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Entrepreneurship Body of Knowledge

LEARNING OUTCOMES - enables the reader to:

Define entrepreneurship.

Present the entrepreneurship body of knowledge as a breakdown structure.

Show how entrepreneurship is interrelated with project management, small business management, team building and risk management.

Compare and contrast the entrepreneur's management style with a production manager's management style.

With your head buzzing with innovative and creative ideas - welcome to the entrepreneurs' world of spotting opportunities, networking and setting up new ventures. These desirable traits are increasingly seen as the difference between proactive companies growing and creating wealth, and reactive companies resisting change and 'hanging-in there' hoping to avoid the scrap heap. Entrepreneurs are increasingly seen as the driving force behind innovative change in our society.

Entrepreneurs are usually associated with small businesses operating in a niche market. This book will explain how we can all be entrepreneurs at one time or another, whether we are managing a small business, managing a large corporation, or are streetwise necessity entrepreneurs. Entrepreneurs are also found managing welfare ventures, social ventures, sports ventures, and even adventure projects. Entrepreneurship, more than anything, is an attitude – a proactive management approach to seizing opportunities and getting things done.

Entrepreneur millionaires always seem to capture our imagination – making us envious and motivated at the same time. Their success often seems obvious to us after the event. For example, selling mobile phone ring tones is a multi-million business, “*Why didn't I think of that?*” Well you probably did, but due to a combination of laziness, procrastination and fear of taking a punt, you did nothing about it!

1. What is Entrepreneurship?

Entrepreneurship is a developing management topic which has yet to formally produce a **body of knowledge** to ringfence the boundary of knowledge areas (see page 16). There are, however, many eloquent definitions for ‘*entrepreneur*’ and ‘*entrepreneurship*’ which can be used to gain an appreciation of its meaning and scope.

‘*Entrepreneur*’ is a French word which dates back to the 1700s. Since then it has evolved to mean someone who **undertakes a venture**, particularly a new venture, and this is central to the use and understanding of the word *entrepreneur* in the English language. Apparently the French prefer to use ‘*createur d’entreprise*’.

Jean-Baptiste Say, a French economist of the 1800s stated that, “... *an entrepreneur shifts economic resources out of an area of lower productivity into an area of higher productivity and greater yield.*” This sounds very similar to Pareto’s 80/20 analysis, where 80% of an entrepreneur’s income comes from 20% of their clients or their work. The motivation is to focus on the 20% that gives the greatest return, and move away from the 80% that gives the lowest return.

The Oxford Dictionary describes the entrepreneur as; ‘... *one who organises, manages and assumes the risks of a business enterprise*’. This definition identifies the entrepreneur as the key person managing the entrepreneurial process. This could involve co-ordinating, planning and controlling the input of suppliers, contractors and team members. This definition also acknowledges the entrepreneur’s willingness to accept the risk and uncertainties for the success of the new venture.

Bolton and Thompson, from the University of Huddersfield, describe an entrepreneur as; ‘... *a person who habitually creates and innovates to build something of recognised value around perceived opportunities*’. The word ‘*habitually*’ implies innovation is something the entrepreneur is



continually doing – it is not a one off event. This definition also states that if the product is not valued by the market, then the endeavour will be a failure.

Chaston, from the Plymouth Business School, describes entrepreneurship as; ‘... *the behaviours exhibited by an individual and / or organisation which adopts a philosophy of challenging established market conventions during the process of developing new solutions*’. This definition points out that entrepreneurship is not restricted to an individual - entrepreneurship can also be an approach to managing a large company. The definition also highlights that the innovative challenge is a disruptive approach to changing the existing status quo.

Hall, from Durham University Business School, describes an entrepreneur as; ‘... *someone who starts and builds something of long-term value, often from practically nothing. Usually an unsung hero*’. This definition implies that entrepreneurs are not all after a quick buck, they genuinely want to see their creation being useful and stand the test of time. This definition also suggests that entrepreneurs often operate quietly behind the scenes, and very few of them desire to be high profile business people such as Richard Branson (Virgin), Bill Gates (Microsoft) and Anita Roddick (Body Shop).

Porter, the great American economist, advises that; ‘... *innovation and entrepreneurs are at the heart of economic advantage*’. Michael Porter is well known for saying that the success of a company is directly related to achieving competitive advantage. This comment confirms that entrepreneurs and innovation are the driving force behind companies striving to achieve competitive advantage.

