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COURSE GUIDE DESCRIPTION

You must read this *Course Guide* carefully from the beginning to the end. It tells you briefly what the course is about and how you can work your way through the course material. It also suggests the amount of time you are likely to spend in order to complete the course successfully. Please keep on referring to the *Course Guide* as you go through the course material. It will help you to clarify important study components or points that you might miss or overlook.

INTRODUCTION

OUMM2103 Entrepreneurship is one of the courses offered by Faculty of Business and Management at Open University Malaysia (OUM). This course is worth 3 credit hours and should be covered over 15 weeks.

COURSE AUDIENCE

This is a compulsory course for all students of OUM.

As an open and distance learner, you should be acquainted with learning independently and able to optimise the learning modes and environment available to you. Before you begin this course, please confirm the course material course requirements and how the course is conducted.

STUDY SCHEDULE

It is a standard OUM practice that learners accumulate 40 study hours for every credit hour. As such, for a three-credit hour course, you are expected to spend 120 study hours. Table 1 gives an estimation of how the 120 study hours could be accumulated.

Table 1: Estimation of Time Accumulation of Study Hours

STUDY ACTIVITIES	STUDY HOURS
Briefly go through the course content and participate in initial discussions	3
Study the module	60
Attend 3 to 5 tutorial sessions	10
Online participation	12
Revision	15
Test(s) and Examination(s)	20
TOTAL STUDY HOURS ACCUMULATED	**120**

LEARNING OUTCOMES

By the end of this course, you should be able to:

1. Explain the historical background, concepts and theories of entrepreneurship;
2. Develop a vision to become an entrepreneur and appreciate the entrepreneurial value and culture in their profession;
3. Acquire creativity and innovative development skills in entrepreneurship; and
4. Identify entrepreneurial opportunity and transform it into a basic business plan.

COURSE SYNOPSIS

This course is divided into 10 topics. The synopsis for each topic can be listed as follows:

Topic 1 introduces and defines entrepreneur and discusses the evolution of entrepreneurship from the earliest period until today. It will describe the importance of entrepreneurship to individuals, society, and the country. This topic also explains the ten entrepreneurial myths as well as the scenario of entrepreneurship development in Malaysia.

Topic 2 focuses on sixteen of the most often cited entrepreneurial characteristics. The entrepreneur self-assessment test is a means of getting insights into the individual entrepreneurial potential. This topic will describe not only the differences between a small business owner and an entrepreneur, but also the differences between a conventional manager and an entrepreneur.

Topic 3 is devoted to creativity and innovation. Entrepreneurs need to know the definition of creativity and innovation and their advantages and relationship in entrepreneurship. This topic explains the barriers toward creativity and innovation, as well as the strategy to encourage creativity and innovations among entrepreneurs in today's business. Students will be exposed to opportunities and challenges in producing creative and innovative ideas, products and services that meet the challenge of today's competitive business environment.

Topic 4 focuses on the environmental assessment in pursuing business opportunity and identifying threats that exist in the environment. It also explains the elements in the internal and external environment of business ventures that influence entrepreneurial decisions and activities.

Topic 5 outlines the techniques of preparing a business plan which will help the student to evaluate the business plan objectively, critically and practically. Students will be taught how to produce the blueprint for a realistic business plan. They will also be exposed to several methods and techniques of presenting an effective business plan.

Topic 6 describes the various types of ventures that an entrepreneur can undertake. Here, students will be introduced to the two common types of venture. It will also explain the various phases of start-up steps to be taken when an entrepreneur wants to buy an existing business venture. We will also discuss some of the advantages and disadvantages of buying an existing business, the legal structures for new ventures and various sources of capital for the entrepreneur in starting new ventures.

Topic 7 discusses the importance of networking for entrepreneurs. Networking is one of the business approaches that contribute role for entrepreneur success. If entrepreneurs have very good networking with both external and internal customers, it will be easier for them to gain business opportunities and overcome some of the problems related to their business. This is because good networking relationships will enable them to gain support and cooperation from the networking circle. Therefore, every entrepreneur should develop networking skills to achieve their business goals and objectives.

Topic 8 discusses the evaluation of entrepreneurial opportunities. This topic also explains six common pitfalls in selecting new venture. Students will also be exposed to the critical factors involved in a new venture assessment and the underlying factors of venture success. The effective evaluation process for new venture will also be looked into in this topic.

Topic 9 focuses on the strategic planning for emerging ventures. It will discuss the nature of planning in emerging firms, strategic planning, problems that entrepreneurs have when trying to plan, the benefits of strategic planning and ways to implement a strategic plan.

Topic 10 explains total quality management (TQM) for entrepreneurs. This topic examines the nature of TQM as well as describes some of the tools and techniques used in TQM. Besides, this topic will also discuss the importance of customer, cycle time as well as employee in TQM firms. The students will also be exposed to ways in which entrepreneurs can continuously improve and also the associated competitive advantages.

TEXT ARRANGEMENT GUIDE

Before you go through this module, it is important that you note the text arrangement. Understanding the text arrangement should help you to organise your study of this course to be more objective and more effective. Generally, the text arrangement for each topic is as follows:

Learning Outcomes: This section refers to what you should achieve after you had completely gone through a topic. As you go through each topic, you should frequently refer your reading back to these given learning outcomes. By doing this, you can continuously gauge your progress of digesting the topic.

Self-Check: This component of the module is inserted at strategic locations throughout the module. It is inserted after you had gone through one sub-section or sometimes a few sub-sections. It usually comes in a form of a question that may require you to stop your reading and start thinking. When you come across this component, try to reflect what you had already gone through. When you attempt to answer the question prompted, you should be able to gauge whether you had understand what you had read clearly, vaguely or worse you might find out that you had not comprehended or retained the sub-section(s) that you had just gone through. Most of the time, the answer to the question can be found directly from the module itself.

Activity: Like Self-Check, activities are also placed at various locations or junctures throughout the module. Compared to Self-Check, Activity can appear in various forms such as questions, short case studies or it may even ask you to conduct an observation or research. Activity may also ask your opinion and evaluation on a given scenario. When you come across an Activity, you should try to widen what you had gathered from the module and introduce it to real situations. You should engage yourself in higher order thinking where you might be required to analyse, synthesise and evaluate instead of just having to recall and define.

Summary: You can find this component at the end of each topic. This component assists you to recap the whole topic. By going through the summary, you should be able to gauge your knowledge retention level. Should you find points inside the summary that you do not fully understand; it would be a good idea for you to revisit the details from the module.

Key Terms: This component can be found at the end of each topic. You should go through this component so as to remind yourself on important terms or jargons used throughout the module. Should you find terms here that you are not able to explain, you should look for the terms from the module.

References: References is where a list of relevant and usually useful textbooks, journals, articles, electronic contents or sources can be found. This list can appear in a few locations such as in the Course Guide (at References section), at the end of every topic or at the back of the module. You are encouraged to read and refer to the suggested sources to elicit the additional information needed as well as to enhance you overall understanding of the course.

PRIOR KNOWLEDGE

No prior knowledge is required.

ASSESSMENT METHOD

The assessment method and evaluation distribution for this course can be listed as follows:

OLP	5%
Assignment	35%
Final Examination	60%
TOTAL	100%

REFERENCES

Abd. Aziz Yusof. (2000). *Usahawan dan keusahawanan: Satu penilaian*. Prentice Hall Sprint Print.

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Mohd Salleh Hj Din, Hoe C. H., Norashidah H., Rosli M., Habshah B., Ooi Y. K., Armanurah M., Shuhymee A., Norita D., & Lily Julienty A. B. (2004). *Asas keusahawanan*. Kuala Lumpur: Thomson

Zimmerer, T. W., & Scarborough, N. M., (2007). *Essential of entrepreneurship and small business management* (5th ed.). Prentice Hall.

Topic 1 ▶ Introduction to Entrepreneurship

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Explain the evolution and concepts of entrepreneurship;
2. Discuss three importance of entrepreneurship;
3. Identify the ten myths of entrepreneurship; and
4. Discuss entrepreneurship development in Malaysia.

▶ INTRODUCTION

Welcome to the world of entrepreneurship!

> Most of what you hear about entrepreneurship, says America's leading management thinkers, is all wrong. It's not magic; it's not mysterious; and it has nothing to do with genes. It's a discipline, it can be learned.
>
> *Peter F. Drucker*
> *Innovation and Entrepreneurship*
>
> Source: Kuratko, D. F., & Hodgetts, R. M., (2001). *Entrepreneurship: A contemporary approach* (5th ed.). Harcourt College Publishers.

The economists of the eighteenth-century introduced entrepreneurship as a topic for discussion and analysis, and it continued to attract the interest of economists in the nineteenth-century. In the twentieth-century, the word *entrepreneurship* became synonymous with free enterprise. It was generally recognised that entrepreneurs act as agents of change, provide creative, innovative ideas for business enterprises, and help businesses grow and become profitable. Entrepreneurship is the symbol of business tenacity and achievement. Entrepreneurship is important to individuals, society and the country, and is recognised throughout the world as a catalyst for economic growth. This topic discusses the evolution and concepts of entrepreneurship, the importance of entrepreneurship, the myths of entrepreneurship, and entrepreneurship development in Malaysia.

1.1 THE EVOLUTION OF ENTREPRENEURSHIP

SELF-CHECK 1.1

What is entrepreneurship?

The word *entrepreneur* is derived from the French *entreprendre*, meaning "to undertake". The evolution and development of the theory of entrepreneurship can be summarised as shown in Table 1.1.

The concepts of entrepreneur and entrepreneurship are elaborated further in the following discussion.

Table 1.1: The Evolution and Development of the Theory of Entrepreneurship

Period	Theory and Concept
The Earliest Period	An early example of the definition of an entrepreneur as a go- between is Marco Polo, who attempted to establish trade routes to the Far East. As a go-between, Marco Polo would sign a contract with a financier (capitalist) to sell his goods. The capitalist was a passive risk bearer. The merchant-adventurer took the active role in trading, bearing all the physical and emotional risks. Once the merchant adventurer had successfully sold the goods, the profits would be divided between the capitalist and the merchant-adventurer.
The Middle Ages	During this period, the term *entrepreneur* was used to describe both an actor and a person who was in charge of and managed large production projects. This person merely managed the projects using the resources provided by the government. In this case, he did not assume any risks. The entrepreneur in this age was the person who was in charge of great architectural works, such as public buildings and cathedrals.
The 17th Century	In this century, there was a connection between risk and entrepreneurship. The entrepreneur was a person who entered into a contractual arrangement with the government to perform a service or to supply stipulated products. The contract price was fixed. Therefore, any profits or losses were the entrepreneur's. During this century, Richard Cantillon, an economist, developed one of the early theories of the entrepreneur. He is regarded as the founder of the term entrepreneur. He viewed the entrepreneur as a risk taker. The entrepreneurs in the 17th century as observed by Richard were merchants, farmers, craftsmen, and other sole proprietors. They bought at a certain price and sold at an uncertain price, therefore operating at a risk.
18th Century	In the 18th century, the entrepreneur was differentiated from the capital provider. This happened because of the industrialisation that occurred throughout the world. Many of the inventions developed during this time were reactions to the changing world. For example, the case with the inventions of Eli Whitney and Thomas Edison. Both Eli Whitney and Thomas Edison were developing new technologies and were unable to finance their inventions. Eli Whitney and Thomas Edison were capital users (entrepreneurs), not providers (venture capitalists).
19th and 20th Centuries	In the late 19th and 20th centuries, entrepreneurs were not frequently distinguished from managers. In the middle of the 20th century, the notion of an entrepreneur as an innovator was established. The function of the entrepreneur is to reform or revolutionise 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 in a new way.
21st Century	Entrepreneurs in the twenty-first century are considered the heroes of free enterprise. Many of them have used innovation and creativity to build multimillion-dollar enterprises from fledgling businesses. Entrepreneurs have created new products and services and have assumed the risks associated with these ventures. Today, many people regard entrepreneurship as "pioneership" on the frontiers of business (Kuratko & Hodgetts, 2004).

1.2 CONCEPTS OF ENTREPRENEURSHIP

ACTIVITY 1.1

According to Peter Drucker, entrepreneurship is a discipline which can be learned. What do you think of this statement?

1.2.1 Entrepreneurship

According to Histrich and Peter (1998), entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume major risks in terms of equity, time, and career commitment or provide value for some product or service. It is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risks, and receiving the resulting rewards of monetary, personal satisfaction and independence. This definition focuses on four basic aspects, as shown in Figure 1.1.

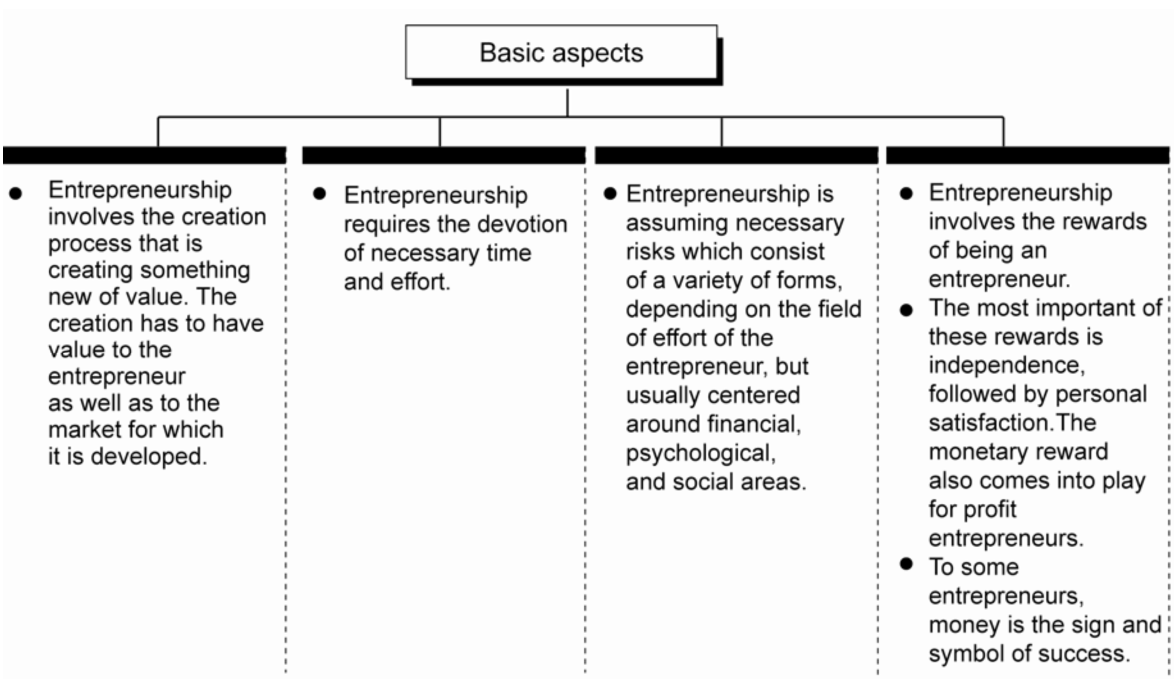


Figure 1.1: The four basic aspects of entrepreneurship according to Histrich and Peter (1998)

Entrepreneurship as defined by Kuratko and Hodgetts (2004) is a process of innovation and new venture creation through four major dimensions:

- Individuals
- Organisational
- Environmental
- Process

Those dimensions are aided by collaborative networks in government, education, and institution.

In recognising the importance of entrepreneurship in the twenty-first century, Kuratko and Hodgetts (2004) have developed an integrated definition of entrepreneurship as follows:

> *"Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skill of building a solid business plan; and finally, the vision to recognise opportunity where others see chaos, contradiction, and confusion."*
>
> Source: Kuratko, D. F., & Hodgetts, R. M. (2001). *Entrepreneurship: A contemporary approach* (5th ed). Harcourt College Publishers.

SELF-CHECK 1.2

What are the four basic aspects of entrepreneurship?

1.2.2 Who are Entrepreneurs?

Entrepreneurs are the pioneers of today's business success. Their sense of opportunity, their drive to innovate, and their capacity for accomplishment have become the standard by which free enterprise is now measured.

Scarborough and Zimmerer (1998) define an entrepreneur as a person who creates a new business in the face of uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalise on them. Entrepreneurs usually start with nothing more than an idea, often a simple one, and then assemble the resources necessary to transform that idea into a sustainable business.

Kuratko and Hodgetts (2004) define an entrepreneur as one who undertakes to organise, manage and assume the risks of a business. The entrepreneur is also a catalyst for economic change who uses purposeful searching, careful planning, and sound judgement when carrying out the entrepreneurial process. Uniquely optimistic and committed, the entrepreneur works creatively to establish new resources or endow old ones with a new capacity, all for the purpose of creating wealth.

Today, an entrepreneur is an innovator or developer who recognises and seizes opportunities; converts those opportunities into workable or marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realises the rewards from the efforts.

The meaning and definition of an entrepreneur varies with discipline. For example, an economist sees entrepreneurs as those who bring resources, labour, materials, and other assets into unusual combinations that make their value greater than before, and also those who introduce changes, innovations, and a new order to generate profit. A psychologist defines entrepreneurs at the behavioural term of achievement. To a psychologist, entrepreneurs are individuals who are driven to seek challenges and accomplishments.

Although each of these definitions views entrepreneurs from a slightly different perspective, they all contain similar notions, such as:

- Newness
- Wealth
- Organising
- Creating
- Risk taking

Entrepreneurs are catalysts for economic change who use purposeful searching, careful planning and sound judgement when carrying out the entrepreneurial process.

ACTIVITY 1.2

You are an entrepreneur who is about to open a franchise restaurant. What should you do before you start your business? Present your ideas in class.

1.3 THE IMPORTANCE OF ENTREPRENEURSHIP

SELF-CHECK 1.3

What is the importance of entrepreneurship to individuals, society and the country?

Entrepreneurship is important in today's world. It is a catalyst for economic change and growth. The role of entrepreneurship in economic development involves more than just increasing per capita output and income. It involves initiating and constituting change in the structure of business and society. This change is accompanied by growth and increased output. One theory of economic growth depicts innovation as the key for economic growth in developing new products or services for the market. Innovative activities also stimulate investment interest in the new ventures being created. Thus, entrepreneurship through its process of innovation creates new investment of new ventures, which result in economic development. As more ventures are being created, new jobs will be produced, thus reducing the unemployment rate.

