They believe that they influence all the factors necessary for success.

How do super-entrepreneurs cope with failure?

Sir Gulam Noon see: http://www1.timesofindia.indiatimes.com/articleshow/616102.cms
http://www.noon.co.uk/

Gulam Noon's curry factory burned down in 1994. His business advisers (lawyer, accountant, bank manager) advised him to close down and let his staff go. But he kept his 250 employees on full salary. He borrowed money, bought another factory and was back in business within 3 weeks. Noon now employs over 800 people, and he is worth £50 million

This is not normal behaviour, super-entrepreneurs have very high levels of drive, courage and tenacity. You must believe in yourself

98% of multimillionaires are men, 77% of ordinary millionaires are men (Tulip Survey).
http://www.tulipresearch.com/

Gulam Noon's family comment on his worst qualities - stubborn, self reliant, wilful. They live in a "modest" appartment in st Johns Wood, London. Noon was knighted for 40 years work in the business. Noon knows failure is always lurking – some of his other businesses have failed, but he says that you must rise again.

Immigrant entrepreneurs, starting with nothing but a vision and a burning desire to make a difference.

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Sir Christopher Evans is a professor at 7 universities, a scientist in the biotech sector.
http://www.ukbusinessweek.co.uk/london/page.cfm/link=27

He is now worth £150 million. When he loses, he retreats to his study, plays miserable songs on his guitar, thinking "bastards". He has major stakes in 20 biotech companies, accepts that these are speculative investments and that he could lose a fortune. He has in the past lost when his shares dropped 80%, losing £30-40m in value. His personal fitness trainer says that he is never late, even if he has had fifteen meetings that day. Evans admits that he is abrasive, cocky and full of himself.

Entrepreneurs need a challenge, and must prove that they are the best. "Get ready for pounding, they will not stop".

Evans did not take advice for 10 years, then sought advice (and fared less well) for 4 years, but now will not listen to advice. He says that for the next 40 years, he will not give a S--- for advice.

66% of multimillionaires are self-reliant, compared with 48% of ordinary millionaires
49% of multimillionaires are impulsive, compared with 33% of ordinary millionaires (Tulip Survey).

A fellow investor pulling out of a deal drives Evans even more. He believes that there is a solution for everything if you think it through laterally – "some people are genetically stupid". Evans goes to whatever level is required.

Super-entrepreneurs are arrogant, talk exclusively about themselves, and are not interested in you.

Mr B and Mr Q have psychological profile tests, based on games, risk, self-belief and motivation. Both prove similar in intelligence, both are motivated. Both showed classic entrepreneurial behaviour, such as cheating in the games. Both showed basic entrepreneurial characteristics with respect to challenge and risk. Mr B is more sensible in the water game. Mr Q scores on strategy & self confidence. Mr B is seen to be the project manager type; Mr Q is seen to be the strategist.
Actually, Mr Q entered the video-tape rental business, Ritz video, which became part of Blockbuster, the 2nd largest in the world. He knew when to get out of pottery and took responsibility for his own mistakes. He does not blame others for his own mistakes. "You've got to know how to lose", he says.

True entrepreneurs don't do blame, they do ownership.

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Less entrepreneurial types blame others for their own failings

Mr B is still in retail, working in a Holland & Barratt store. He blames the economy for the failure of another of his businesses, a therapy business. He has regrets about the past. As his money has dwindled, so he has become less interested in it.

Take personal responsibility for events, then can you do something about it.

Luck is outside your control.

Bill Fleming sold his exhaust and tyre business for £10million, and thought that he could do anything. He invested in new businesses, but his confidence out-weighed his skills. He did not get out in time, put more investment in, "good money after bad". He admits that his failure rate was100%, and he lost all his money in 4 years. He was bankrupt, losing everything, and his family was forced to move into a tiny rented cottage. He lost respect, authority, friends, and was "left with the real you". He was severely depressed, but was prepared to confront his own failings. He retained the entrepreneur spirit, offering his marketing skills (in lieu of salary) to a friend who was starting a toner cartridge business. After 3 years, he was a millionaire again.

Adversity is the test of the true entrepreneur, (Raj Persaud)

http://www.bbc.co.uk/health/profiles/raj_persaud.shtml

He has now doubled his new fortune and is determined to keep it. This means that he will never be super-rich. He says that business is golf, what he wants to do.