Burns, from Luton Business School, advises that; ‘... *as the business grows and the scale of activities increases, the entrepreneur has to learn to delegate*’. It is a surprising fact that rapid growth can be the achilles' heel of many entrepreneurs – their reluctance to seed power, delegate and use integrated management systems can lead to a success-disaster where the success of increased sales leads to a production and distribution nightmare.

This book will take a broad view of entrepreneurship and define it as a management technique or approach, which actively encourages creative ideas, and searches for marketable opportunities to set up new ventures, solve problems, or more generally, look for ways of improving our way of life. The entrepreneur is the key person making the decisions and accepting the risks, but also looks for an attractive return on his investment.

It is common to talk of someone being an entrepreneur as if implying a management style and behaviour rather than an organisational position. ‘*Senior Entrepreneur*’ positions are never advertised in the press, although, there are many job descriptions that call for creativity, innovation, risk taking and dynamic leadership. These are generally considered to be classic entrepreneurial traits.

Entrepreneurs are normally associated with the small business environment, however, it is important to point out that entrepreneurs abound in all walks of life. Consider these categories below to determine if there is an entrepreneur within you trying to break out:

Corporate Entrepreneurs: Large corporations are increasingly recognising that they need the entrepreneurial spirit to keep their products and company at the leading edge of technology and prevent their organisation becoming overly bogged down with head office bureaucracy. Jack Welch is a classic corporate entrepreneur who turned General Electric (GE) around from a \$13 billion company to a \$550 billion company in 20 years.

Street Entrepreneurs: Street entrepreneurs abound in all societies. They are particularly active in the third world and informal markets, where they keep the wheels of industry and commerce turning. Who would have thought that a dentist could market his trade by displaying piles of extracted molars on a table in a Moroccan souk, as he awaits another brave customer? These are necessity entrepreneurs using their streetwise savvy to make ends meet.

Social Entrepreneurs: Many successful entrepreneurs move from accumulating wealth in their formative years to distributing wealth in their later years. Andrew Carnegie is reported to have said, "*The man who dies rich, dies disgraced*". Carnegie himself disposed of 90% of his wealth before he died. Other well known social entrepreneurs include Dr Barnardo who founded homes for orphaned children, and William Booth who founded the Salvation Army which looks after the homeless. I always give generously to the Sallies - just in case.

Adventure Entrepreneurs: The great explorers such as David Livingstone and Captain Cook were adventure entrepreneurs who took enormous risks to extend the boundaries of human discovery. Other great adventure entrepreneurs include Ernest Shackleton whose exploits and leadership in the Antarctic caught our imagination; Edmund Hillary who was the first mountaineer to climb Mt Everest; and Neil Armstrong who put man's first footprint on the moon.

2. Body of Knowledge (bok)

The Body of Knowledge of a profession is an inclusive term used to describe the sum of knowledge within the profession. As with other professions such as project management and accounting, the body of knowledge rests with the practitioners who use it. The body of knowledge identifies and describes the generally accepted practices for which there is widespread consensus of their value and usefulness. It also establishes a common lexicon of terms and expressions used within the profession.

Although the entrepreneurial spirit has been a key feature in our evolution and industrial development, as a management profession it is still relatively new and has yet to formally define a body of knowledge. However, the definitions of entrepreneurship in the previous section point to a number of knowledge areas and management topics, which are presented as a structured breakdown in figure 1.1. These collectively form the body of knowledge and the backbone of this book.

Entrepreneur: In figure 1.1 the entrepreneur's traits are identified as a knowledge area because the entrepreneur creates the innovative changes and spots the opportunities that drive new ventures. The entrepreneur is the key person, the linchpin, the person who makes-it-happen. The entrepreneur's character and behaviour are discussed in the *Entrepreneur Traits* chapter.

Opportunities: Creative ideas, innovation and problem-solving combine to form the opportunities knowledge area. Entrepreneurs often use lateral thinking methods (thinking outside the square) to generate novel solutions, and they are always looking for marketable opportunities. The opportunities knowledge area is discussed in the following chapters; *Creative Ideas*, *Innovation Process*, and *Catching The Wave*.

Marketing: Great innovative ideas that do not sell, and ingenious solutions that are rejected, are failures in terms of entrepreneurship. In contrast, poor ideas that sell well and weak solutions that are accepted, are deemed an entrepreneurial success. The *Marketing* chapter will show that it is essential for the entrepreneur to ensure there is a market for their product or service. The potential market should obviously be determined at the outset. In fact the entrepreneur is unlikely to raise funds and venture capital unless the business plan clearly presents a convincing marketing strategy. The entrepreneur must be able to take the product or service to market and sell it.