Entrepreneurship, through its creativity and innovation process produces new products and services to fulfil human needs. It provides specific products or services needed by customers. In producing goods and services, they will find better ways to utilise resources, and reduce waste. For that, society will get better goods and services at a cheaper price.

Entrepreneurship helps to improve the lives of millions of people through the new products and services they bring to the market. Moreover, entrepreneurs are also extremely generous in donating substantial portions of their wealth to eminently worthy causes. Therefore, entrepreneurs are individuals who create wealth, as well as promote wealth distribution.

1.4 THE MYTHS OF ENTREPRENEURSHIP

There are many myths about entrepreneurship. These myths arise because of the lack of research on entrepreneurship. Kuratko and Hodgetts (2004) have discussed ten myths of entrepreneurship as follows:

Table 1.2: The Ten Myths of Entrepreneurship

Myths	Facts
<u>Myth 1</u> Entrepreneurs are doers, not thinkers	Although entrepreneurs tend to be toward action, they are also thinkers. They are actually often very methodical people who plan their moves carefully. They also have other alternatives set if their plan fails. This shows that entrepreneurs are both thinkers and doers.
<u>Myth 2</u> Entrepreneurs are born, not made	Some entrepreneurs and non-entrepreneurs say that the characteristics of entrepreneurs cannot be taught or learned. Entrepreneurial characteristics are innate traits and one must be born with it to become entrepreneurs. However, research has proven that entrepreneurship can be taught and studied. Entrepreneurship has models, processes, and case studies that allow the topic to be learned.
<u>Myth 3</u> Entrepreneurs are always inventors	Although many inventors are also entrepreneurs, numerous successful entrepreneurs are not inventors. For example, Ray Kroc did not invent the fast-food franchise, but his innovative ideas made McDonald's the largest fast-food enterprise in the world. Successful entrepreneurs use creative and innovative ideas in their ventures and these characteristics can be learned.
<u>Myth 4</u> Entrepreneurs are academic and social misfits	This belief arises because some business owners started their successful enterprise only after dropping out of school or quitting a job. Historically, educational and social organisations did not recognise entrepreneurs. Today, the entrepreneur is no longer considered a misfit. They are now viewed as professionals.
<u>Myth 5</u> Entrepreneurs must fit the "Profile"	Many books and articles have presented checklists of characteristics of the successful entrepreneur. These lists were neither validated nor complete; they were based on case studies and on research findings among achievement-oriented people. Today, we realise that a standard entrepreneurial profile is hard to compile. Many successful entrepreneurs today did not have all the profile of the successful entrepreneur when they started their venture.
<u>Myth 6</u> All entrepreneurs need is money	It is true that venture needs capital to survive; it is also true that a large number of business failures occur because of a lack of adequate financing. To entrepreneurs, money is a resource but not an end in itself.
<u>Myth 7</u> All entrepreneurs need is luck	To be at "the right place at the right time" is always an advantage. However, "luck happens when preparation meets opportunity". What are important and needed for the entrepreneur to seize an opportunity are planning, preparation, determination, desire, knowledge and innovativeness.

Myth 8 Ignorance is blissn for entrepreneurs	"Too much planning and evaluation lead to constant problems". This statement is not true in today's competitive markets. The key factors to be successful entrepreneurs are detailed planning and preparation. Entrepreneurs identify a venture's strength and weaknesses, set up clear timetables with contingencies for handling problems, and minimise these problems through careful strategy formulation.
Myth 9 Entrepreneurs seek success but experience high failure rates	It is true that many entrepreneurs suffer a number of failures before they are successful. In fact, failures can teach many lessons to entrepreneurs and often lead to future successes. Entrepreneurs always learn from their failures and also the failures of others, which act as a form of guidance and direction for their future
Myth 10 Entrepreneurs are extreme risk-takers (gamblers)	The concept of risk is a major element in the entrepreneurial process. However, the public's perception is that most entrepreneurs are high risk-takers. In fact, entrepreneurs always search for information and do planning before taking any action. This means that entrepreneurs are usually working on moderate and calculated risks.

These myths can provide a view of today's current thinking on entrepreneurship. It also provides a framework and foundation for researching the contemporary theories and processes of entrepreneurship.

1.5 DEVELOPMENT OF ENTREPRENEURSHIP IN MALAYSIA

SELF-CHECK 1.4

Name some policies enacted by the Malaysian government to promote local entrepreneurship.

Entrepreneurship has existed in Malaysia (Malaya) since the interaction of Malacca with foreign traders. However, when the British colonised the Malay Peninsular, they changed the structure of the society and practised the "divide and rule" system in which the Malays were engaged in administration and agriculture, the Chinese in mining and business, and the Indians in rubber plantations. As a result of this system, the Chinese society was far ahead in business compared to the Malays and Indians.

After independence, the Malaysian Government realised the importance of entrepreneurship to individuals, society and the country, and how it contributes to the nation's prosperity. Since then, the government has been focusing on the field of entrepreneurship until today. The New Economic Policy (1971-1990), the

National Development Policy (1990-2000) and Vision 2020, all encourage and support entrepreneurship development in Malaysia.

The government encourages entrepreneurship development and gives recognition to entrepreneurs because they can contribute to the development of the country. In 1995, the government incorporated the Ministry of Entrepreneurship Development as a specific body to manage and promote the growth of entrepreneurship in Malaysia. Today, this ministry is named the Ministry of Entrepreneurship Development and Co-operation.

ACTIVITY 1.3

How far does the Malaysian government recognise and also restructure entrepreneurship development in the country? Do research on this topic and share your findings. You may use the internet, newspapers and books as resources for your research.

EXERCISE 1.1

1. What are the ten myths of entrepreneurship?
2. Discuss the important of entrepreneurship.
3. Give the scenarios of entrepreneurship development in Malaysia.

SUMMARY

- The study of entrepreneurship has relevance today, not only because it helps entrepreneurs to better fulfil their personal needs, but also because of the contribution it gives to the individual, society, country and to the world.
- This topic examines the evolution and concepts of entrepreneurship and discusses the importance of entrepreneurship.
- In addition, the ten major myths of entrepreneurship are presented to provide a better understanding of the assumptions surrounding this newly developing field of study.
- It also provides a framework and foundation for researching contemporary theories and processes of entrepreneurship.
- The discussion on the entrepreneurship development in Malaysia is presented to give a brief history and scenarios of entrepreneurship in

Malaysia. The government should continuously promote the growth of this area in the future.

- Furthermore, to foster entrepreneurship development, entrepreneurship education is a vital element to further educate society in the area of entrepreneurship.

KEY TERMS

Divide and rule	Myths
Entrepreneur	New venture
Entrepreneurship	Risk

Topic 2 ▶ Identifying Entrepreneurial Characteristics

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Identify sixteen characteristics of successful entrepreneurs;
2. Evaluate your entrepreneurial inclination potential using the entrepreneur self- assessment test; and
3. Describe at least three differences between businessmen, managers and entrepreneurs.

▶ INTRODUCTION

Entrepreneurs are individuals who recognise opportunities where others see chaos or confusion. They are aggressive catalysts for change within the marketplace. They have been compared to Olympic athletes challenging themselves to break new barriers, to long-distance runners dealing with the agony of the miles, to symphony orchestra conductors who balance the different skills and sounds into a cohesive whole, or to top-gun pilots who continually push the envelope of speed and daring. Whatever the passion, because they all fit in some way, entrepreneurs are the heroes of today's marketplace. They start companies and create jobs at a breathtaking pace. They challenge the unknown and continuously create the future.

Source: Kuratko, D. F., & Hodgetts, R. M. (2001). *Entrepreneurship: A contemporary approach* (5th ed.). Harcourt College Publishers.

This topic describes the most common characteristics associated with successful entrepreneurs, entrepreneur self-assessment and the differences between the entrepreneur, the small businessman and the managers.

2.1 CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

The following discussion provides a brief summary of characteristics most commonly associated with successful entrepreneurs. Even though new characteristics are continually being added to the list, it does provide important insights into the entrepreneurial perspective.

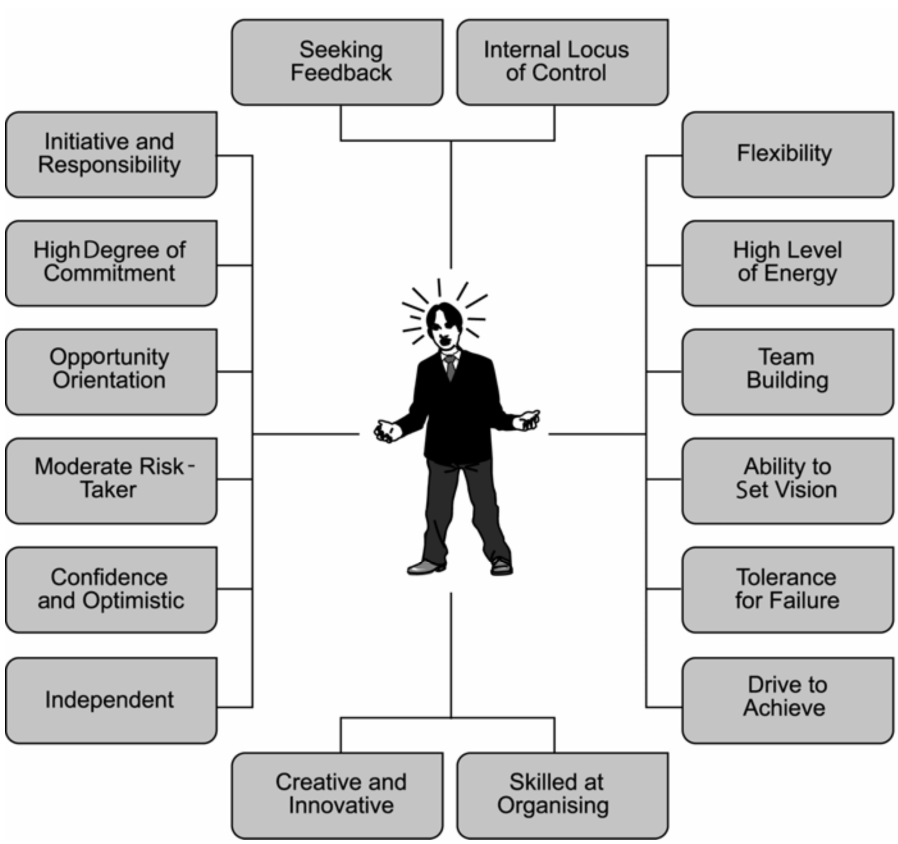


Figure 2.1: Characteristics of successful entrepreneurs

(a) **Initiative and Responsibility**

Most researchers agree that effective entrepreneurs actively seek and take the initiative. They willingly put themselves in situations where they are personally responsible for the success or failure of the operation. Entrepreneurs feel a personal responsibility for the outcome of ventures in which they are associated. They like to take the initiative in solving problems where no leadership exists.

(b) **High Degree of Commitment**

Launching a venture successfully requires total commitment from entrepreneurs. This commitment helps entrepreneurs to overcome business-threatening mistakes and obstacles. Entrepreneurs' commitment to their ideas and ventures determine how successful those ventures ultimately become.

(c) **Opportunity Orientation**

Entrepreneurs focus and start on opportunities rather than on resources, structure, or strategy. They begin with opportunities and let their understanding of them guide other important issues. Entrepreneurs have a well-defined sense of searching for opportunities. In searching for new business opportunities, entrepreneurs observe the same events other people do, but they see something different. Entrepreneurs are not only capable of searching for opportunities but are also capable of seizing the extraordinary ones.

(d) **Moderate Risk-taker**

Entrepreneurs are not wild risk-takers; they are calculated risk takers. When entrepreneurs participate in any venture, they do so in a very calculated, carefully thought out manner. They often avoid taking unnecessary risks.

(e) **Confident and Optimistic**

Entrepreneurs typically have an abundance of confidence in their ability to succeed. They tend to be optimistic about their chances for success, and usually their optimism is based on reality. The high level of confidence and optimism explains why some of the most successful entrepreneurs have failed in business, often more than once, before finally succeeding.

(f) **Creative and Innovative**

Creativity and innovativeness are important for entrepreneurs to gain a competitive advantage in their ventures. Through their creative and innovative minds and imagination, entrepreneurs can produce unique goods and services for customers. Creativity is not inherited, it can be learned.

(g) **Seeking Feedback**

Entrepreneurs like to know how they are doing and are constantly looking for reinforcement. They actively seek and use feedback to improve themselves and their venture performance. From feedback, entrepreneurs can learn from their mistakes.

(h) **Drive to Achieve**

Achievement seems to be the primary motivating force behind entrepreneurs. Entrepreneurs are self-starters who internally have a strong desire to compete, excel, pursue and attain challenging goals. One of the common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To entrepreneurs, money is simply a symbol of achievement, not the driving motive.

(i) **Ability to Set Vision**

Entrepreneurs know what they want to achieve. They have a vision or concept of what their firm can be. Not all entrepreneurs have predetermined visions for their firm. In many cases, this vision develops over time as the entrepreneur begins to realise what the firm is and what it can become.

(j) **Skilled at Organising**

Building a venture from the very beginning is not easy. So, entrepreneurs know how to put the right people together to accomplish a task. Entrepreneurs are able to organise their resources in an effective way so as to transform their visions into reality.

(k) **Internal Locus of Control**

Entrepreneurs believe that the success or failure of their venture depends on themselves. Their accomplishments and setbacks are within their own control and influence, and they can affect the outcome of their actions.

(l) **Tolerance of Failure**

Entrepreneurs do not become disappointed, discouraged, or depressed by failure. They use failure as a learning experience. In difficult times, they still look for opportunities. Most entrepreneurs believe they learn more from their early failures than from their early successes.

(m) **High Level of Energy**

Entrepreneurs are more energetic than the average person. Entrepreneurs need to have a high level of energy so as to cope with the extraordinary workload and the stressful demands they face. That energy may be a critical factor, given the incredible effort required to start-up a company.

(n) **Team Building**

Most successful entrepreneurs have highly qualified and well-motivated teams that help handle the venture's growth and development.

(o) **Independent**
Entrepreneurs are independent people. They like to accomplish tasks in their own way. This does not mean entrepreneurs must make all the decisions. They want to have authority to make important decisions.

(p) **Flexibility**
Entrepreneurs are not rigid in their venture. They are flexible and have the ability to adapt to the changing demands of their customers and businesses. In this rapidly changing world economy, rigidity often leads to failure.

EXERCISE 2.1

What are the common characteristics of successful entrepreneur? In your opinion, why are the previously mentioned characteristics essential in becoming a successful entrepreneur?

2.2 SELF-ASSESSMENT FOR ENTREPRENEURS

There are many instruments that can be used to assess and measure the potential inclination towards entrepreneurship in individuals. Among them are instruments proposed by Robinson, Stimpson, Huefner and Hunt (1991). Today, there are many online interactive tests and quizzes on entrepreneurial inclination potential to test your level of entrepreneurial potential.

The purpose of the entrepreneur self-assessment test is to get insights on the entrepreneurial inclination potential in individuals. It is not to find out whether individuals can become entrepreneurs or not. Anyone has the potential to become an entrepreneur, regardless of age, race, gender, colour and national origin. Entrepreneurship is not a genetic trait; it is a learned skill. Each individual has a chance to be an entrepreneur. So, from this entrepreneur self-assessment test, you can see your standing and do something to improve your level of inclination towards entrepreneurship if you are interested in becoming a successful entrepreneur.

ACTIVITY 2.1

What is the purpose of the entrepreneur self-assessment test? You can try one of the online tests by accessing http://bizmove.com/other/quiz.htm. Compare your score with your friends.

2.3 THE DIFFERENCES AMONGST BUSINESSMEN, MANAGERS AND ENTREPRENEURS

In this subtopic, we are going to look at the differences between businessmen, managers and entrepreneurs adapted from Zimmerer (1998).

2.3.1 The Differences between a Businessman and an Entrepreneur

Entrepreneurs are not synonymous with businessmen, especially the small businessman. This is due to the fact that not all businessmen are entrepreneurs. However, all entrepreneurs are businessmen. Businessmen do have the characteristics of most entrepreneurs, but those characteristics are at a lower stage compared to entrepreneurs. Several characteristics can be used to differentiate the small businessman and the entrepreneur. Table 2.1 exhibits the differences between a small businessman and an entrepreneur.

Table 2.1: The Differences between a Businessman and an Entrepreneur

Small Businessman	Entrepreneur
• Engages in business activities for the purpose of profit to support his living and his family.	• Starts the venture, assumes leadership and expands the venture to fulfil personal goals and attain self accomplishment.
• Low risk-taker.	• Moderate risk-taker.
• Follows others and invests only in tested and proven markets.	• Takes calculated risks.

2.3.2 The Differences between a Conventional Manager and an Entrepreneur

There are some differences between managers and entrepreneurs. Table 2.2 shows the differences between managers, especially a conventional manager and an entrepreneur.

Table 2.2: The Differences Between a Conventional Manager and an Entrepreneur

Conventional Manager	Entrepreneur
• Very conscious of rules and taboos.	• Views rules only as guidelines.
• Sensitive to the future and willing to postpone rewards.	• Concept of the future based on personal goals. Low threshold for frustration.
• Has a powerful need for acceptance.	• Ambivalent towards control, success, and responsibility. Can be manipulative and exploitative of others.
• Able to identify problems in any course of action. Makes detailed plans. • Make detailed plans.	• Impatient with discussions and theories. Prone to action and seems impulsive.

Source: Zimmerer, T. W., & Searborough, N. M., (1998). *Essential of entrepreneurship and small business management* (2nd ed.). Prentice Hall.

SELF-CHECK 2.1

Summarise the differences amongst businessmen, managers and entrepreneurs. Discuss your list with your friends.