An entrepreneur not prepared to risk everything again will not be super-rich.

Super-entrepreneurs will deal with failure every time.

Super-entrepreneurs do the crushing, feeding on the faulure of competitors.

Tom Hunter is super-rich and is worth £425 million. He is ruthless, totally focussed, hates competitors (talking from one his two Learjets).

Super-entrepreneurs want to destroy competitors, not be number 2, but be in a league of their own.

He started selling trainers from the back of a van. After 14 years, he sold his **Sports Division** and **Olympus Sports** businesses for £260m. He has fast cars, large houses, Learjets, and a 100ft yacht. Money is one motivator, but then there are always other things to achieve. He is always busy on holiday. He is restless, "satisfaction doesn't last long …. the next deal is always important". He has stayed in the retail business that he knows, owning the **Office Store** chain and a clothing company. He says that entrepreneurs are driven by paranoia, are never quite good enough – successful entrepreneurs learn how to control paranoia in a positive sense.

Insecurity means that earning money, even £500 million, is stiil not good enough.

Raj Persaud

Hunter has bid unsuccessfully for Selfridges and House of Fraser. But he bounces back from setbacks.

Although challenges are needed, these individuals are extreme in this factor.

Entrepreneurs stick their necks out and get their heads shot-off sometimes.

Super-entrepreneurs' need to achieve rules their lives, they are driven, but the targets is that they must be the biggest, the best etc.

If Chris Evans made £1 billion, he "would be drunk for a week" then think "what next?". He has invested in vaccines, one investment was £400,000 – which could become £400million in one year. His wife says that he never stops, is driven to the extent that it has become his lifestyle. He is not aiming to get somewhere, the constant activity ***is*** the somewhere.

63% of super-entrepreneurs re-invest their wealth, compared with 57% of ordinary millionaires. (Tulip survey)

Chris Evans' wife has her own (very valuable) art collection, and also show-horses. Evans serves wine, such as Petrus 1959, at £2000 / bottle.

Super-entrepreneurs want others to see they are doing well, and display their wealth - audience reaction is important. (Raj Persaud)

Super-entrepreneurs then have a new audience – politicians. This is the highest-level networking, they like to influence policy.

Governments over the last 10-15 years have shown an increasing interest in the power of entrepreneurs, and have knighted them and helped to create heroes, who the population can emulate.

Entrepreneurs create jobs and wealth.

The down-side is that they never give up, they are aggressive and must win. It is difficult to have one as a friend. They are nice to be near, but at a safe distance.

The data is based on a Tulip research survey of 300 millionaires in February 2003

Reading – two old articles but we will update these with the latest data from the Global Entrepreneurship Monitor report

The Sunday Times 5 March 2000

In America the Only Shame is in Never Trying

The legal sanctions against unsuccessful firms are similar to those in Britain but in the US there is no social embarrassment, writes Sarah Gracie

IN AMERICA at any one time, 8% of people are engaged in starting businesses. In Britain the figure is 3%. In Germany, France, Denmark and Finland it is less than 2 %.

These are the findings of the Global Entrepreneurship Monitor (GEM), which compares entrepreneurial activity in 20 countries. Compiled by Paul Reynolds and Michael Hay of the London Business School (LBS), it aims to be the definitive global assessment of entrepreneurship. It shows that there is a clear correlation between entrepreneurial activity (as measured by the number of people engaged in start-ups) and economic growth (as measured by rising gross domestic product and employment).

"I'm constantly asked what is special about starting a business in America," says Reynolds, the London Business School's entrepreneurship professor. "What is special is that it's not special. When one in 12 people are starting a business at any one time, as opposed to one in 65 in Finland, the chances are the would-be American entrepreneur will know people who can give him advice. There's more infrastructure available. It's easy to find out which bank to talk to, which government agency or lawyer - which makes the whole process less scary."

Hay, director of the Foundation for Entrepreneurial Management at the LBS, talks of the "demonstration effect" of having such a high start-up rate. "It tends to demystify the whole process and normalise it. Starting a business in America is not a minority activity for a few risk-addicted people. It's woven into the fabric of everyday life."

It seems American optimism also has an impact on the perception, and therefore creation, of economic opportunity. According to the GEM survey, 57% of Americans report that they see a good opportunity to start a business in the next six months. In Britain, the figure is 16%, in Japan just 2%. "It's hard to believe that there's so much more opportunity in America," says Hay. "It's probably more a case of seeing what you're conditioned to see."