Networking: Networking skills are possibly the most important entrepreneurial trait determining entrepreneurial success. The entrepreneur's ability to develop a

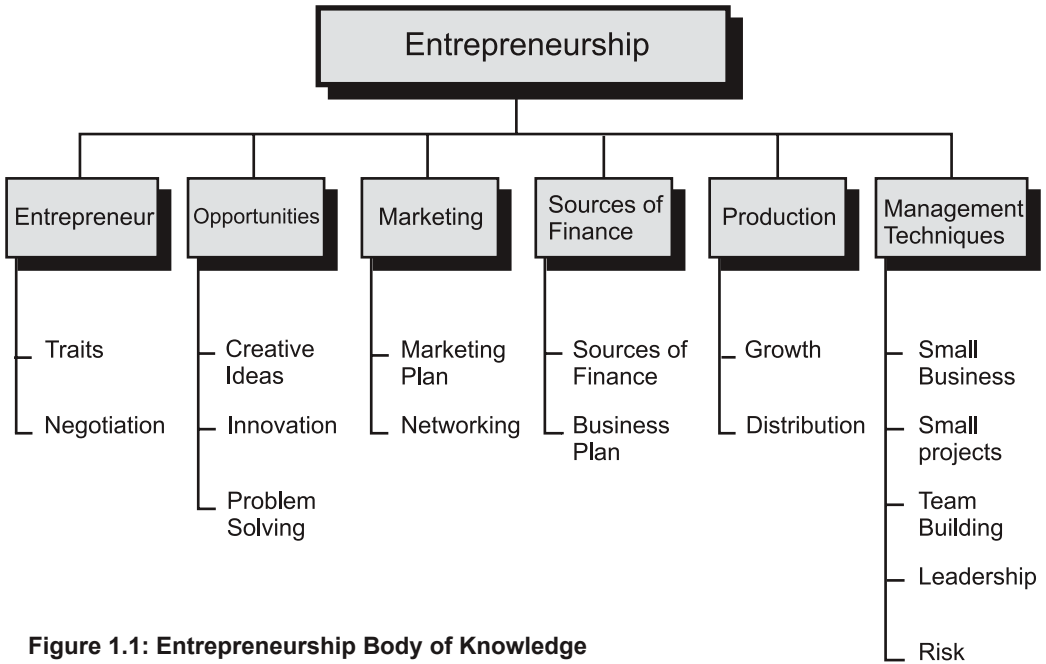


Figure 1.1: Entrepreneurship Body of Knowledge

network of helpful contacts far outweighs any portfolio of academic degrees and certificates of employment. The ‘*old-school-tie*’ - who you know, has always been acknowledged as being more important than what you know. The *Networking* chapter will discuss how the entrepreneur identifies and develops relationships with their key stakeholders.

Negotiation: Negotiation is the art of influencing people to make them see things your way!!! The *Negotiation* chapter discusses the win-win strategy as a collaborative approach where each party is trying to achieve the best deal for both parties - a mutually agreeable solution. This chapter also discusses negotiation tactics and dispute resolution.

Sources of Finance: Acquiring sufficient funding is a key component of any entrepreneurial venture. Without financial support and investment, innovative ideas and marketing opportunities cannot be developed, and may simply fall by the wayside as lost opportunities for another entrepreneur to pursue. Most entrepreneurial ventures need some form of financial support to oil the wheels of development - to produce the prototype, to test the market, and to get the production facilities up and running. The *Sources of Finance* chapter will discuss a range of debt and equity options.

Business Plan: As creative ideas and opportunities evolve into marketable products, at some point the entrepreneur needs to formalise his approach with a coherent business plan. The structure of the business plan is set out in the *Sources of Finance* chapter. These topics will be developed further in my *Small Business Entrepreneur* book.

Production: In figure 1.1 the production knowledge area covers the manufacture and distribution of a product. Many entrepreneurial projects start with developing a prototype to test the product's performance and confirm that it can be built or produced. This obviously relates to the technical content and scope of the new venture. It must be stressed that, if the entrepreneur cannot produce a quality product that meets the clients needs, is competitive, reliable, and professionally supported by a willing customer service, then the whole entrepreneurial endeavour will be self-limited.

Research suggests entrepreneurs do not search for '*state of the art*' equipment or the '*best material available*' to develop their products or services, but rather they use equipment and materials that are sufficient to complete the project. Far from being perfectionists, entrepreneurs are **pragmatists** who put together the minimum resources required to perform the job quickly and effectively to meet their clients' needs, and make a respectable profit.