SUMMARY

- This topic attempts to provide entrepreneurial characteristics that are most often cited. Although new characteristics are continually being added, the list of characteristics given can give important insights on most of the common characteristics exhibited by successful entrepreneurs.
- There are sixteen characteristics worth identifying in this topic:
  - (i) Seeking feedback
  - (ii) Internal locus of control
  - (iii) Flexibility
  - (iv) High level of energy
  - (v) Team building
  - (vi) Ability to set vision
  - (vii) Tolerance for failure
  - (viii) Drive to achieve
  - (ix) Skilled at organising
  - (x) Creative and innovative
  - (xi) Independents
  - (xii) Confidence and optimistic
  - (xiii) Moderate risk-taker
  - (xiv) Opportunity orientation
  - (xv) High degree of commitment
  - (xvi) Initiative and responsibility
- The topic also presents the entrepreneur self-assessment test to see the entrepreneurial inclination potential in individuals.
- It also discusses the differences among entrepreneurs, small businessmen and conventional managers.

KEY TERMS

Creative	Innovative
Entrepreneurs self-assessment	Optimistic

Topic 3 ▶ Developing Entrepreneurial Creativity and Innovation

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Define the concepts of creativity and innovation;
2. Explain four main phases in the creative process;
3. Explain five creativity techniques;
4. Describe four basic types of innovation; and
5. Discuss the barriers to creativity and innovation.

▶ INTRODUCTION

Today's competitive business environment requires an entrepreneur to think of ways to produce new products, services or processes for new purposes to the customers. This, in turn, could enable the organisation to survive and attract the attention of customers to the organisation's new inventions as well as generate revenues. Hence, creativity and innovation are vital elements for all levels of businesses in order for them to grow and expand. Besides, it is also essential both for survival and for building competitive advantage (Kirby, 2003).

Continuously seeking new paradigms of solving a business problem is the precondition for successful entrepreneurs. As a creative person, the entrepreneur must be able to think creatively to find solutions to existing problems. One should, however, remember that, efficiency and effectiveness no longer guarantee the survival of business nowadays. Creativity and innovation are constantly pushing business forward.

As a result, the ability to create or invent something new is the answer for business to remain in the market.

The first section discusses what creativity is, the process of creativity, barriers to creativity, how to generate creativity and characteristics of creative entrepreneurs.

3.1 WHAT IS CREATIVITY?

There are a few definitions for creativity. According to Schermerhorn, Hunt and Osborn (2003), creativity involves the development of unique and novel responses to problems and opportunities. Creativity is imperative for responding to the complex challenges in a dynamic business environment which is often full of non-routine problems. Thus, creativity is:

> "The ability to produce work that is novel (i.e. original and unexpected), high in quality and appropriate (i.e. useful, meets task constraints)."
>
> *(Sternberg, Kaufman and Pretz, 2002)*

SELF-CHECK 3.1

Give the definition for creativity based on your understanding.

3.2 THE PROCESS OF CREATIVITY

An entrepreneur needs to think of ideas to implement new strategies. Generally, ideas evolve from the creative process in which an imaginative individual will **imagine**, **inculcate** and **develop** an idea into a form that can be implemented and in return, benefit both the entrepreneur and the organisation.

According to Kuratko and Hodgetts (2004), there are four main phases or steps in the creative process, as shown in Figure 3.1.

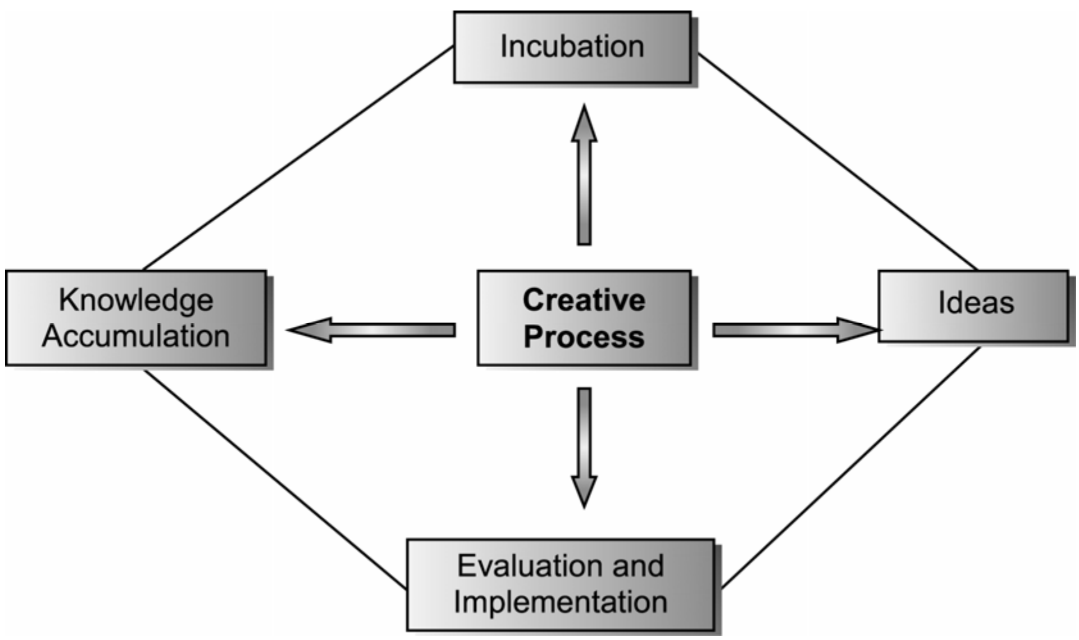


Figure 3.1: The creative thinking process
Source: Kuratko and Hodgetts (2004)

The elaboration of the phases is shown in Figure 3.2.

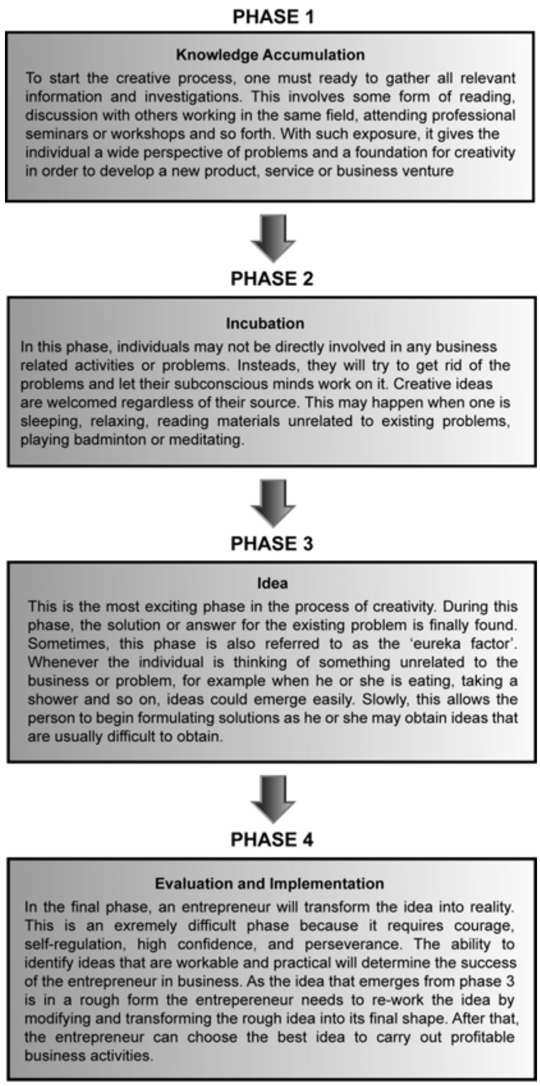


Figure 3.2: Four phases in the creative process

EXERCISE 3.1

1. Briefly explain what creativity is and the main phases involved in the process of creative thinking.
2. Why do you think creativity is essential for entrepreneurs?

3.3 BARRIERS TO CREATIVITY

We should bear in mind that not all novel ideas generated during the creative thinking process are acceptable. Creativity does not ensure that there will be no barriers, no frustrations and no failures. There are four barriers to creativity, as shown in Figure 3.3.

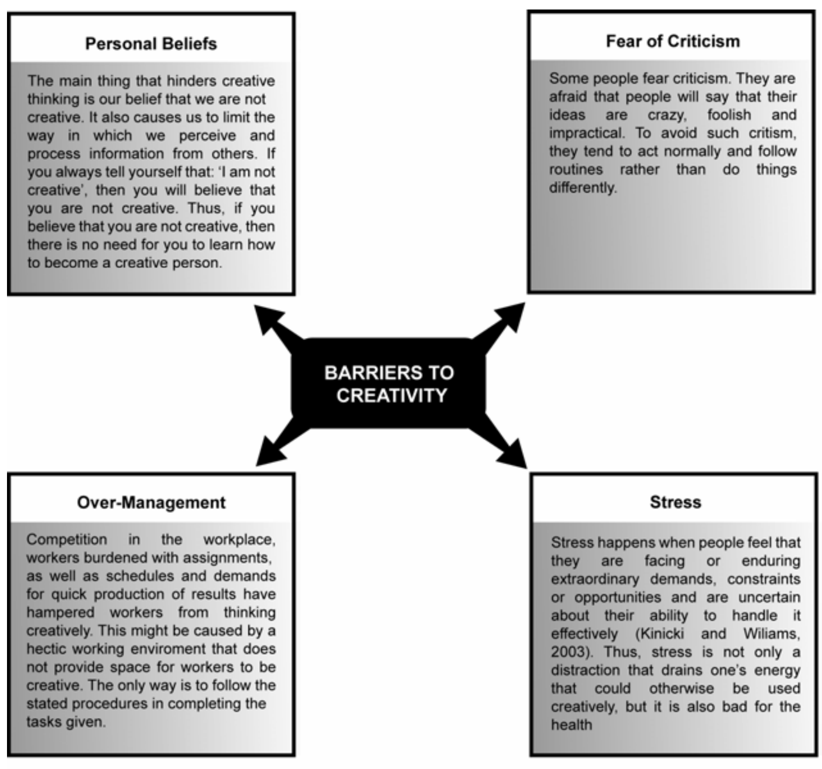


Figure 3.3: Barriers to creativity

3.4 HOW TO GENERATE CREATIVE IDEAS

Different people have different ways of thinking. There are several techniques to improve creativity. Five techniques that can be used to foster creativity are:

- Brainstorming
- Forced Analogy
- DO IT
- Mind Mapping
- Nominal Group

(a) **Brainstorming**

Brainstorming is the most common and powerful technique used to hatch ideas. During a brainstorming session, all members of the group suggest ideas that are then discussed. The ideal number of group members involved in a brainstorming session is four to seven. There are four rules of brainstorming (Williams, 2000), namely:

(i) The more ideas, the better;

(ii) All ideas are acceptable, no matter how wild or crazy they might be;

(ii) Use other group members' ideas to come up with even more ideas; and

(iv) Criticism or evaluation of ideas is not allowed.

(b) **Forced Analogy**

This is a very useful and fun-filled technique of generating ideas. An idea is compared to a problem and something else that has little or nothing in common to get a new insight. There are several ways that you can 'force' a relationship between almost everything and gain new solutions, such as you and a pen, music and computers, products and markets. Forcing relationships can help to develop new insights as well as new alternatives. To develop a relationship is to have a selection of objects or a card with pictures or images that help to generate ideas. Choose an object or card randomly and see what kind of relationship can be forced.

(Adapted from members.optus.net.com/au/~charles57/Creative/Techniques/forced_analogy.htm or www.si.hhs.nl/~runda/Creativity.pdf)

(c) **DO IT**

DO IT is an acronym for:

D – Define problem
O – Open mind and apply creative technique
I – Identify best solution
T – Transform

At the first stage of the DO IT technique, we must analyse the problem to ensure that the correct question is being asked. Studying and understanding the problem is crucial in order to identify the main cause of the problem. If the problem appears to be very large, break it into smaller parts and summarise the problem as concisely as possible.

Secondly, once we have successfully identified a problem, generate as many ideas as possible to get possible solutions to overcome it. Every attempt to generate an idea is essential, regardless of whether the ideas are good or bad.

Thirdly, we need to examine and analyse in detail before choosing the best ideas to solve a problem, and all the solutions should come from the second stage.

Finally, once the best solution is identified, it is time to implement it. This stage involves the development of a reliable product from the idea, marketing and business strategies and it normally incurs time, cost, and energy.

(d) **Mind Mapping**

This technique allows one to use pictures and/or word phrases to organise and develop thoughts in a non-linear fashion. It helps people to "see" a problem and its solution.

Many people use mind mapping during:

- Brainstorming
- Taking notes
- Refreshing their memory

Mind mapping can also be used to generate new products, solve a problem, plan strategy, or develop a process. The key to its effective use to generate ideas and solve problems is to not necessarily think logically. If one idea triggers another, do not try to analyse it; just mark it down on the mind map. Similar to brainstorming, the crazier the association, the better. That is how truly innovative solutions come about.

(e) **Nominal Group**

The use of nominal groups is to generate ideas and evaluate solutions face-to-face in non-threatening group circumstances; members do so by writing down silently as many ideas as possible. After that, group members engage in recording the ideas given and then discuss the ideas to obtain clarification and evaluation. Finally, each member will vote privately on the priority of ideas.

EXERCISE 3.2

List and briefly explain the techniques of generating creative ideas.

3.5 CHARACTERISTICS OF CREATIVE INDIVIDUALS

Entrepreneurs are somehow creative individuals. However, not all creative individual can be entrepreneurs. Figure 3.4 shows the eight characteristics of creative individuals.

i	Creative individuals are remarkably humble and proud at the same time.
ii	Most Creative individuals are very passionate about their work, yet they can be extremely objective about it as well.
iii	Creative individuals dare to try new things.
iv	Creative individuals are open minded and willing to accept criticism from others.
v	Creative individuals have a combination of playfulness and discipline, or responsibility and irresponsibility.
vi	Creative individuals tend to have high self-control.
vii	Creative individuals are goal-directed, deliberate and considerate in making any decision.
viii	Creative individuals are willing to take calculated risks.

Figure 3.4: Characteristics of creative individuals

3.6 WHAT IS INNOVATION?

Once entrepreneurs have undergone a creative process and found the best solution, the next step will be application and eventually innovation. Creativity is a pre-condition to innovation. Today, innovation is widely believed to be the key to sustainable success for many organisations. Companies that are able to compete and win are those that develop new products or new systems of producing products and continue doing so over time.

Why is innovation imperative? What is innovation? In this section, we will discuss what innovation is, its types, sources and barriers.

According to Kinicki and Williams (2003), innovation is "finding ways to deliver new or better goods or services". It means that every organisation, regardless of profit or non-profit, will not allow itself to become complacent, especially when rivals are coming up with creative ideas. Innovation is also deemed as the creation of something new in the marketplace that alters the supply-demand equation (Chell, 2001). An entrepreneur creates a new demand in the market by recombining the factors of production to create something new. Therefore, innovation is the key to survival for entrepreneurs in today's intense business environment. 'Innovate or die' should become every entrepreneur's principle of daily life.

ACTIVITY 3.1

What do you understand by the term *innovation*? In your opinion, how does this term apply to entrepreneurs and why is it important? Discuss in your class.

3.6.1 Types of Innovation

Everyone in an enterprise must be innovative so as to enable the enterprise to change fast enough to cater to the customers' needs and demands. Essentially, there are four basic types of innovation (Kuratko and Hodgetts, 2004) as shown in Figure 3.5.

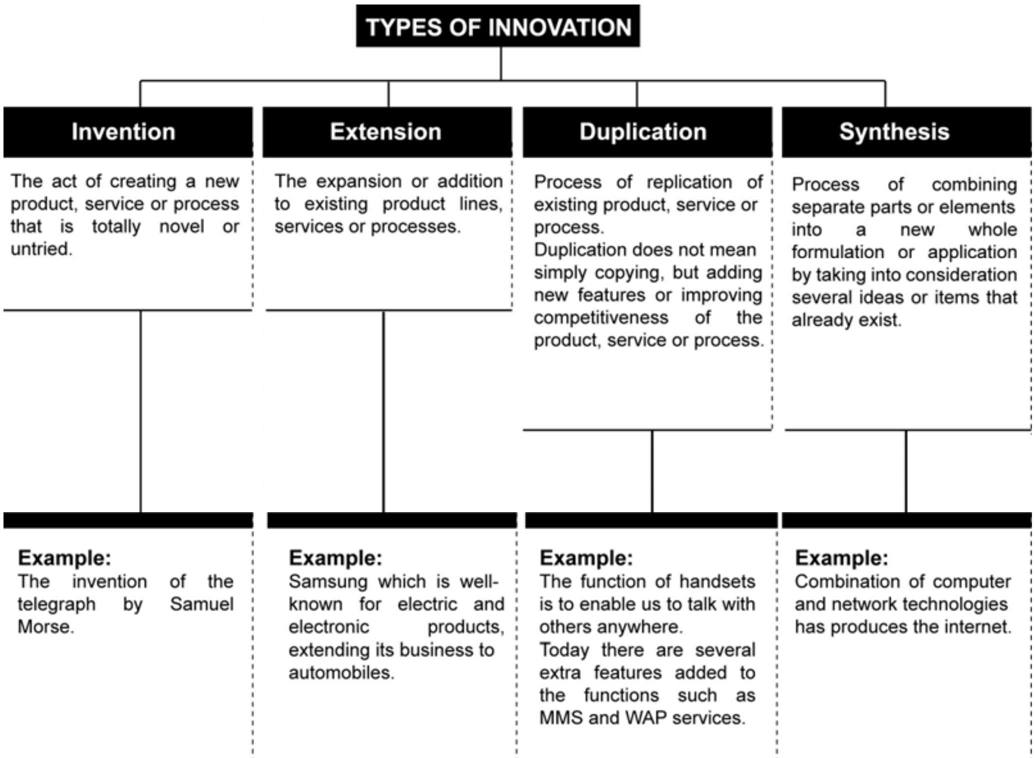


Figure 3.5: Types of innovation and examples

3.6.2 Sources of Innovation

An entrepreneur needs powerful ideas before he or she can inspire a new product, service or process. The following are four sources of innovation for entrepreneurs (Drucker, 1985; Kuratko and Hodgetts, 2004).

(a) **Unexpected Events**

Entrepreneurs frequently notice that they get ideas from something that is out of their expectations. Unexpected events offer immense opportunities for entrepreneurs to apply their expertise to a new application or formula. Besides that, unexpected success or failure is also a major source of innovation when things go unnoticed or unplanned.