Of course, a high number of start-ups is also likely to mean a higher number of failures since the failure rate of start-ups is surprisingly constant across the industrialised countries - about 45% within three years. Hay points out that there is evidence to suggest that a healthy, robust economy is one that can withstand a high level of volatility. "That churn - the birth, life and death of businesses is very healthy," he says. "We need to increase the quantity of start-ups - increase the water table so to speak. That also means increasing the tolerance of failure."

Both Hay and Reynolds comment on the culture of shame that still surrounds business failure in Europe. While Hay was doing his research in different European countries, he was inundated by a stream of stories about the stigma attached to failed businesses. In Germany, the parents of a struggling would-be entrepreneur might take out a second mortgage on their home to stave off the shame of failure. In Britain, someone with a failed business may have difficulty opening a bank account or obtaining loans.

In America there is little shame attached to failure. While the legal sanctions remain comparable, the cultural ones are quite different. "You have to remember that the average duration of a business in America is the same as the duration of a job: four to five years," says Reynolds. "People will give it a go, and if it doesn't make money they will stop and do something else. "Only 5%-10% of businesses end in bankruptcy. The majority end honourably. They are simply discontinued by people who realise they can make more money doing something else."

This approach is far more likely to encourage both start-up and serial entrepreneurialism, since the support to succeed is greater and the price of failure less drastic. This has a profound impact on an individual's assessment of the balance of risk and reward.

"In .Britain if you tell someone you're going to start a business, most people will treat it as a huge step fraught with risk," says Hay. "If you meet them a few months later and your business hasn't worked out, this event may define you as a walking economic disaster. In America, by contrast, the question is more likely to be: 'So what's the next venture?'"

The explanation for American entrepreneurial achievement is more likely to be found in these social levers than in any legal sanctions. As Audrey McLean, a West Coast investor, once said: "The only way to have failed in Silicon V alley is never to have tried at all."

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Financial Times Inside Track – Growing Business – Entrepreneurs 22 June 1999

Varying States of Start-up

Attitudes to entrepreneurialism change by country, according to a study that tries to discover why. Katherine Campbell reports.

One in 12 Americans is attempting to start a business. More or less everyone knows someone involved in such a venture. Compare that with Finland, where the phenomenon is much rarer, with a rate of one in 67, which is self-perpetuating as starting a company is more likely to be regarded as - well, a bit odd.

These are among the findings of a study* comparing entrepreneurial activity in 10 countries undertaken by London Business School and Babson College and the Kauffman Center for Entrepreneurial Leadership of the US.

It discovered that while entrepreneurship had moved rapidly up the public policy agenda in the past decade, there were huge differences in levels of activity between countries. "There is a sense in which it is legitimate in some places like the US, but a cultural anomaly in many other countries," says Prof Paul Reynolds of Babson College.

The Global Entrepreneurship Monitor study has analysed over the past two years the interplay between economic growth and entrepreneurship in the G7 leading industrialised countries plus Denmark, Finland and Israel. Some 1,000 people in each country were surveyed, together with a total of 300 specific experts in entrepreneurship.

The US, Canada and Israel emerged as the most entrepreneurial - measured by the percentage of people starting a business - averaging 6.9 per cent across the three. Italy and the UK were classed as intermediate, at an average of 3.4 per 100. Trailing behind were Denmark,.Finland, France, Germany - and Japan, with an average of 1.8 per cent.

The authors conclude tentatively that about a third of the difference in a country's growth rate could be attributed to variations in the number of start-ups. They reckon another third is likely co be related to activities of established businesses, with the balance down to factors including the interaction of new and existing companies. The data underline how no country with a high level of start-ups is suffering slow rates of economic growth.

The study also sought to unravel some of the factors affecting levels of entrepreneurialism, These include:

Perception of opportunity.

In the most entrepreneurially active countries, the level of perceived opportunity - suitably adjusted for actual opportunity - is "dramatically" higher.

Demographics.

Men aged 25 to 44 are the most likely sector of society to start a business. The depth of that pool will be crucial to start-up rates. Meanwhile, the relative involvement of women varies considerably.