Entrepreneurs are experts at **cutting corners** and getting away with it. They are **streetwise** bargain hunters always looking for a good deal on resources and materials to give them competitive advantage. This ensures they not only give their client a good deal, but they also make an attractive profit at the same time.

Managing Growth: Managing growth is the achilles' heel for the typical entrepreneur – while the business is small he can manage everything in his head on a day-to-day basis. But with rapid growth, the entrepreneur's ad hoc leadership style needs to change to a more formalised management approach, to enable effective planning and control. And here-in lies the problem - entrepreneurs by their very nature are motivated by opportunities, freedom, risk and profit - whereas production managers are motivated by resources, delegation and security (see figure 1.4).

The *Managing Growth* chapter discusses why growth companies are so important to the economy and are the darlings of the stock market, particularly for an IPO (Initial Public Offering). Their rapid growth not only sucks in large amounts of resources and funding, but also creates plenty of employment and ultimately expands the economy.

3. Entrepreneur Management Techniques

There are a number of management techniques the entrepreneur needs to include in his portfolio of business and management skills, to ensure he is able to manage a new venture effectively. Four of these core management topics highlighted in the body of knowledge are presented below as intersecting circles within an entrepreneurial environment.

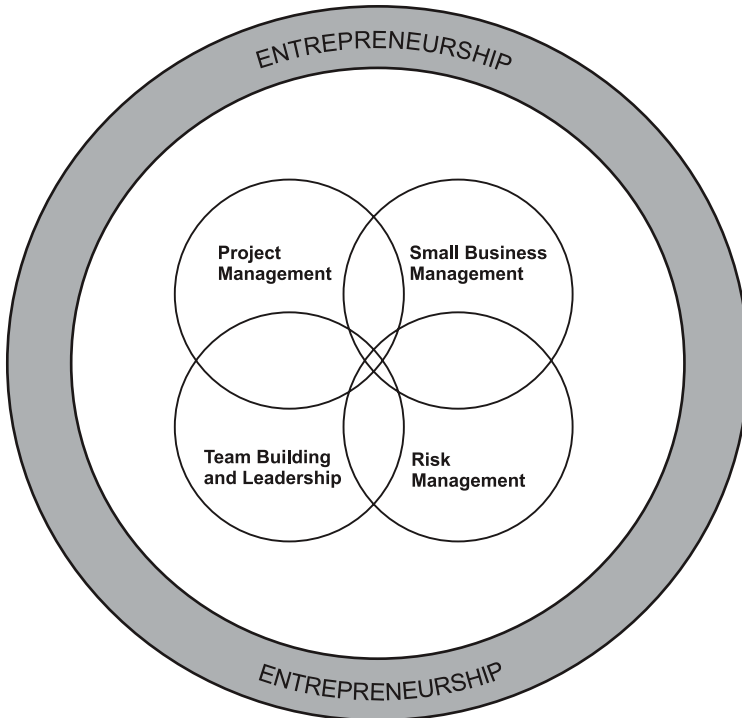


Figure 1.2: Entrepreneur Portfolio of Management Techniques

Figure 1.2 shows how project management, small business management, team building and leadership, and risk management are core management topics under the entrepreneurship umbrella.

- Project management skills are required to plan and control the new venture.
- Small business management skills are required to manage a company on a day-to-day basis.
- Team building and leadership skills are required to inspire, build and lead a team.
- Risk management skills are required to assess, monitor and respond to risk and uncertainty.

All these topics come together to form the entrepreneur's portfolio of business and management skills.

4. Project Management

Setting up a new venture has all the characteristics of a small project which requires effective project management skills to plan and control the entrepreneurial process. Managing a small project is not necessarily a scaled down version of a large project. Although small projects may appear to be simpler and more straight forward - they often have their own unique problems:

- lack of definition - no drawings, no specifications and no contract
- instructions given verbally - nothing in writing to confirm agreements
- minimum standards not established - making it difficult to enforce quality control requirements to accept or reject the work
- no arbitration mechanisms - making it difficult to quickly and amicably sort out any disputes
- no exit strategies - making it difficult to terminate the contract
- short duration - this does not give the entrepreneur time to establish a management system and learn by his mistakes.