(b) **New-Knowledge Concept**

In today's marketplace, we can find out new products or services easily. Indeed, most of these products or services are knowledge-based innovations that need a long time to research and to be developed by experts. New knowledge can be obtained through reading, attending seminars or conferences or discussions among the professionals.

(c) **Changes of Demographics**

Changes of demographic characteristics in age, educational levels, income and types of employment have been a main source of innovation for entrepreneurs. The transformation of demographic characteristics has created huge opportunities for entrepreneurs to explore. For example, as the standard of living and income increase, the demands for luxury goods and health care products also accelerate.

(d) **Process Needs**

Process needs exist within the process of business, an industry or a service. It perfects a process which already exists, replaces a link that is weak, redesigns an existing process and so on. All these provide opportunities for entrepreneurs to produce products, services or processes that suit the customers' demands and needs. For example, in the process of creating a healthy society, people will want to do more exercise. Thus, entrepreneurs could provide more health facilities or centres for those who desire them.

SELF-CHECK 3.2

1. What are the sources of innovation? Give examples based on your surrounding observation.
2. Based on the types of innovation, give appropriate examples and explain. Compare it with your friends.

3.6.3 Barriers to Innovation

Even though entrepreneurs have a pool of ideas to innovate, there are some glitches that can hinder one from becoming innovative. Barriers to innovation always come from within an organisation, especially from its staff. The barriers to innovation are as follows:

(a) **Organisation Does Not Encourage Innovation**

Some organisations are comfortable with the current status quo and refuse to change. For them, any change means a threat that could affect the organisational cultures and procedures, and more importantly their current position. Thus, to avoid such things from happening, the management will try to avoid or refuse to recognise the need for innovation within the organisation. Moreover, interdepartmental borders prevent communication of innovative ideas among its staff.

(b) **Insufficient Resources**

Some organisations are keen to change and innovate but are let down by insufficient resources like human resources, funds and facilities that are vital in implementing an innovation.

(c) **Traditional Management Behaviour**

Management's desire to be in control prevents its staff from being creative. This happens especially when the management is controlled by senior staff members that maintain traditional ways of thinking and resist changing. Sometimes, a creative staff member is hindered by the management's excessive rules, constraints and bureaucracy.

In addition to all those, barriers to innovation could be derived from personal or individual behaviour as shown in Figure 3.6.

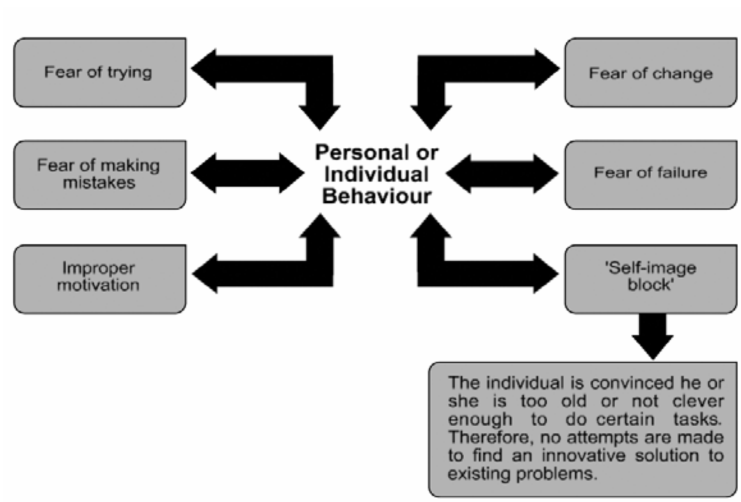


Figure 3.6: Personal or individual behaviour

3.7 THE IMPORTANCE OF CREATIVITY AND INNOVATION FOR ENTREPRENEURS

In the dynamic world of global competition, entrepreneurs must embrace creativity and innovation as part of their crucial ingredient for success. Entrepreneurs must be able to create new products or services and be willing to adopt cutting-edge technology if they are to compete successfully. Thus, it is essential for entrepreneurs to recognise and reward themselves and their staff who are creative and innovative. There are three reasons why creativity and innovation is important. They are explained as follows:

(a) **To Ensure an Organisation's Survival**
Creativity and innovation is essential to long term organisation survival. The future of a business depends on the ability of the organisation to create new products or services. In doing so, it can increase the organisation's capability to compete with its rivals. It also makes the entire organisation respond speedily and collectively to the environmental change. An organisation can no longer wait for demands from customers; rather, it must engage in continuing supply of something novel to satisfy customers' wants.

(b) **To Explore New Markets**
With the presence of new products or services, entrepreneurs have the advantage of exploring untapped markets. A creative and innovative entrepreneur will always think of conquering a new market by introducing new products or services. For example, when Phillips introduced the first DVD (Digital Video Disc) player in the market in 1995, it successfully penetrated the worldwide market.

(c) **To Exploit Natural Resources**
There are plenty of natural resources on Earth. Thus, entrepreneurs should ensure that they can get these benefits by exploiting the wealth of resources without causing harm to the environment. Indeed, creativity and innovation create resources. There is no such thing as a 'resource' until man (entrepreneur) finds a use for something in nature and thus endows it with economic value (Drucker, 1985). Therefore, an entrepreneur is a person who is responsible for creating the 'value' for every natural resource to benefit human beings.

3.8 STRATEGIES TO ENCOURAGE CREATIVITY AND INNOVATION

There are four strategies that can be used to encourage creativity and innovation in an organisation. These strategies are summarised in Figure 3.7.

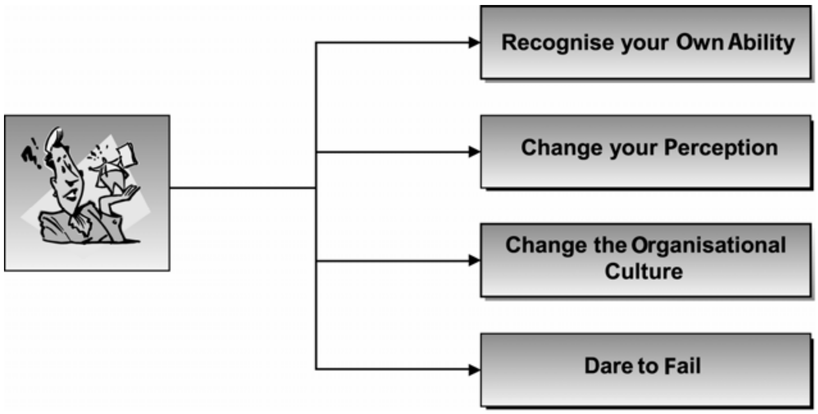


Figure 3.7: Four strategies to encourage creativity and innovation in the organisation

(i) **Recognise your Own Abilities**
It is important to know your abilities so that you can tackle the problems or opportunities which arise creatively and innovatively. Be aware of your own limitations that might block you from possible solutions.

(ii) **Change your Perception**
Try to look at problems or opportunities from various perspectives. Examine the problems and opportunities by breaking them into small pieces, then find the real or best solutions for them.

(iii) **Change the Organisational Culture**
Organisations must encourage their staff to be creative and innovative. Reward the members of staff who really excel in creating novelties.

(iv) **Dare to Fail**
Treat every failure or mistake as a motivator that drives you to go further in finding the best solution.

SELF-CHECK 3.3

1. What are the strategies that you can use to encourage creativity and innovation in an organisation?
2. To take some creativity tests, please browse the following websites:
   - http://www.creax.com/csa/frame.asp?session=zero
   - http://enchantedmind.com/html/creativity/iq_tests/creativity_test.html

SUMMARY

- The definition of the concept of creativity is "the ability to produce work that is novel (original and unexpected), high in quality and appropriate (useful, meets task constraints)".
- The definition of the concept of innovation is "finding ways to deliver new or better goods or services".
- The four main phases in the creative phase are:
  (i) Knowledge accumulation
  (ii) Incubation
  (iii) Ideas
  (iv) Evaluation and implementation
- The five creativity techniques are:
  (i) Brainstorming
  (ii) Forced analogy
  (iii) DO IT
  (iv) Mind mapping
  (v) Nominal group
- The four basic types of innovation are:
  (i) Invention
  (ii) Extension
  (iii) Duplication
  (iv) Synthesis
- The barriers to creativity are:
  (i) Personal belief
  (ii) Fear of criticism
  (iii) Over-management
  (iv) Stress

- The barriers to innovation are:
  (i) Organisations which do not encourage innovation
  (ii) Insufficient resources
  (iii) Traditional management behaviour

KEY TERMS

Brainstorming	Forced analogy
Creativity	Innovation
Creative process	Mind-mapping
DO IT	Nominal group

Topic 4 ▶ Ventures Environment Assessment

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Identify two components of ventures environment;
2. Describe four element of macro and micro environment and six elements of micro environment;
3. Explain three elements of organisation's internal environment;
4. Explain a business opportunity; and
5. Evaluate a business opportunity.

▶ INTRODUCTION

Business venture environments are usually discussed in relation to marketing and economics management, to name a few. In this topic, we will discuss the importance of environment in providing opportunity and threat to new ventures creation. There are many ways to assess an environment of new business ventures.

First, we will analyse the component of environment where the ventures operate. Then, we will discuss the steps in identifying a business opportunity and how to evaluate and grab this opportunity to start up new business ventures.

4.1 THE COMPONENTS OF VENTURES ENVIRONMENT

Entrepreneurs need to evaluate the environment not only prior to the start-up of their business but also during the growth stage of ventures. An environment is the situation where business ventures operate. Ventures environments can be divided into two parts, which are:

- Macro view of the external environment
- Micro view of the external and internal environment

Each of these consists of many components that need to be assessed. Figure 4.1 illustrates the components of ventures environment.

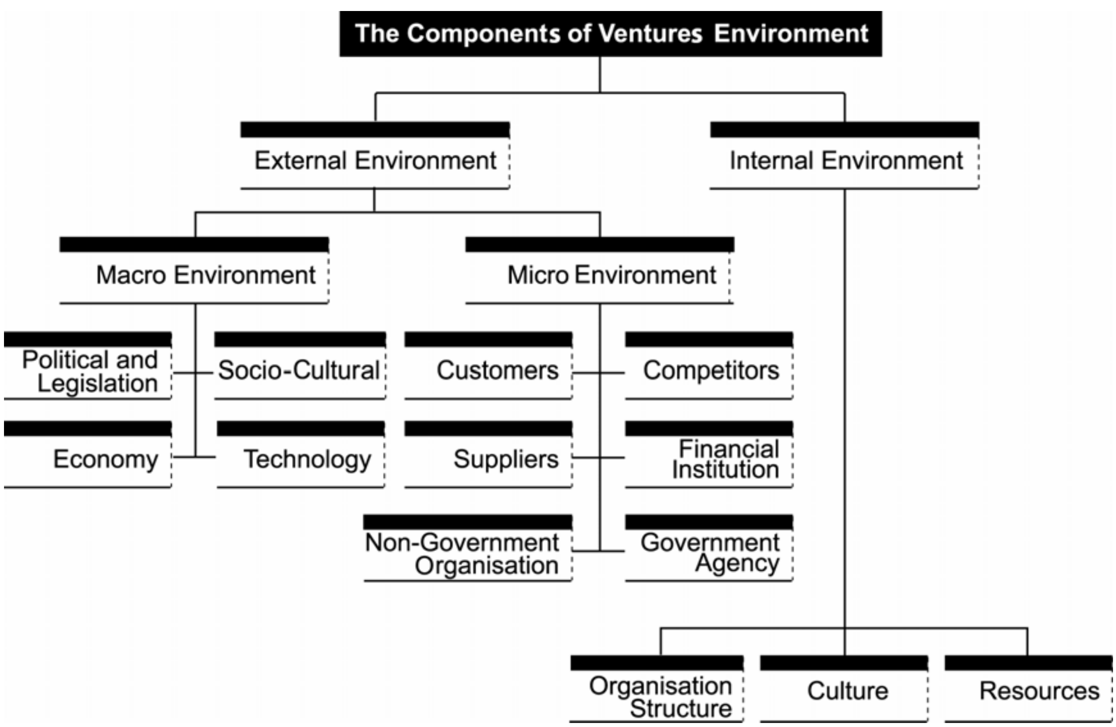


Figure 4.1: The components of ventures environment

(a) **External Environment**

The macro environment can influence business decision-making in the long term and uncontrollable elements. Macro environment consists of four elements:

(i) Politic and legislation

(ii) Economy

(iii) Socio-cultural

(iv) Technology

Kuratko and Hodgetts (2004) discuss the micro environment of business venture as also part of venture external environment, but can directly influence the entrepreneurs' decisions and activities. It is also known as the industrial environment or task environment. The micro environment consists of six elements:

(i) Customers

(ii) Competitors

(iii) Suppliers

(iv) Financial institutions

(v) Non-government organisations

(vi) Government agencies

The micro environment or the industrial environment is also known as a competitive environment in Porter's 5 Forces Model which includes threat of new entrant, substitute product, and bargaining power of suppliers and buyers. Financial institutions are considered as general environment, while non-government organisation and government, while agency are categorised under political and legislation.

(b) **The Internal Environment**

The internal environment can also directly influence decision-making of entrepreneurs. However, they control these elements. The internal organisation environment consists of the following elements:

(i) Organisation structure

(ii) Culture

(iii) Resources

ACTIVITY 4.1

What do you think will happen if entrepreneurs start-up their business without analysing the environment in which the venture operates? Compare and discuss your answers with your friends and tutor.

EXERCISE 4.1

List all segments and components of business environments.

4.2 MACRO ENVIRONMENT

Earlier, we mentioned that the macro environment consists of elements which are political and legislative, economy, technology and socio-cultural. In this section, we will describe these elements and their influence towards entrepreneurs. Figure 4.2 shows the environmental variables.

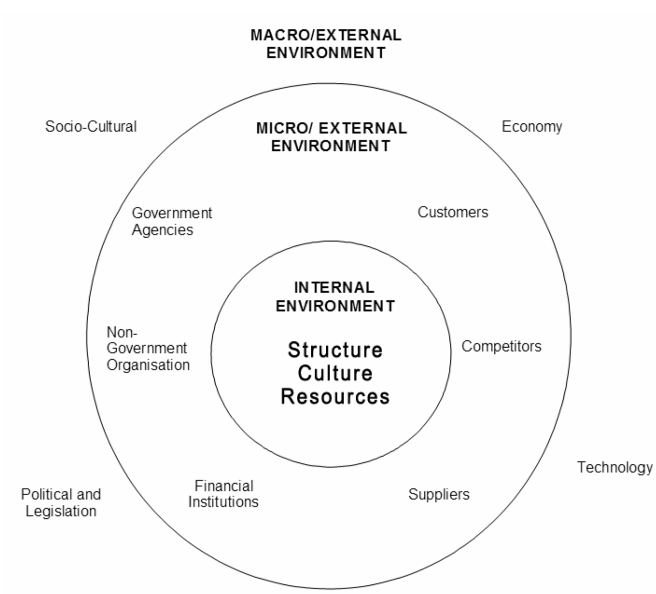


Figure 4.2: Environmental variables
Source: Modified from Kuratko, D. F., & Hodgetts, R. M. (2004) *Entrepreneurship: A contemporary approach* (6th ed.).

4.2.1 Political and Legislation

The political and legislative segment of a macro environment is the arena in which different interest groups compete for attention and resources. This is the environment where entrepreneurs exercise their political power. To a large extent, usually entrepreneurs have to take the given political and legislative elements of the new ventures. They have to obey and adhere to the policy, legislation and regulations where the business operates.

SELF-CHECK 4.1

What do you think is the role of political and legislation segments in a venture environment?

Figure 4.3 shows the political and legislative segment of macro environment.

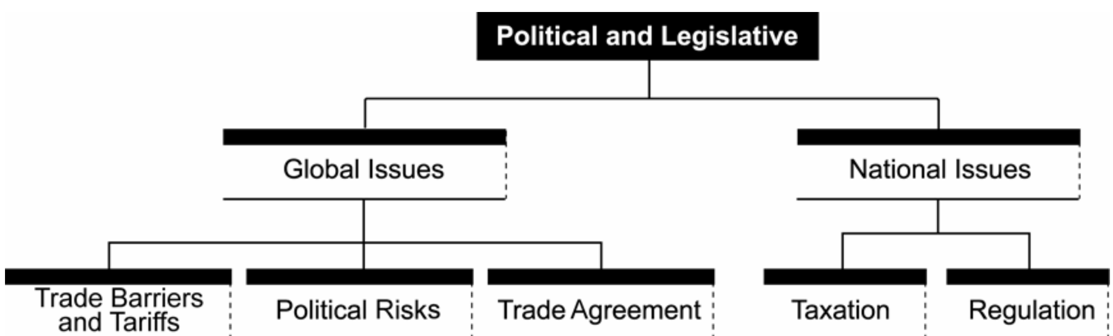


Figure 4.3: The political and legislative segment of macro environment

There are many political and legislative differences between one country and another. **The global issues** entrepreneurs should be aware of are trade barriers, tariffs and political risks, as well as bilateral and multilateral relationships. All these issues are interrelated.

(a) **Trade Barriers and Tariffs**

Trade barriers and tariffs are imposed on goods and services that are traded internationally. They hinder the free flow of resources from other countries as a protection for the home country's industries. Examples include trade barriers that are imposed on the automobile industry in Malaysia.

(b) **Political Risks**
This refers to the potential for instability, corruption and violence in a country or region where businesses take place. In regions where political risks are high, it is difficult and costly for entrepreneurs to buy, protect and dispose of resources. Other risks include political and physical violence, extortion and corruption which involve bribes and other forms of unethical payments. These will add to the cost of new ventures.

(c) **Trade Agreement**
There is a trend of increasing trade agreement between countries, for example, the ASEAN Free Trade Agreement (AFTA) that Malaysian entrepreneurs should consider when making decisions regarding trading internationally. The goal of this agreement is to increase economic productivity within the geographical region covered.

The national issues entrepreneurs must be aware of are taxation, regulation and government spending. All these issues are interrelated.