In highly entrepreneurial countries, women participate at 58 percent of the rate of men; that falls to 31 per cent in low category countries. Demographic trends will also influence business p opportunity. It is much harder to establish a successful business in regions of zero or negative population growth.

Culture.

The extent to which entrepreneurs command respect varies greatly. In the US, 91 per cent of those surveyed said starting a business was a respected occupation. In the UK, the rate was 38 per cent, falling to 8 per cent in Japan. While Germany languishes at the bottom of the table overall, 73 per cent of those questioned said entrepreneurs were respected.

Peter Englander, partner at Apax, which sponsored the UK and German portion of the study, notes: "Our perception is that things are changing dramatically in Germany in the last two or three years - in terms of attitude to risk-taking." ,

Such shifts in attitude may show through more clearly in future studies, the authors predict.

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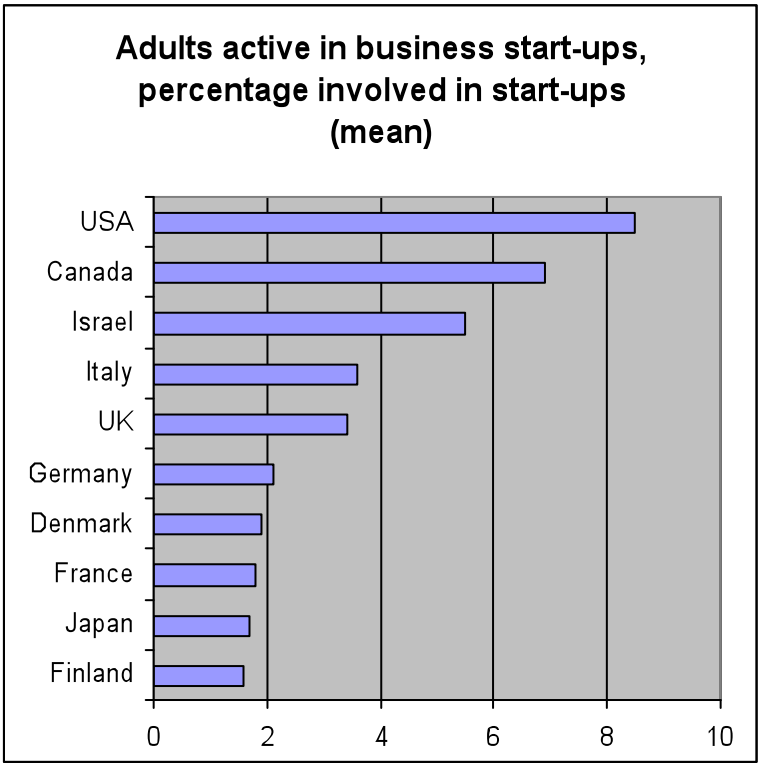
Infrastructure.
The availability of equity finance was found to have an impact, as did that of good, reasonably priced professional advice. The potential for research and development transfer and the existence of flexible labour markets were other important factors.
At the same time, the study notes, most specific government policies were not stimulating the “massive changes" required to enhance entrepreneurial activity. The authors point out there is plenty of other research saying such programmes could be helpful for individual start-ups. They speculate that most initiatives are too small to have significant influence on an entire economy. It also emerged that frustration with government programmes - seen as poorly co-ordinated and/or opaque - is highest in the low category countries.

Education.
Countries with the most investment in tertiary education had the highest rates of start-up.
The authors drew a number of policy inferences from their findings. Prof Michael Hay at London Business School reckoned there was "a case for raising the total level of start-ups. This would demystify the process. Governments should see it as a volume activity."
An obvious route would be to encourage those outside the core 25 to 44 age bracket. "The most rapid gain would be had by increasing the participation of women," says
Prof Hay.
By contrast, investment in tertiary education was a much longer-term project. At the same time, developing appropriate skills early in the eduction process was important. Prof Reynolds advocates "opening eyes as to how wealth is created at the earliest stage possible".
He adds that it is "one way of officially saying it's OK to start a business. It legitimises it".
Governments could also help in putting suitable infrastructure in place. But perhaps the toughest hurdle was adjusting attitudes towards entrepreneurship and its consequences - notably disparity in incomes.

**See Kauffman Center website*



Homework:
Update the last two articles by accessing the latest GEM Global Entrepreneurship Monitor report online. Which are the most and least entrepreneurial nations?

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