The entrepreneur has a multitude of challenges to face when implementing a new venture, so it is important to ensure innovative ideas and opportunities are not handicapped at the outset by ineffective project management. Many creative ideas have floundered because of unrealistic expectations, communication breakdown, poor co-ordination and uncontrolled cash-flow.

Project managers use a number of special project management techniques to plan and control the progress on their projects. These should form an important part of the entrepreneur's portfolio of management skills:

- **Work Breakdown Structures** [WBS] to quantify the scope of work and subdivide the scope into manageable work packages.
- **Critical Path Method** [CPM] to graphically present the logical relationship between activities; to calculate the activities' start dates, finish dates and float; to identify the critical path of activities which determines the duration of the project.
- **Gantt Charts** [barcharts] to graphically present the scheduled information and assign the activities to the person, department or company responsible for each activity.
- **Procurement Schedule** to graphically link the materials and equipment requirements to the schedule, and to highlight any long lead items which could delay the schedule.
- **Resource Histograms** to graphically link the resource requirement to the schedule, and to highlight any overloads and underloads which may require resource smoothing.

- **Earned Value [EV]** to graphically present the integration of the planned manhours, the earned manhours and the actual manhours against the schedule.
- **Quality Control Plan [QCP]** to link the specifications and level of inspection to the sequence of work.
- **Organisation Breakdown Structure [OBS]** to graphically overlay the temporary project team structure on the functional organisation structure - usually presented as a matrix structure.
- **Configuration Management** to manage scope changes, which includes; logging the proposed changes, approving the changes, and implementing the changes.
- **Document Control** to plan and control the flow of documents, which includes; establishing a list of documents to be controlled, collating the documents, storing the documents, issuing the documents with a transmittal note, and withdrawing old documents.

All these special project management techniques are integrated into the planning and control cycle as shown in figure 1.3. These techniques are explained in my book *Project Management Planning and Control Techniques*.

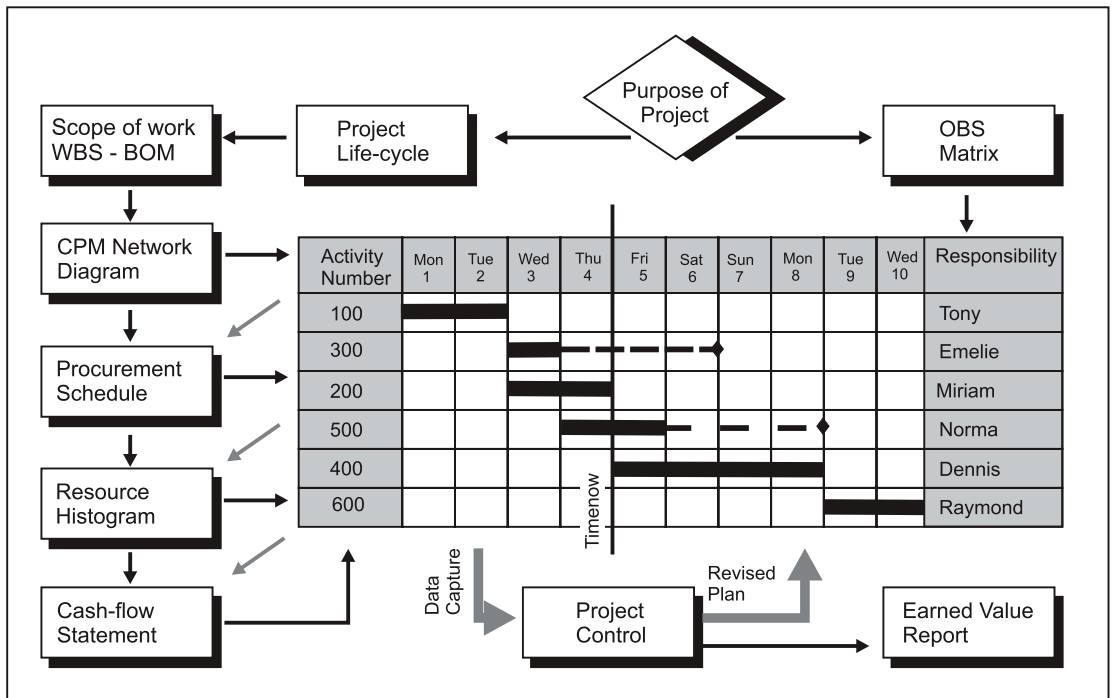


Figure 1.3: Planning and Control Cycle

5. Small Business Management

Entrepreneurs and small business managers are often thought of as being one and the same. But in practice entrepreneurship is the management of change, particularly when starting a new venture or introducing a new product or service. Whereas, small business management is the management of the company on a day-to-day basis - particularly with respect to repetitive jobs. Some of the key small business management functions include:

- marketing the company and the products
- accounts, budgets, book-keeping and cash flow
- paying wages, invoices and debtors
- complying with rules, regulations and taxes
- buying or renting premises
- buying, leasing or hiring plant and equipment
- procurement of material and services
- warehousing and stock control (JIT)
- distribution
- labour relations, recruitment and hiring
- supervision and leadership
- manufacturing the product (technical), and scheduling the workflow
- quality control
- customer service.