(d) **Taxation**
This is the major political factor that entrepreneurs face at the national level. The impact of taxation on business operations are as follows:

- Reduces the cash available for business ventures to invest.
- Some taxes are favourable to only certain businesses and disadvantageous to others.

(e) **Regulation**
An example of regulation is the regulation on the usage of drugs. However, sometimes the effect of regulations on businesses is negative. They sometimes add to the cost on businesses in terms of paperwork, testing, monitoring and compliancy.

Therefore, entrepreneurs should evaluate the political environment thoroughly in order to identify whether threats or opportunities exist. Generally, political stability of a country where the business operates provides opportunities for entrepreneurs to start up new ventures or expand their business.

ACTIVITY 4.2

What is the role of AFTA? Discuss in myLMS.

4.2.2 Economy

The economic environment plays a vital role in the success or failure of any new venture. A macro economic environment encompasses the total of all goods and services produced, distributed, sold and consumed. Entrepreneurs need to analyse this environment at the global, national and local levels where their business operates. Each business is related to one another at these three levels of the macro economics environment. However, one should know which level has a greater impact on entrepreneurs. Entrepreneurs should scan, monitor, forecast and assess the macroeconomic conditions that affect the new venture. They should be able to see the changes that happen in the economy and be able to determine the variables that are relevant for analysis.

Figure 4.4 lists out some important questions to be answered by entrepreneurs regarding the economics environment of new ventures in order to provide an overall picture of the business climate:

- *What is the current state of the economy?*
- *What is the condition of the labour market?*
- *Are the interest rates risky or stable?*
- *What is the currency value and foreign exchange rate?*
- *How many firms are there in the industry?*
- *Do the firms vary in size and characteristics, or are they all similar?*
- *What are the geographical concentrations of firms in the industry?*
- *Do the firms serve only the domestic market?*
- *Is there any opportunity of going international?*
- *What is the competitive nature of the business?*

Figure 4.4: Questions to consider regarding new ventures

4.2.3 Socio-cultural

The socio-cultural environment consists of two highly related aspects:

- Demographics
- Cultural trends of society

There are business opportunities that exist in a society's popular culture, for example, business opportunities for consumer and durable goods, retailing and services, leisure and entertainment and housing and construction.

(a) **Demographic changes**

They occur due to changes in the population, ethnic groups, and population structure according to age, gender, geographical location, and population distribution of income. These elements are the contributing factors to consumers' demand, purchasing power and industrial capacity. Entrepreneurs should also closely examine these elements which contribute to the creation of markets. However, the demographic trend and changes are beyond an entrepreneur's control. Entrepreneurs need to assess demographic changes in order to identify business opportunities. For example, the increasing number of children in a society can create opportunity for business related activities that service the needs and wants of this particular group, for example children's education, food and clothes.

(b) **Social trends**

They relate to the modes and manner in which people live their lives. Lifestyle reflects the people's tastes and preferences. Entrepreneurs need to scan and monitor lifestyle changes in order to identify business opportunities. The variables that need attention are household formation, work modes and labour force participation rates, education levels, patterns of consumption and patterns of leisure. Entrepreneurs can use available information from public and private sources of data to scan and monitor these changes. Entrepreneurs also need to forecast and assess the meaning of changes for a new venture by looking after their own self-interest. Thus, they can predict how people behave.

SELF-CHECK 4.2

Why is the socio-cultural environment vital to the entrepreneur?

4.2.4 Technology

The branch of knowledge that deals with industrial arts, applied science, engineering, process, invention or method can be defined as technology. Technological analysis requires scanning and monitoring from the time of basic research through product development and commercialisation. Technological change takes two forms:

- Pure invention
- Process innovation

(a) **Pure Invention**

Pure invention refers to the creation of something new that is different from existing technology or products. For this reason, invention usually has economic value and has no competitors at initial stages and is often a monopoly by the individual who has the legal right on that invention. But there are disadvantages with inventions because there is no market at the early stage. New inventions can create new markets and opportunities for business, for example, the invention of semiconductors that created business opportunities in computers.

(b) **Process Innovation**

Process innovation refers to the small changes in design, product formulation and manufacturing, materials and distribution. This will be discussed in further detail in the section on opportunity identification.

Scanning and monitoring changes in technology is not an easy task because information is not easily available. Even the scientist who is involved in basic research does not know when the commercialisation stage is reached. However, it is a great advantage and opportunity if entrepreneurs know this information.

4.3 MICRO ENVIRONMENT

As mentioned earlier, the microenvironment for a new venture also refers to the industrial environment. This environment has influence on entrepreneurial activities and it is difficult for entrepreneurs to influence the elements in the industry. Entrepreneurs need to plan and implement certain strategies in order to gain a competitive advantage in the industry. Major influences in the industry are:

- Customers
- Competitors
- Suppliers
- Financial institutions
- Government agencies
- Non-government organisations

(a) **Customers**

Customers are the main target group in business. They consume goods and services produced by the industry. Customers can be among individuals in the society, such as housewives, workers, students or groups of people. The consumer is 'king' in the market system. Some products are consumed by industrial buyers such as dealers, agents, wholesalers and retailers. This group of people influences the decision of entrepreneurs.

(b) **Competitors**

Entrepreneurs in new venture businesses must really analyse their competitors in the industry. The competitors are the businesses that fulfil the same customer needs or have the potential to serve those customers. They can be identified by asking the customers (of existing business) or potential customers (of new business) where they can buy the product or services. Entrepreneurs can identify them through business directories.

A resource-based competitive analysis grid can be used as a tool to analyse and rank the competitors in the industry. Entrepreneurs can also identify the strengths and weaknesses of competitors using this tool and help them to position new ventures. Table 4.1 exhibits the resources-based competitive analysis.

Table 4.1: Resources-based Competitive Analysis

Instructions: On a scale of 1 to 7, evaluate the competitor's resource base. A value of 1 indicates that the firm has absolutely no advantage in the resource area; value of 4 indicates that the firm possesses about the same resource capabilities as the other industry participants; a value of 7 indicates that the firm possesses an absolute advantage in the resource category.

Resource type and attribute	Own firm	1	2	3	4	5	6	7
Financial resources Rare Valuable Imperfectly imitable Non-substitutable								
Physical resources Rare Valuable Imperfectly imitable Non-substitutable								
Human resources Rare Valuable Imperfectly imitable Non-substitutable								
Technical resources Rare Valuable Imperfectly imitable Non-substitutable								
Reputation resources Rare Valuable Imperfectly imitable Non-substitutable								
Organisational resources Rare Valuable Imperfectly imitable Non-substitutable								

Total scores ________________

Grand Mean ________________

+/– From mean ________________

(c) **Suppliers**

Suppliers are the second group of people that have great influence on entrepreneurial activities. They can increase the prices they charge for the products and services they sell. They can also decrease the quality of those products and services that are in the market.

(d) **Financial Institutions**

Financial institutions are one of the sources for external funding to initiate a new business venture or for expanding an existing business. Loans from financial institutions are not only hard to get for new venture entrepreneurs because of their lack of track record, but also because of the cost in terms of interest payment, which burdens the new business. Thus, financial institutions have a direct influence on entrepreneurs.

(e) **Government Agencies**

Government influences the entrepreneurial activities through policy implementation. Some examples include the New Economic Policy, Privatisation Policy and the Malaysian Agriculture Policy which have been implemented in our country. Some policies have direct impact on entrepreneurial activities. These government policies and regulations have certain objectives and purposes. Government also provides some support for entrepreneurs. This has been discussed in earlier topics of this module.

(f) **Non-Government Organisations**

Non-government organisations such as consumer societies, political organisations, religious groups, business society, environmental groups and others are among interest groups that can influence entrepreneurs. These groups can influence entrepreneurs through campaigns against products or services and by disseminating the information regarding certain products. Later these actions can influence customers and pressure the government to take action on certain issues.

EXERCISE 4.2

Why do entrepreneurs need to analyse each component of macro and micro environments?

4.4 AN ORGANISATION'S INTERNAL ENVIRONMENT

An organisation's internal environment consists of:

- Resources
- Structure
- Culture

These elements influence the entrepreneur's decisions and activities. Entrepreneurs need to assess the strengths and weaknesses in their business before making any decision or formulating any strategies.

(a) **Resources**
Among the internal resources in an organisation are the entrepreneur himself, financial, human resources, tangible and intangible assets, technology and reputation. Entrepreneurial personality characteristics, skills, energy, ideas, knowledge and experiences are part of entrepreneur resources. All these resources are processed together in the business venture to produce goods and services.

(b) **Structure**
Organisational structure must be suitable for a new venture to adapt to changes in the environment.

(c) **Culture**
Positive culture and values should be inculcated into the business organisation for the benefit of all human resources.

4.5 IDENTIFICATION OF BUSINESS OPPORTUNITY

Opportunities can exist on paper or as ideas. Opportunities can turn a bad situation or loss to a good situation or profit. According to Myzuka (2000), opportunity is defined as a business concept that, if turned into a tangible product or service offered by a business enterprise, will result in financial profit. Opportunities are usually related to entrepreneurs' work experience, hobbies and social environment.

They are also defined as positive external trends or changes that provide unique and distinct possibilities for innovating and creating value. Opportunity is also defined as the potential to create something new that involves changes in knowledge, technology, economy, political, social and demographic conditions.

Most good business opportunities do not suddenly appear but result from an entrepreneur being alert in identifying potential opportunities. Most entrepreneurs do not have formal mechanisms for identifying business opportunities. However, consumers, business associates, members of the distribution system and technical people are the best source of ideas for a new venture.

SELF-CHECK 4.3

In your opinion, what is a business opportunity?

4.5.1 Recognition of an Opportunity: Phase of a Process Perspective on Entrepreneurship

Recognition of an opportunity is one of the major phases in the process perspective on entrepreneurship. The entrepreneurial process begins when one or more persons recognise an opportunity. The opportunities themselves are generated by economic, technological and social factors. The convergence of these factors offers an opportunity for an interesting new venture (refer to Figure 4.5).

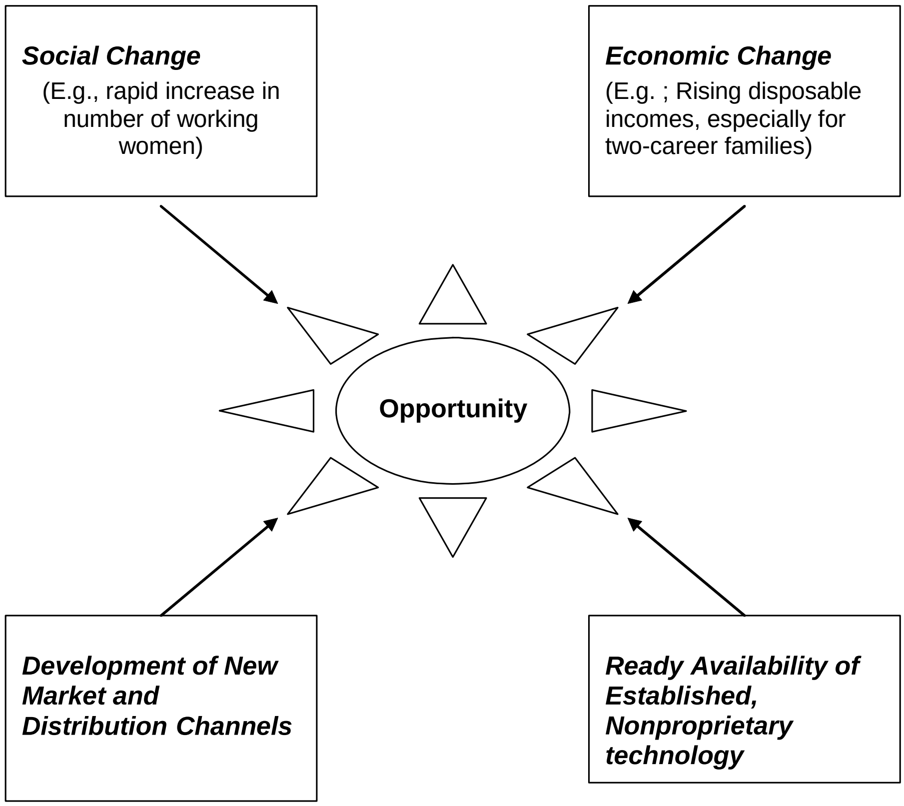


Figure 4.5: Opportunities emerge out of a confluence of factors
Source: Baron & Shane (2004). *Entrepreneurship: A process perspective*. Thomson South Western.

According to Mukesh Chatter in Baron & Shane (2004), changing economic, technological, and social conditions generate opportunities; but nothing happens with respect to these opportunities until one or more energetic, highly motivated persons recognise them.

Entrepreneurs should be able to identify, pursue and capture the value of business opportunities. Successful entrepreneurs are those who can capture an opportunity. Some entrepreneurs seize opportunities through exploration and others from fortunate circumstances. Entrepreneurs who pursue an opportunity should have added value to attract customers, distributors and retailers. Peter Drucker, a well-known management author has identified seven potential sources of opportunity in the external context as shown in Table 4.2.

Table 4.2: Sources of Opportunity

No.	Sources of opportunity	Situations
1.	**The unexpected**	Opportunities can be found when situations and events are unanticipated. The event might be in unexpected success/good news or unexpected failure/bad news that can be an opportunity for entrepreneurs to pursue.
2.	**The incongruous**	Incongruous situations happen when there are inconsistencies in the way they appear. For example, there are opportunities to capture when conventional wisdom about the way things should be no longer holds true. In these types of situations, entrepreneurs who are willing to think beyond the traditional approach may find a potential possibility.
3.	**The process need**	Entrepreneurial opportunities could also surface throughout the process of discovery such as the process of research and development done by the researchers and technicians of a product or service. Even before a breakthrough, there will be numerous opportunities which could be seized by entrepreneurs during the process.
4.	**Industry and market structures**	Changes in technology, social value and customers' tastes can change the structure of an industry and market. These situations, however, will give entrepreneurs opportunities to innovate their product or services.
5.	**Demographics**	Changes in demographics will influence industries and markets upon their target market and market segmentation. These can be entrepreneurial opportunities in anticipating and meeting needs of the population.
6.	**Change in perception**	Perception is one's view of reality. Changes in perception get to the heart of people's psychographic profiles of what their values are, what they believe in, and what they care about. Changes in these attitude and values create potential market opportunities to alert entrepreneurs.
7.	**New knowledge**	New knowledge can be a source of opportunities for entrepreneurs. Examples of new knowledge are new technologies and new discoveries that can be sources of information for entrepreneurial innovation. Entrepreneurs who come out with new products and processes that can compete with other products can manipulate this kind of knowledge.

4.5.2 E-commerce as a New Opportunity

The evolution of electronic commerce has created many new opportunities and new businesses. However, building and marketing a business via e-commerce can be costly. E-commerce offers entrepreneurs opportunities by turning ideas into exciting new markets. Entrepreneurs can use a Website catalogue containing online information about their company to promote and sell their products/services online. Technologies that use electronic commerce offer information that assists customers in making decisions.

Information in e-commerce is available 24 hours a day, with data updated every half-hour (depending on the company). It enables the enterprise to take customers through a web experience from the beginning of the customer activity cycle to the end. It also personalises offerings to suit the unique needs of individuals and enables interactivity between customers and the enterprise itself. Most importantly, e-commerce can lower transaction costs.

ACTIVITY 4.3

What are the advantages and disadvantages of e-commerce to the entrepreneur in creating a new opportunity?

4.6 EVALUATION OF A BUSINESS OPPORTUNITY

Whether the opportunity is identified with input from consumers, business associates, channel members, or technical people, each opportunity must be carefully screened and evaluated. Evaluation is the most critical element in the entrepreneurship process.

Table 4.3 shows the evaluation process which involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its suitability with the personal goals of the entrepreneur and its differential advantage in its competitive environment.

Opportunity must fit the personal skills and goals of the entrepreneur. Opportunity assessment plans should be short, focused on the opportunity, not the entire venture, and provide a basis to make the decision of whether to act on the opportunity. A good business plan must be developed in order to exploit the opportunity. The resources for the opportunity must also be determined. Finally, the entrepreneur must employ the resources through implementation of the business plan.

Table 4.3 shows the aspects of the entrepreneurial process.

Table 4.3: Aspects of the Entrepreneurial Process

Identify and Evaluate the Opportunities	Develop the Business Plan	Resources Required	Manage the Enterprise
• Creation and length of the opportunities • Real and perceived value of the opportunities • Risk and return of opportunity • Opportunity versus personal skills and goals • Competitive situation	• Title page • Table of contents • Executive summary 1. Description of business 2. Description of industry 3. Marketing plan 4. Financial plan 5. Production plan 6. Organisation plan 7. Operational plan 8. Summary • Appendices (Exhibits)	• Existing resources of entrepreneur • Resource gaps and available supplies • Access to needed resources	• Management style • Key variable for success • Identification of problems and potential problems • Implementation of control systems

Source: Histrich, R. D., & Peters, M. P. (2000). *Entrepreneurship: International edition*. McGraw Hill.

SELF-CHECK 4.4

How do you think an entrepreneur evaluates a business opportunity?

EXERCISE 4.3

Explain the seven potential sources of opportunity in the external context.

4.6.1 The Magnitude of the Opportunity

The magnitude of an opportunity depends on the following factors:

- The value that the entrepreneurs want to create.
- The size of the opportunities that will attract the investors.
- Economic factors that require efficient use of assets.
- Business necessary to attract key team members to make the business successful.

However, growth-oriented entrepreneurs do not only consider the magnitude of the opportunity but also the expected growth rate. A growth rate that is too fast over an extended period is a negative aspect of an opportunity because it requires extensive and continuous financing. On the other hand, a growth rate that is too low will not permit entrepreneurs to create desired value and will not attract stakeholders.

Good opportunities come in three situations:

- The original opportunities must lead to other opportunities.
- Good opportunities can force an organisation to develop a skill that can be leveraged for the pursuit of many new ideas.
- The implementation of opportunities should be worked out in teams or partnership.

Entrepreneurs should also consider the competitive environment such as any new company that has survived in the broad industry and is trying to compete and make money.

4.6.2 Sources of Opportunities: The Origins of New Ventures

As mentioned before, opportunity is a situation in which changes in technology, (especially) economic, political, social, or demographic conditions generate the potential to create something new. Table 4.4 shows examples of all five different forms of opportunities for technological change.

Table 4.4: Examples of Different Forms of Entrepreneurial Opportunities That Result from Technological Change

No.	Forms of opportunities	Technological change	Example of a business idea in response to the opportunity	Reasoning
1.	New product or service	Internal combustion engine	Automobile	The internal combustion engine is used to power automobiles.
2.	New way of organizing	Internet	Online book sales	The internet allows people to sell products without retail outlets.
3.	New market	Refrigerator	Refrigerated ship	The refrigerated ship allows ranchers in one country to sell their meat in another country.
4.	New method of production	Computer	Computer-aided design	The computer allows designers to make products without building physical prototypes.
5.	New raw material	Oil	Producing gasoline	Oil is refined into gasoline to power vehicles.

Source: Baron, R. A., & Shane, S. A. (2004). *Entrepreneurship: A process perspective*. Thomson South Western.

4.6.3 Opportunities and New Firms

Established companies will do a better job at exploiting opportunity than a new company. When companies are in business for a while, they develop several advantages over new companies as shown in Table 4.5.

Table 4.5: Advantages of Established Companies over New Companies

No.	Advantages	Reasoning
1.	Learning Curve	New companies have not yet moved up the learning curve and are still bad at manufacturing and marketing products. However, as companies produce more of something, they get better at doing it.
2.	Reputation	Research has shown that people are much more likely to buy products from suppliers that they know and trust.
3.	Cash Flow	If a business is successful, they will have a positive cash flow that is useful for developing new products and services. They also can use the cash to invest in producing new products and services that meet the needs of customers.
4.	Economies of Scale	Economies of scale benefit established companies over new companies because the established companies are already producing products and services. They face lower costs than the new company because it produces more units of the product or service.
5.	Complimentary Assets	Complimentary assets are used along with the entrepreneur's new product to produce or distribute product. New companies often find it difficult to compete with established companies because they lack complimentary assets.

Table 4.6 summarises the types of opportunities for new and established ventures.

Table 4.6: Types of Opportunities for New and Established Ventures

Established Firm	New Firm
• Relies heavily on reputation. • Has a strong learning curve. • Takes a lot of capital. • Demands economies of scale. • Requires complementary assets in marketing and distribution. • Relies on an incremental product improvement.	• Employs a competence destroying innovation. • Does not satisfy the needs of existing firms mainstream customers. • Is based on a discrete innovation. • Lies in human capital.

Source: Baron, R. A., & Shane, S. A. (2004). *Entrepreneurship: A process perspective*. Thomson South Western.

SELF-CHECK 4.7

Explain the advantages of established companies over new companies in creating an opportunity.

SUMMARY

- The components of ventures environment can divided into:
  - (i) The external environment
  - (ii) The internal environment
- The macro environment involves the following elements:
  - (i) Political and legislation
  - (ii) Economy
  - (iii) Socio-cultural
  - (iv) Technology
- The micro environment is highly influenced by:
  - (i) Customers
  - (ii) Competitors
  - (iii) Suppliers
  - (iv) Financial institutions
  - (v) Government agencies and
  - (vi) Non-government organisations
- An organisation's internal environment consists of:
  - (i) Resources
  - (ii) Structure
  - (iii) Culture
- A business opportunity is a business concept that, if turned into a tangible product or service offered by a business enterprise, will result in financial profit.
- A business opportunity should be carefully considered and evaluated before it is acted upon. This could spell the difference between profit and loss.

KEY TERMS

Business opportunity
Competitive analysis
External environment
Industrial environment
Internal environment
Resources based
Social-cultural
Trade barriers and tariff
Ventures environment

Topic 5 ▶ Business Plan

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Explain what a business plan is;
2. Describe seven importance of business plans;
3. Identify the parties who need business plans;
4. Explain eight essential elements of a good business plan;
5. Discuss six guidelines for preparing a business plan; and
6. Describe five factors that contribute to the failure of business plans.

▶ INTRODUCTION

Business environments today are dynamic, complex and subject to continual change. In order to gain and retain sustainable competitive advantage, achieve stated objectives and a range of efficiencies, an entrepreneur must have a good business plan. Business planning is one of the management tools used to achieve business objectives.

Therefore, a company should prepare a convincing business plan to attract investors. Investors are more prepared to invest in a business when they believe that the business planning is realistic and profitable based on their forecast of the business viability. When a business plan is prepared based on correct information, investors will have confidence in the market, product or service of the company. The accuracy of a business plan will reflect the management's ability, experience and history in running the business.

5.1 WHAT IS A BUSINESS PLAN?

A business plan is a written document, which describes in detail the overall plans of a business in which an entrepreneur aims to get involved. Even if the entrepreneur has been in business for a number of years, committing plan to paper allows the entrepreneur to re-examine his business as well as to consider new business opportunities. Therefore, a business plan is the blueprint of a company, presented in a standard business format that is logical and realistic. A business plan must communicate ideas and goals clearly. To accomplish this, a plan should include three things as shown in Figure 5.1:

1. Evidence of focus, which shows the entrepreneur's expertise in the business that they plan to get involved in.
2. Knowledge of who the entrepreneur's target customers are by defining and listing the target customers.
3. To fulfil the investor or lender's needs before either one is prepared to invest in the business.

Figure 5.1: Three main things that an entrepreneur should include in a business plan

According to Patricia Utton (2001), a business plan is a detailed programme or roadmap outlining every conceivable aspect of an entrepreneur's proposed business venture. It is a comprehensive, self-explanatory plan of what the entrepreneur intends to do; how the entrepreneur intends to do it, when the entrepreneur intends to do it; where the entrepreneur intends to do it and why he believes his idea is viable and profitable. It is, in essence, a structured guideline to achieve the entrepreneur's goals, in operating the business.

Besides that, a business plan is an ideal tool to check facts and to comprehensively examine the practicality of an idea before putting it into action. It gives the entrepreneur opportunities for realistic expectations and action when taking the business into operation. On the other hand, it also helps the entrepreneur to identify areas of strength and weakness, and the details for the entrepreneur to look over, the opportunity to be gained and the threat to be faced. All these aspects will determine how they can best achieve their business goals.

Generally, an entrepreneur needs to prepare a workable business plan for the following purposes:

(a) It forces entrepreneurs to arrange their thought in a logical and structured order.

(b) It helps them to create business frameworks by defining the activities, responsibilities and objectives to be achieved.

(c) It encourages entrepreneurs to stimulate reality and anticipate pitfalls before they actually occur.

(d) It helps entrepreneurs to develop strategies to meet those objectives.

(e) It serves as a working action plan or guideline in operating their business.

(f) It enables them to identify constraints that they may face when running the business.

5.2 IMPORTANCE OF BUSINESS PLANNING

A business plan is very important to an entrepreneur for various reasons (refer Figure 5.2).

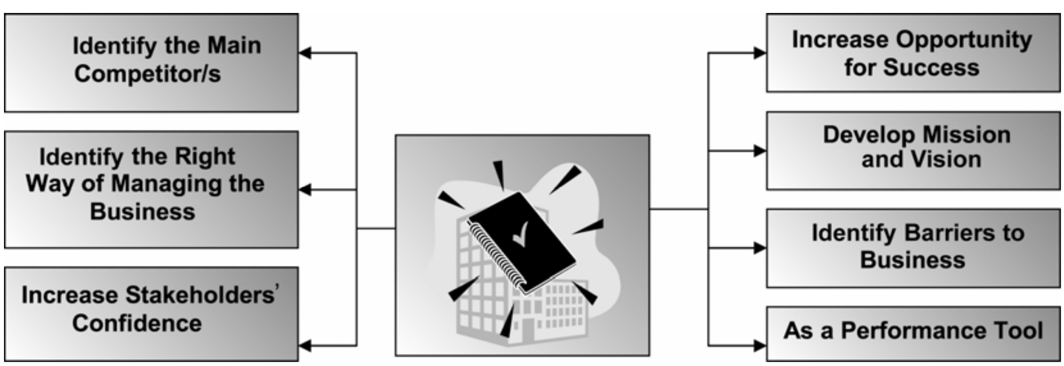


Figure 5.2: The importance of a business plan

(a) **Increase Opportunity for Success**
Comprehensive business planning can identify the level of performance that is supposed to be achieved in business. A business plan will determine the changes that need to be taken to ensure its success. Such changes that need to be taken into consideration are organisational structure, introduction of new technology, new manufacturing techniques and new programmes for subordinates to increase their commitment and productivity. Entrepreneurs need to update their knowledge and skills, to increase their opportunity for success.

(b) **Develop Mission and Vision**

A business plan can set a clear mission and vision for a business. It enables the entrepreneur to make the right decisions and take appropriate actions in the future. The mission and vision will act as a lighthouse to enable the entrepreneurs to know exactly where they are moving towards. The entrepreneurs should communicate mission and vision to the entire stakeholder to gain confidence from them.

(c) **Identify the Main Competitor/s**

Business planning will enable entrepreneurs to determine who their main competitors are, their strengths and weaknesses and determine the right strategy to face them. All these can be done by competitive analysis to identify the competitors' product line or service as well as their market segment. The entrepreneur should be sure to identify all key competitors for each of the products or services and try to estimate how long it will take before new competitors enter the market place.

(d) **Identify the Right Way of Managing the Business**

A business plan gives room for the entrepreneurs and their employees to develop effective strategy to run the business. They can define who, when and how to tender their knowledge, skills and abilities in implementing the business. The entrepreneurs should also ensure that their products and services are in line with the customers' taste, government policies and other changes in the business environment.

(e) **Increase the Stakeholders' Confidence**

Every stakeholder who has an interest in a business will be eager to know the company's strengths like finances, resources and company viability. This information is necessary for the stakeholder to determine his return on investment. For example, before a financial institution agrees to provide the loan needed by the entrepreneur either to start or to expand his business, they would want to know the prospects of the business, and the ability to repay the loan. On the other hand, suppliers also want to know the strength of the entrepreneurs' financial position before they prepare to give credit for their materials. Also, government agencies would want to know the background and the nature of the business before they allow the company to operate.

(f) **Identify Barriers to Business**
When implementing a business, an entrepreneur will definitely face many barriers. These barriers will cause failure or slow down the entrepreneur's progress if it is not properly managed. Therefore, the entrepreneur should identify the barriers he may face before implementing the business and take the necessary action to face it. The entrepreneur knows how far those barriers will affect him and his business.

(g) **As a Performance Tool**
A business plan is an operating tool which, if properly prepared, will help the entrepreneur to work effectively towards its success. The business plan will allow the entrepreneur to set a realistic target to be achieved as a performance yardstick. Therefore, the business plan will provide the basics for evaluating and controlling the company's performance in the future, in terms of profit, cost and quality. It is also used to achieve performance targets, to analyse customers' behaviour trends, competitors' strengths, and internal and external economic performances.

EXERCISE 5.1

Why are business plans important to entrepreneurs?

5.3 WHO NEEDS THE BUSINESS PLAN?

A business plan is very important to various parties. Among those who need business plans are:

(a) **The Management Team**
A business plan will enable the management team to consider the time, effort and support needed to achieve the company's goal. It will provide them with opportunities to analyse critical situations that will hinder business progress. Besides, it will enable them to forecast changes that might happen in the future. The management team must also analyse the reason for the success and the failure of the company as well as threats and opportunities that would be faced in the future. Therefore, the team must build and examine the strategies and priorities that should be clearly described and communicated to ensure company growth. The management team is responsible for setting a reasonable benchmark as a comparison for the company's success. Besides that, a business plan will enable the management team to identify difficulties and constraints faced by the employees in achieving the target.

(b) **The Shareholders**

Business planning is also important to shareholders. They must know how the business is to be conducted since their approval is necessary if changes in target and strategy are to be made. So, they need to know about any new decisions made before executing them. A business plan is an essential document for shareholders because they play a vital role in critically reviewing the draft plan. The entrepreneur should inform them about the future market of the products or services, business operations, financial projections and future plans, such as expanding the business to international markets. The business plan is also important for new ventures or new businesses in order to secure potential new shareholders.

(c) **Bankers or Creditors**

Before approving a loan application, bankers will need to study the entrepreneur's business plan. This plan will give them an indication of the returns they may expect from their loan and also enable them to gauge the viability of the venture and its profitability within a reasonable time frame. The business plan will also give bankers an idea of the company's strategies and priorities. These must be clearly described in the plan and consistent with the overall departmental strategy policy, functional objectives and reporting requirement. From the business plan, bankers will also be able to ascertain government grants and tax incentives available to the entrepreneur.

(d) **Customers**

Customers will also be interested in the business plan for information regarding the company which will influence their decision to use its products or services. Issues of interest include the quality and safety of the company's product. To gain customers' confidence, the business plan should also include the price of the product, durability, features and additional support or after sales services. Customers will have more confidence if the product uses new technologies, is authorised by parties such as SIRIM and JAKIM, and is in line with their culture.

(e) **Suppliers**

Suppliers need a business plan when considering approval for business procurement on credit terms. Suppliers want to see the ability of a business to pay back the credit on time. Thus, a good business plan is able to give a clear picture on the capability of the business.

(f) **The employees**
Most potential employees want information about business developments and performance before they decide to join an organisation. They can get this information from the business plan.

5.4 ESSENTIAL ELEMENTS OF A GOOD BUSINESS PLAN

Every successful business plan should include something about each of the following areas since these are what make up the essential elements of a good business plan (refer to Figure 5.3).

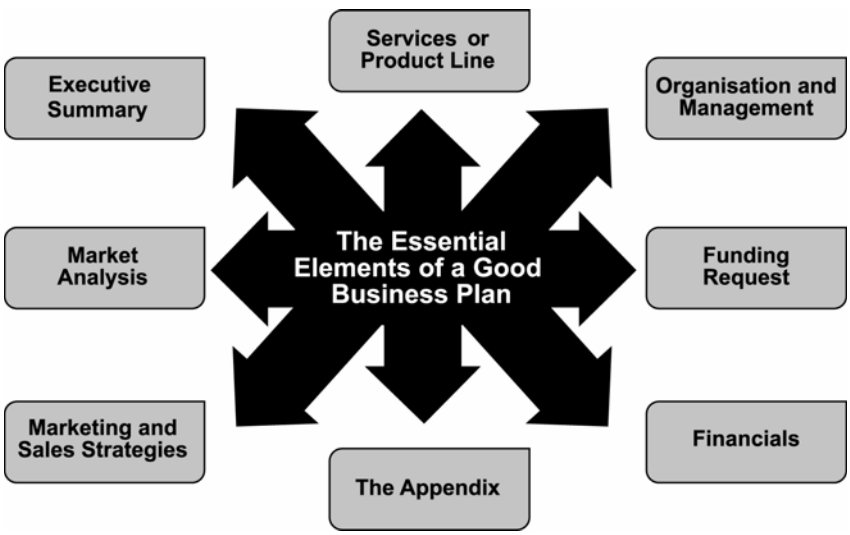


Figure 5.3: The eight essential elements of a good business plan

(a) **Executive Summary**
The executive summary is the most important section of a business plan. This is the first section that needs to be looked at and it should tell readers where the company is and where it wants to go. Among the elements included in the executive summary are the mission statement, the date when the business started, the name of the founders and the roles they play, the number of employees, location of the business and their branches or subsidiaries (if any), description of plans or facilities, products manufactured, bankers' names, the progress of the company and its growth, financial status and a summary of the management's future plans.

(b) **Market Analysis**
The market analysis section illustrates the entrepreneur's knowledge about a particular industry which the business is in. It should also present a general overview and conclusion of any marketing research data that has been collected. However, specific details of marketing research studies should be moved to the appendix section of the business plan. This section should include an industry description and outlook, target market information, market test result, lead times and an evaluation of competition.

(c) **Marketing and Sales Strategies**
Marketing is the process of creating and attracting customers to the business. The entrepreneur should realise that customers are the lifeblood of a business. A business plan should include a sales forecast based on market analysis. In this section, the most important thing to do is to define the marketing strategy. Marketing strategy should be a part of an ongoing self-evaluation process and unique to the company. An overall marketing strategy would include strategies for market penetration, business growth, channels of distribution and communication. Overall sales strategy should include sales force strategies and sales activities. It is also important to include the marketing budget in this section.

(d) **Services or Product Line**
This section describes the uniqueness of the company's services or products and the benefits to potential and current customers. The entrepreneur should focus on the areas where a distinct advantage exists by identifying the problem for which the service or product provides a solution.

(e) **Organisation and Management**
This section includes company's organisational structure, details about the ownership of the company, a profile of management teams and the qualifications of members of the board of directors, the remuneration plan and the administrative budget.

(f) **Funding Request**
This section focuses on the amount of funding needed to start or expand the business. If necessary, it can include different funding scenarios such as with and without funding and its implication to the business. Therefore, this section consists of project implementation cost, which includes capital expenditure, operational expenditure, sources of finance or funding. It also includes funding requirements, future funding requirements over the next five years, how they will utilise the funds received and any long term financial strategies that would have an impact on the company's financial progress.

(g) **Financials**

Financials should be developed after analysing the market and setting clear objectives. In this section, the entrepreneur shows clearly the financial projections such as cash flow pro forma, profit and loss pro forma, balance sheets projections, etc.

(h) **The Appendix**

The appendix section should be provided to readers on an as-needed basis. In other words, it should not be included with the main body of business plan. The business plan is a communication tool. As such, it will be seen by many people. The appendix includes a credit history, resume of key managers, product pictures, letters of reference, details of market studies, relevant magazine articles, licenses, permits, legal documents, copies of leases, building permits, contracts and list of business consultants, including attorneys and accountants.

ACTIVITY 5.1

You are an entrepreneur who is running a bakery selling traditional cakes in Ampang Plaza. What are the details you will include under the Marketing and Sales Strategy in your business plan? Discuss in group and write the details.

EXERCISE 5.2

What are the important elements in a good business plan?

5.5 GUIDELINES IN PREPARING BUSINESS PLANS

Figure 5.4 shows the six guidelines to be followed in order to produce an effective business plan.