Entrepreneurship and small business management obviously go hand-in-hand, and may be seen as two sides of the same coin. Small businesses swing in and out of periods of entrepreneurial change as the business introduces new products, then consolidates its gains, before repeating the cycle at the next opportunity. For example, entrepreneurial change would include the starting of the business, the development of new products, the introduction of new management systems and the penetration of new markets. But, after each entrepreneurial change, the small business would need to consolidate the change and continue at the new level until there is a need or opportunity to change again.

In practice the true entrepreneur would get bored running a small business that did not continually challenge the status quo. These topics will be covered in detail in my book on *Small Business Entrepreneur*.

6. Teamwork and Leadership

The entrepreneur is the driving force behind a new venture - leading, co-ordinating, managing and organising the input of suppliers, contractors and team members. This requires:

- leadership skills to communicate the vision
- inspiration to motivate the team to work towards a common goal
- influence and power to make the work happen.

New ventures, by their very nature, require that extra push to overcome a minefield of obstacles and challenges associated with changing the status quo. Entrepreneurs need to build management teams for a number of reasons:

- to increase the number of people available to match the workload as outlined in the resource plan
- the nature of the work may require a range of complementary skills which any one person is unlikely to have
- to solve problems - interactive team work and brainstorming encourages cross-fertilisation and synergy, where the team generates more and better ideas than people acting on their own
- to make decisions - gain collective commitment and resources from the team members
- to enhance motivation - team cohesiveness will motivate team members to give 110% and not let the side down
- risk taking - management teams generally make riskier decisions than an individual would because there is a feeling of mutual support and sharing of implications.

The entrepreneur, as team leader, is responsible for building an effective team that has the technical skills required to do the work, together with a balance of appropriate human personalities and behaviours so that the team members can work effectively together. Team building incorporates a range of functions that the entrepreneur is responsible for:

- team design - to establish a resource profile of complementary skills
- team selection - psychometric testing to achieve a balance of human personalities and behaviours
- team building - to integrate the team to work effectively together
- team coaching and mentoring - guiding and encouraging each team member's performance
- succession planning and handover as players leave and new members join the team.

7. Risk Management

Developing new ideas, seizing opportunities and starting new ventures will always involve an element of risk and uncertainty, and things will go wrong from time to time. Although entrepreneurs are usually stereotyped as foolhardy risk takers - to understand how entrepreneurs manage their risks goes right to the heart of entrepreneurship. Risk management techniques are covered in detail in the *Risk Management* chapter.

8. Compare Management Styles

The successful entrepreneur needs to be able to vary his management style to reflect the needs of the new venture and the culture of the team, as the venture passes through the phases of the product life cycle (see chapter on *Managing Growth*). It is interesting to compare the different management styles and traits of an entrepreneur, and a production manager. During the setting up, development and growth phases of a company the entrepreneur may need all of these business and management skills and traits at one time or another.

ENTREPRENEUR	PRODUCTION MANAGER
Leads	Manages
Inspires	Administrates
Innovates	Maintains
Business Focused	Systems Focused
Sees Opportunities	Sees Problems
Has Informal Networks	Has Formal Communications
Self-Focused	Delegates
Takes Risks	Risk Adverse (Security)
Revolutionary	Evolutionary
Unpredictable Environment	Predictable Environment
Rents or Borrows Premises	Owns Premises

Figure 1.4: Comparing an Entrepreneur and a Production Manager's Management Styles

Exercises:

1. The body of knowledge ringfences the accepted practices of entrepreneurship. Discuss how these knowledge areas apply to you.
2. Entrepreneurs are said to be pragmatists. Discuss how you have cut corners to make a product and get it to market before the competition.
3. Project management is a core topic within the entrepreneurship umbrella. Discuss how you would plan and control a new venture.

Instructor's Manual: An Instructor's Manual is available with additional exercises and case studies, see <www.knowledgezone.net>.