1- Keep the Business Plan Short

Keep the business plan as short as possible without compromising the description of the venture and its potential. Cover the key issues that will interest an investor and leave secondary details for a meeting with the investor.

2- Be Focused

Do not over-diversify the venture. It means that attention must be focused on one or two services or product lines and markets because a new or young business does not have the management depth to pursue too many opportunities.

3- Reveal People Involved and Their Roles

Do not have unnamed, mysterious people on the management team, such as Mr. X who will join the company later as a financial vice president. The investor will want to know who exactly Mr. X is and what is his commitment to the venture.

4- Avoid the Use of Jargon

Do not describe technical products or manufacturing processes using jargon that only an expert can understand. Most venture capitalists do not like to invest in what they do not understand or think the planners do not understand.

5- Information Should be Based on Study

The last point is to not estimate the sales on the basis of plant capacity. Therefore, the planner must estimate the potential sales carefully on the basis of the marketing study and from these estimates determine the production facility that the planners need. The next point is the statement must not be ambiguous, vague or unsubstantiated because they will make the planner look like a shallow and fuzzy thinker. If the planner wants to substantiate the data, he must analyse past, present and projected future growth rates and market size.

6- Be Realistic and Objective

Finally, a planner must be rigorously realistic and objective in making estimates and discussing risks.

Figure 5.4: The guidelines in preparing a business plan

5.6 PITFALLS TO AVOID IN PLANNING

According to Kuratko (2004), there are a number of pitfalls that should be avoided by entrepreneurs in the formulation of a business plan. Some of these are common errors that are usually committed by entrepreneurs and are easily noticed. Table 5.1 shows five pitfalls and strategic steps to be taken to avoid them.

Table 5.1: Pitfalls in Planning

No	Pitfalls	Facts	How to Avoid
1.	No realistic goals	• Some of the business plans do not contain attainable and clear goals that entrepreneurs are trying to achieve. • Lack of time frame. • No priorities. • No action steps in the business plan.	Good business plan should include a clear schedule with specific steps of action to be accomplished within specific time frame.
2.	Failure to anticipate obstacles	Sometimes, entrepreneurs are so immersed in their ideas that they are unable to see the possible problems that may arise. There are no indicators to recognise the problems, no admission of possible mistakes or weaknesses in the plan and contingency plans do not exist.	To avoid this pitfall, list down possible obstacles that may arise and steps or contingency plans if the problems occur.
3.	No commitment or dedication	Many entrepreneurs appear to lack of commitment in their business. Entrepreneurs should not give the impression that they don't take matters seriously in doing business. The obvious indicators for lack commitments are: • Excessive procrastinations. • Missed appointments. • No desire to invest personal money. • Desire to make quick profit.	Entrepreneurs should follow up important appointments and willing to demonstrate financial commitment to their business.
4.	Lack of business or technical experience	Many investors look for the entrepreneurs with actual experience and not merely with ideas, and who have true knowledge in the proposed business. Thus, entrepreneurs should demonstrate their knowledge and background experience in their business areas.	They should give evidence of personal experience and background for this venture. If they lack specific knowledge or skills, they should get assistance from those with qualifications.
5.	No market niche	Many entrepreneurs do not identify potential customers for their products. Many new potential products never reach the hand of the customer because of the lack of a market niche or no market was ever established for that product.	The best way to avoid this pitfall is to establish a specifically targeted market segment and demonstrate why and how specific product or service will meet that target group.

Entrepreneurs should avoid the pitfalls discussed above in order to better the chances of their business plan to succeed. These critical areas must be handled carefully before developing their business plan. This will help the entrepreneur to establish a solid foundation on which to develop an effective business plan.

EXERCISE 5.3

Describe the factors that contribute to the failure of business plans.

SUMMARY

- Business planning is a management system. It integrates the management functions of planning, organising, implementing and controlling.
- The business planning process provides management with basic tools and information that describe the management and resource environment, and contribute to establishing the accountability framework needed to manage in a dynamic environment. So, the execution of business planning is very important to ensure the survival and expansion of the business.

KEY TERMS

Business plan	Product line
Executive summary	Pitfalls
Management function	Shareholders
Market analysis	Stakeholders

Topic 6 ▶ Starting a New Entrepreneurial Venture

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Explain three types of ventures;
2. Describe the three phases in the start-up;
3. Explain the seven steps and processes in the buying of existing business ventures;
4. Examine the franchise structure, its advantages and disadvantages;
5. Discuss the legal structures for new ventures; and
6. Identify six sources of capital for entrepreneurs.

▶ INTRODUCTION

In the United States of America, studies indicate that more people are working to start their own business than getting married or having babies! One out of every 25 adults is actively involved in trying to start a new business.

Source: Adapted from Zimmerer, T. W., & Scarborough, N. M. (1998). *Essentials of entrepreneurship and small business management* (2nd ed.). Prentice Hall.

This topic will examine types of ventures that the entrepreneur can start the legal structures for new business ventures, and sources of capital for entrepreneurs.

6.1 TYPES OF VENTURES

An entrepreneur has several ways to start a new venture. Those most frequently practiced by entrepreneurs are classified into three forms as shown in Figure 6.1.

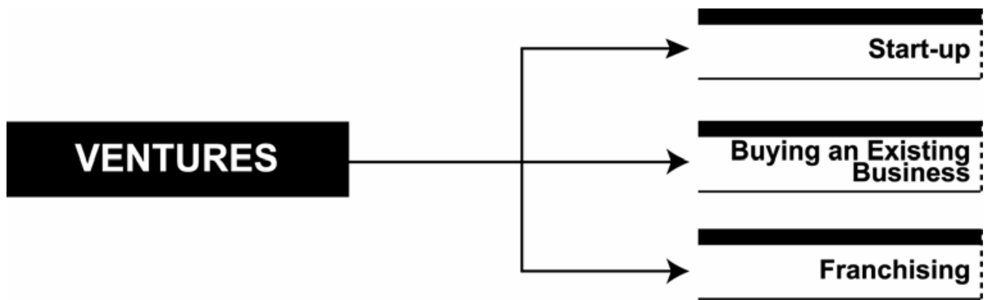


Figure 6.1: Three forms of starting a new venture

6.2 START-UP

In starting up a business, it is important that you know about:

(a) The definition of start-up;

(b) The phases in start-up; and

(c) The advantages and disadvantages of start-up.

6.2.1 Definition of Start-up

A start-up company is a company that is recently formed. It is a process where the entrepreneur creates a completely new business starting from scratch. Some of these businesses are created as follows:

- Many entrepreneurs start-up their business by themselves.
- Usually entrepreneurs will use their own funds from their savings or by borrowing from others.
- An entrepreneur who wants to start-up his business usually needs to have lots of experience, knowledge, skills and interest in the field involved.
- Start-up business usually involves the invention of new products or services.

6.2.2 Phases in Start-up

Any new venture goes through three types of phases. They are:

- Pre start-up phase
- Start-up phase
- Post start-up phase

Figure 6.2 shows the three phases in start-up.

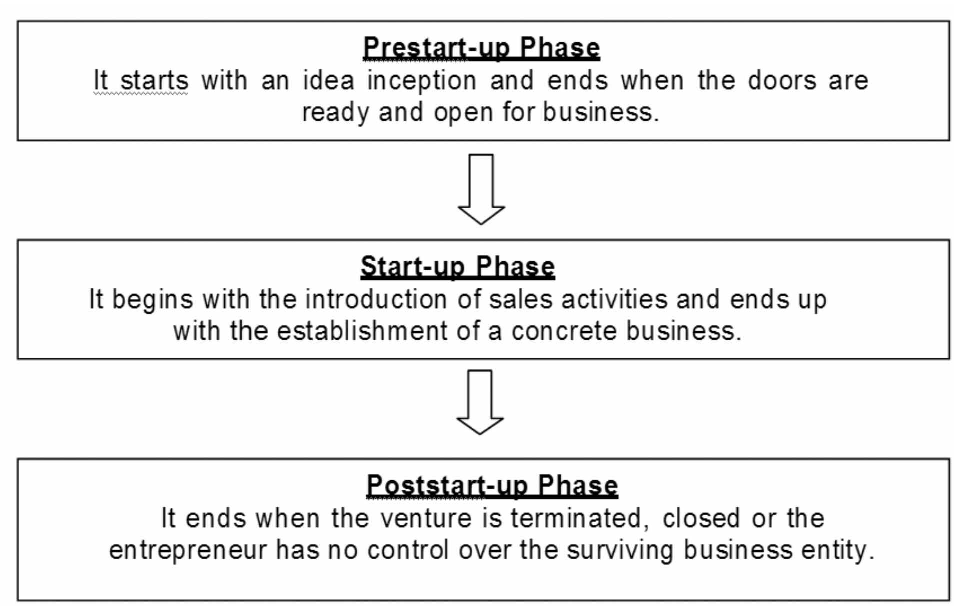


Figure 6.2: Phases in start-up

(a) The uniqueness of the venture

(b) The investment size at start up

(c) The expected growth in sales and profits as the venture moves through the start up phase

(d) The availability of products during the pre-start up and start-up phases

(e) The availability of customers during the pre-start up and start-up phases

6.2.3 Advantages and Disadvantages of Start-up

There are a few advantages and disadvantages of start-up. Table 6.1 indicates six advantages and five disadvantages of start-up.

Table 6.1: The Advantages and Disadvantages of Start-up

Advantages	Disadvantages
(a) The freedom of making own decisions like answering all questions such as when, how, and what type of products or services.	(a) It requires a lot of time, money and additional effort to search for a strategic location, obtain license, purchase machines, find new suppliers, hire and train new worker to perform advertising activities.
(b) The opportunity of using one's idea and developing own image by identifying with the customer's emotion.	(b) In the initial stage of the venture, the entrepreneur will obtain minimal profits or losses because of the large expenditure on numerous items related to start-up.
(c) The freedom to select the ideal location, plant, equipment, products or services, employees, suppliers and bankers. These opportunities can determine the success of a venture.	(c) There is no history of business records in which the entrepreneur can forecast sales, expenditures and profits.
(d) The ability to avoid any undesirable precedents, policies, procedure and legal commitments of existing firms.	(d) There are no ready customers, the entrepreneur needs a lot of effort to attract new customers, and sales expand very slowly and it will take a long time before the business brings in profits.
(e) Will not affect the reputation of the business because it is a new venture.	(e) The difficulty of obtaining loans from financial institutions because these institutions have less confidence in the new ventures compared with established businesses.
(f) Ability to make changes to business.	

ACTIVITY 6.1

You are planning to sell seafood-based crisps; can you think of a way to start your venture?

EXERCISE 6.1

1. Define start-up.
2. List down the three phases in start-up?
3. What are the critical factors that are important for new-venture assessment?

6.3 BUYING AN EXISTING BUSINESS

In buying an existing business, it is important for you to know:

(a) The definition of buying an existing business;

(b) The steps and processes in buying an existing business;

(c) The advantages of buying an existing business; and

(d) The disadvantages of buying an existing business.

6.3.1 Definition of Buying an Existing Business

Buying an existing business is buying or acquiring either the shares of the existing company or all of the assets of an existing company or business. If you are thinking about running your own business, buying a company that is already established may be a lot less work than starting from scratch. According to some business experts, it is the safest and most effective way for entrepreneurs to go into business. However, you will need to put time and effort into finding the business that is right for you. By buying an existing company, it allows the company to expand and provide the opportunity to enter new markets.

6.3.2 Steps and Processes in Buying an Existing Business

In buying an existing business, there are a few steps and processes that need to be considered. They are as follows:

(a) **Personal Priority**
Ideally an entrepreneur needs to consider personal factors, lifestyle and aspirations. Before you start looking, think about what you can bring to the business and what you would like to get back in return.

- **Your expectations in terms of earnings** – What level of profit do you need to aim for to accommodate your needs?
- **Your commitment** – Are you prepared to put in the hard work and investment the business to succeed?
- **Your strengths** – What kind of business opportunities will give you the chance to put your background, experience and skills to good use?
- **The type of business** – Limited Company, Partnership, etc. that you are interested in buying.
- **The business sector you are interested in** – Learn as much as you can about your chosen industry so that you can compare different businesses.

(b) **Business Opportunities**

You can find potential opportunities by reading classified advertisements, discussing opportunities with business brokers, and checking industry sources. Resist the temptation to buy the first business that looks good; step back and look at it objectively.

Make an appointment with business sellers or brokers for initial introduction to the opportunities. They should provide you with a brief financial report, history, price, and reason for sale. This will allow you to know more about the business, and how long it has been for sale.

(c) **Reviewing Potential Target**

The potential target must be examined closely to determine how well it has been managed and maintained. For service businesses, talk with the employees and even customers. Prepare a checklist of information needed, which should include the following:

- Complete financial accounting of operations, including all income tax returns and state sales tax forms for at least the past three years.
- List all assets to be transferred to the new owner, including an itemised breakdown of all inventories as of the last accounting period.

(d) **Arrangement for Financing**

Without proper financing, no business acquisition can move forward successfully. There are usually several funding options. They must be carefully scrutinised to determine the best fit for your needs. Lenders generally require:

- Details of the business/sales particulars
- Accounts for the last three years
- Financial projections (if no accounts are available)
- Details of your personal assets and liabilities

(e) **Conduct Due Diligence**

Due diligence is like detective work. It is the process of gathering information by conducting investigations, searches and inquiries and is vital to any share or asset purchased. The result of due diligence may help you decide:

- Whether you proceed with an acquisition
- Whether to buy shares or assets
- How much to pay and how to allocate the purchase price
- What matters need to be covered in the purchase agreement for your protection

The process should guide your decision-making by providing valuable insights into the new business and give you a good estimate of the value at which a transaction should be undertaken and the warranties and indemnities that should be obtained from the vendors as part of the deal.

(f) **The Formal Agreement**

The preparation of the formal agreement gives the parties the opportunity to flesh out the basic agreement and tie down a number of smaller matters, which may not have been thought of by the parties in their initial negotiations. The three basic components of the formal agreement are as follows:

(i) **The Basic Elements**

The first part of the agreement will usually cover the basic elements of the agreement:

- The parties
- The assets or shares being purchased
- The purchase price
- Adjustments to the purchase price, how, when the purchase price and adjustments will be paid
- How tax will be handled

(ii) **Representations and Warranties**

They are given primarily by sellers on those matters, which are important to your purchase of the business. You first have to consider what facts and issues are important to your decision to purchase the business, and the amount you are willing to pay. Then, in addition to conducting your due diligence on those matters, you will look for a representation or warranty from the seller which proves that the facts as represented to you are true. This is intended to protect you should there be other facts or information that you do not know about, or if the seller has misled you on some important matter.

(iii) **Closing Matters**

This portion of the agreement will generally set out the closing date, and what must be exchanged at the time of the closing. It will also set out any special conditions of closing which must be met before the sale can be finalised. The typical conditions of closing are:

- All representations and warranties given prior to closing continue to remain true and accurate as of the date of closing.
- You will receive the purchase assets or shares free and clear of all encumbrances, except those to which you have agreed.
- Any special licenses or consents have been received.
- All government clearance certificates or approvals have been received.
- All other documents that form part of the transaction have been signed and received.
- You have tendered the payment as promised in the agreement.

(g) **Ready for Business**

At this point, you are the proud owner of a new business. If you have conducted yourself with due diligence and have a good purchase agreement in place, you are well on your way to success. You may need ongoing consultation with the prior owners, so it is always wise to keep a good working relationship with them. You may also require the ongoing assistance of your team of advisors because even though the transaction is complete, the work has just begun.

ACTIVITY 6.2

1. Discuss the three classifications that most ventures will fit into.
2. Why is customers availability important?

6.3.3 Advantages of Buying an Existing Business

The advantages of buying an existing business are shown in Figure 6.3.

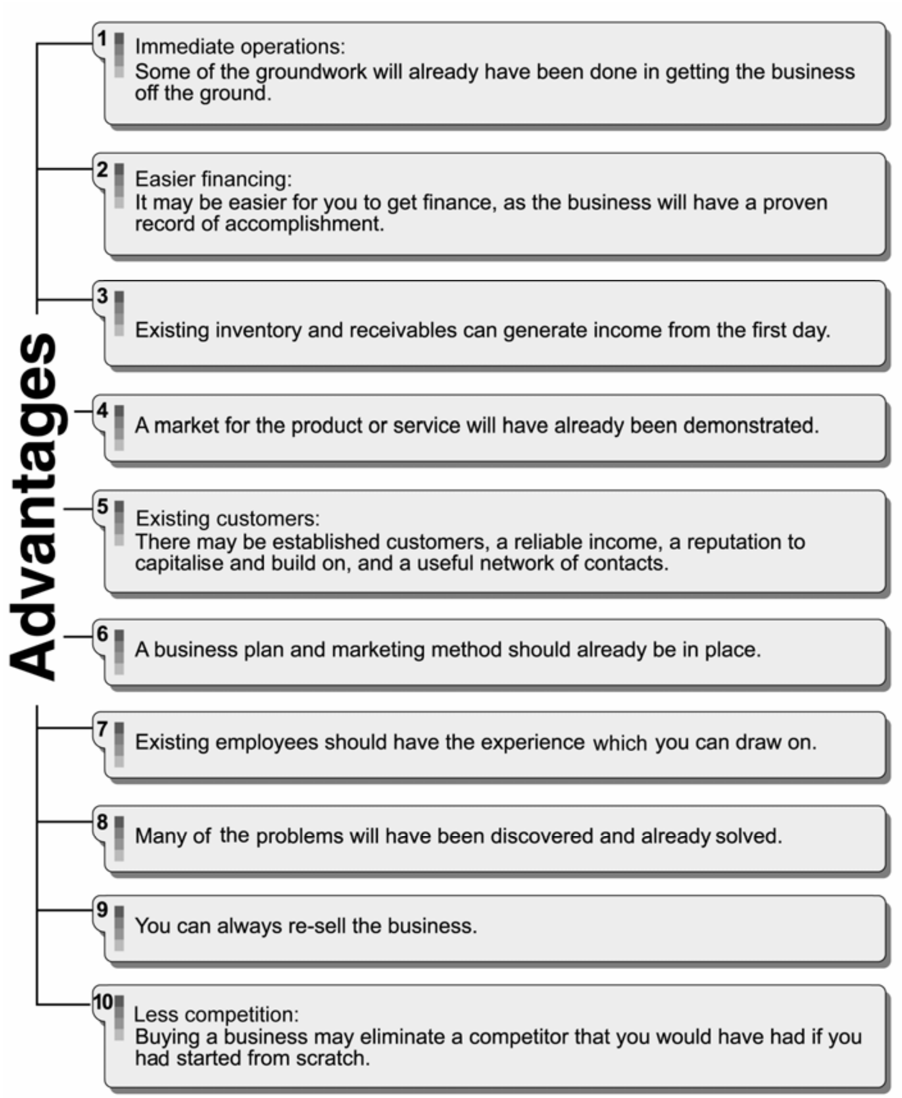


Figure 6.3: The advantages of buying an existing business

6.3.4 Disadvantages of Buying an Existing Business

The disadvantages of buying an existing business are shown in Figure 6.4:

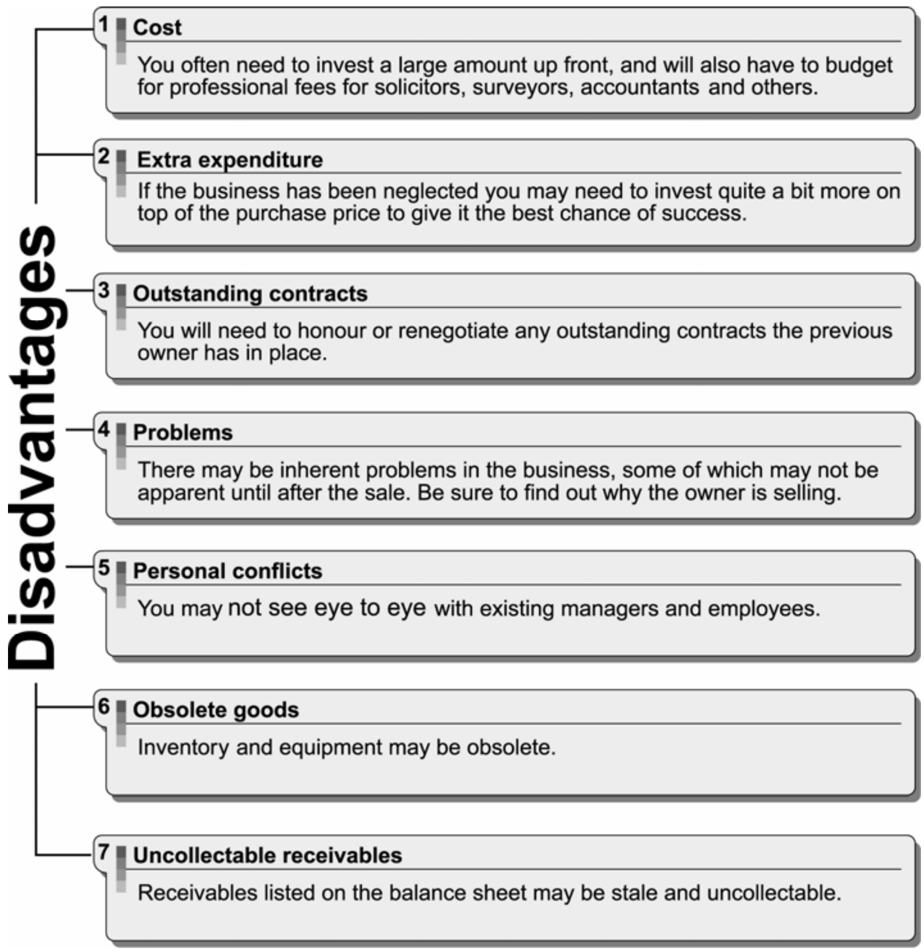


Figure 6.4: The disadvantages of buying an existing business

ACTIVITY 6.3

Ali is planning to run a 'nasi kandar' stall in Bangsar. Dewi, who is Ali's friend, asks Ali to buy her existing stall. What are the benefits if he buys Dewi's stall as compared to setting up a new stall?

EXERCISE 6.2

1. List five advantages and five disadvantages of start-up.
2. Define what is buying an existing business.
3. Give five advantages and disadvantages of buying an existing business.

6.4 FRANCHISING

When we talk about franchising, it is important to know:

(a) The definition of franchising;

(b) The advantages of franchising; and

(c) The disadvantages of franchising.

6.4.1 Definition of Franchising

A franchise is any arrangement in which the owner of a trademark, trade name, or copyright has licensed others to use it and sell its goods or services. A franchisee (a purchaser of a franchise) is generally legally independent but economically dependent on the integrated business system of the franchisor (the seller of the franchise). A franchisee can operate as an independent businessperson but still realise the advantages of regional or national organisations. Some examples of these franchises are *McDonald's, Kentucky Fried Chicken* and *Pizza Hut* restaurants.

6.4.2 Advantages of Franchising

The following are advantages of franchising.

(a) **Training and Guidance**
The greatest advantage of buying a franchise, as compared to starting a new business or buying an existing business is that the franchisor will provide both training and guidance to the franchisee.

(b) **Brand-Name Appeal**
An individual who buys a well-known national franchise, especially a large and famous one, has a good chance to succeed. The franchisor's name is the drawing card for the establishment. People are often aware of the product or services offered by a national franchise and prefer it to those offered by lesser-known outlets.

(c) **Proven Track Record**
The franchisor has already proven that the operation can be successful. As an organisation, they have been around for at least five to ten years and must have 50 or more units. Thus, it should not be difficult to see how successful the operations have been. If all of the units are still in operation and the owners report they are performing well financially, we can be certain the franchisor has proven that the layout and location of the store, the pricing policy, the quality of the goods or services, and the overall management are successful.

(d) **Financial Assistance**
A franchise is a good investment because the franchisor may be able to help the new owner to secure the financial assistance needed to run the operation. In fact, some franchisors have personally helped the franchisee get started by lending money and not requiring any repayment until the operation is running successfully. In short, buying a franchise is often an ideal way to ensure assistance from the financial community.

6.4.3 Disadvantages of Franchising

The following are disadvantages of franchising:

(a) **Franchise Fees**
No one gets something for nothing. The more successful the franchisor, the greater the franchise fees would be. A franchise of a national chain would charge a fee from RM 5,000 to RM 100,000. Smaller franchisors or those who have not had great success charge less. The prospective franchisee must also pay for building the unit and stocking it, although the franchisor may provide assistance in securing a bank loan, additional fee is usually tied to gross sales. A franchisee will have to pay a continual royalty based on sales, usually between 5 to 12 percent. Most franchisors require buyers to have 25 to 50 percent of the initial costs in cash. The rest can be borrowed from the organisation itself. The cost of franchising involves the following expenditure:

- Franchising fee
- Insurance
- Opening product inventory
- Remodelling and leasehold improvements

- Utilities charges, payroll, debt services
- Bookkeeping and accounting fees, legal and professional fees
- State and local licenses
- Permits and certificates

(b) **Franchisor Control**
In a large corporation, the company controls the employee's activities. The same situation exists in a small business. If an individual has a personal business, he or she exerts control on his or her own activities. To a franchise operator, the control is between these extremes. The franchisor generally exercises control over the operation in order to achieve a certain degree of uniformity. If entrepreneurs do not follow franchisor directions, they may not have their franchise licenses renewed when the contract expires.

(c) **Unfulfilled Promises**
In certain cases, among lesser known franchisors, the franchisees may not receive all they were promised. Many franchisees find themselves with trade names that have no drawing power. Also, many franchisees find the promised assistance from the franchisor not forthcoming. Quite often, instead of being able to purchase supplies more cheaply through the franchisor, many operators find themselves paying higher prices for supplies. If the franchisees complain, they risk having their agreement with the franchisor terminated, revoked or not renewed.

ACTIVITY 6.4

Is operating a franchise business more expensive compared to other types of ventures? What is your opinion on this? Discuss during your next tutorial session.

6.5 LEGAL STRUCTURES FOR NEW BUSINESS VENTURES

Before deciding how to organise an operation, prospective entrepreneurs need to identify the legal structures that will best suit the demands of the venture. The obligation for this derives from changing tax laws, liability situations, the availability of capital, and the complexity of business formation.

Three primary legal forms of organisation are:

- Sole proprietorship
- Partnership
- Corporation

Because each form has specific advantages and disadvantages, it is impossible to recommend one form over the other. The entrepreneur's specific situations, concerns and desires will dictate his choice.

6.5.1 Sole Proprietorship

A business is owned and operated by one person. The enterprise has no existence apart from its owner. This individual has the rights over all its profits and bears all of the liabilities for the debts and obligations of the business. The individuals also have unlimited liabilities, which means his or her business and personal assets stand behind the operation. If the company cannot meet its financial obligations, the owner may be forced to sell the family car, house, and whatever assets that would satisfy the creditors.

To become a sole proprietor, a person merely needs to obtain whatever local and state licenses necessary to begin the operations. If the proprietor should choose a fictitious or an assumed name, he or she also must file a "certificate of assumed business name" with the state. Due to its ease of formation, the sole proprietorship is the most widely used legal form of organisation.

(a) **Advantages and Disadvantages of Sole Proprietorship**

Table 6.2 indicates the advantages and disadvantages of sole proprietorship.

Table 6.2: The Advantages and Disadvantages of Sole Proprietorship

Advantages	Disadvantages
(i) **Ease of Formation** Less formality and fewer restrictions are associated with establishing a sole proprietorship than with any other legal form. The proprietorship needs little or no governmental approval, and it usually is less expensive than a partnership or corporations. (ii) **Sole Ownership Profits** The proprietorship is not required to share profits with anyone. (iii) **Decision-making and Control Vested in One Owner** No co-owners or partners must be consulted in the running of the operation. (iv) **Flexibility** Management is able to respond quickly to business needs in the form of day-to-day management decision. (v) **Relative Freedom from Governmental Control** Except for requiring the necessary licenses, very little governmental interference occurs in the operation. (vi) **Freedom from Corporate Business Taxes** Proprietorship is taxed as individual taxpayers and not as business.	(i) **Unlimited Liability** The individual proprietorship is personally responsible for all business debts. This liability extends to all of the proprietor's assets. (ii) **Lack of Continuity** The enterprise may be crippled or terminated if the owner becomes ill or dies. (iii) **Less Available Capital** Ordinarily, proprietorships have less available capital than other types of business organisations, such as partnerships and corporations. (iv) **Relatively Difficult to Obtain Long-term Financing** Because the enterprise rests exclusively on one person, it often has difficulty raising long-term capital. (v) **Relatively Limited Viewpoint and Experience** The operation depends on one person and this individual's ability, training, and expertise will limit its direction and scope.

EXERCISE 6.3

1. Define briefly the three legal forms of organisation.
2. Give five advantages and disadvantages of sole proprietorships.

6.5.2 Partnership

A partnership is an association of two or more persons acting as co-owners of a business for profit. Each partner contributes money, labour, or skills, and each share in the profits as well as the losses of the business. Though not specifically required in the uniform partnership act, written articles of partnership are usually executed and are always recommended. This is because unless otherwise agreed to in writing, the court assumes equal partnership; that is, equal sharing of profits, losses, assets management and other aspects of the business. A partnership agreement clearly outlines the financial and managerial contributions of the partners and carefully delineates the roles in the partnership relationship.

The following are examples of the type of information customarily written into agreement:

- Name, purpose, domicile
- Duration of agreement
- Character of partners (general or limited, active or silent)
- Contribution by partners (at inception, at later date)
- Division of profits and losses
- Draws or salaries
- Right of continuity partner(s)
- Death of a partner (dissolution and windup)
- Release of debts
- Business expenses (method of handling)
- Separate debts
- Authority (individual partner's authority on business conduct)
- Books, records, and method of accounting
- Sale of partnership interest
- Arbitration
- Settlement of disputes
- Additions, alterations, or modifications of partnership
- Required and prohibited acts
- Absence and disability
- Employee management

In addition to the written articles, entrepreneurs must consider a number of different types of partnership arrangements. Depending on the needs of the enterprise, one or more of these may be used. It is important to remember that in a typical partnership arrangement at least one partner must be a general partner who is responsible for the debts of the enterprise and who has unlimited liabilities.

Table 6.3 shows the advantages and disadvantages of partnership.

Table 6.3: The Advantages and Disadvantages of Partnership

Advantages	Disadvantages
(i) **Ease of Formation** Legal formalities and expenses are few compared with those of complex enterprise or corporation.	(i) **Unlimited Liability of at Least One Partner** Although some partners can have limited liability, at least one must be a general partner who assumes unlimited liability.
(ii) **Direct Rewards** Partners are motivated to put forth their best effort by direct sharing of profits.	(ii) **Lack of Continuity** If any partner dies, judged to be insane, or simply withdraws from the business, the partnership arrangement ceases. However, operations of the business can continue based on the rights of survivorship and the possible creation of a new partnership by the remaining members or by the addition of new members.
(iii) **Growth and Performance Facilitated** In a partnership, it often is possible to obtain more capital and better range of skills than in a sole proprietorship.	(iii) **Relatively Difficult to Obtain Large Sums of Capital** Most partnerships have some problems raising a great deal of capital, especially when long-term financing is involved. Usually the collective wealth of the partners dictates the amount of total capital the partnership can raise, especially when first starting out.
(iv) **Flexibility** A partnership often is able to respond quickly to business needs in the form of day-to-day decisions.	(iv) **Bound by the Acts of Just One Partner** A general partner can commit the enterprise to contracts and obligations that may prove disastrous to the enterprise in general and to other partners in particular.
(v) **Relative Freedom from Governmental Control and Regulation** Very little governmental interference occurs in the operation of a partnership.	(v) **Difficulty of Disposing of Partnership Interest** The buying out of a partner may be difficult unless specifically arranged for in written agreement.
(vi) **Possible Tax Advantage** Most partnerships pay taxes as individuals, thus escaping the higher rate assessed against corporations.	

EXERCISE 6.4

Give five advantages and disadvantages of partnership.

6.5.3 Corporation

A Corporation is "an artificial being, invisible, intangible, and existing only in contemplation of law".

Source: Adapted from *Supreme Court Justice John Marshall*, 1819.

As such, a corporation is a separate legal entity apart from the individuals that own it.

In Malaysia, a business organisation is created based on the 1965 Company Act. This Act is the law that governs all companies in Malaysia. This Act was authorised on April 15 1966 and revised several times in 1969, 1971, 1985, 1986 and 1987 (latest revision). This Act was based on the company law authorised in Australia and the United Kingdom.

(a) **Characteristics of a Company or Corporation**
The following are characteristics of corporations:

(i) **Rights and Responsibilities**
A corporation has responsibility over ownership of capital and can take legal action against others or vice versa. However, a corporation cannot take action individually. The implementer agent, the driving force behind the corporation, will take action where necessary.

(ii) **Life Span**
The life span of a corporation is not dependent on its members. The corporation will continue even if its members have died or withdrawn from the corporation. However, the corporation can be terminated if all its members are not interested in continuing their business.

(iii) **Liabilities**
The liabilities of members of a corporation are only limited to the amount of the shares subscribed. Therefore, members are not liable even if the corporation were to incur bankruptcy. Corporations differ from the sole proprietorship and partnership in which there is no separation in terms of business assets and personal assets and where debt liability is involved, creditors may claim the personal assets of the sole proprietor or partners of the firm.

(iv) **Members**

A corporation must have at least two members that are permanent residents of Malaysia. The two members involved must act as directors and the milestone of the corporation. In a corporation, its members will elect the board of directors, which will be responsible for operating the corporation as well as following specified rules and regulations inside the 1965 Corporation Act.

(b) **Types of Corporation**

There are three types of corporation provided by the 1965 Act:

(i) **Corporation Limited by Share**

For this corporation, the liabilities of its members are limited only to the amount of its paid-up capital shares that are owned by the shareholder. These kinds of corporations are abundant in Malaysia.

(ii) **Corporation Limited by Guarantee**

The liabilities of its members are limited based on a certain amount that has been agreed by all of its members as specified and documented in the memorandum of Association. These corporations are normally established for the purpose of organising or sponsoring recreational activities, entertainment, developing an industry, arts, science, religion and others that are important to the community. If the corporation is profitable, all of its profits cannot be distributed to its members, but will be reinvested by the corporation to achieve the corporation's vision and goals and not merely for profit making. Some examples of these corporations are trusts, funds and welfare organisations that have helped the poor, provided scholarships to poor students, or built hospitals for unfortunate people.

(iii) **Corporation Unlimited by Shares**

The liabilities of its members are not limited. The difference between this corporation and those of partnership is that these corporations have its own entity. Organisations of this type include brokerage firms, stock firms and architectural firms.

(c) **Characteristics of Companies Limited by Shares**

Corporations must have capital share and can be categorised into three kinds as follows:

- Private Corporation
- Public Corporation
- Foreign Corporation

(i) **Private Corporation**

The most common type of company or corporation formed by small or large-scale entrepreneurs is the Corporation limited by shares. This corporation can be categorised as a Private Company or Private Limited Company if they meet the following regulations:

- The number of its members must not be less than two but not more than fifty persons at any time.
- Must have authorisation to transfer its members' shares.
- The corporation or company is not allowed to have the option of selling or subscribing shares or debentures to the public.
- The public is not allowed to deposit money with the corporation for a certain period.
- The corporation or company must use the words "Sdn. Bhd." or "Sendirian Berhad" or "Private Limited Company" at the end of the words.

(ii) **Public Corporation**

A public corporation is one formed by the government to meet some political or government purposes. E.g. RISDA, FELDA, DBKL etc. In addition, many organisations of the federal government are public corporation.

(iii) **Foreign Corporation**

Corporation that do business in more than one state must comply with federal laws regarding the interstate commerce and with the varying state laws. These are called foreign (or out-of-state) corporations.

Other than the regulations mentioned, a Private Limited Company or Corporation must have a clear documentation of internal regulations for references in performing their business activities and guidance for further implementation. Requirements of a Private Limited Company or Corporation are shown in Figure 6.5.

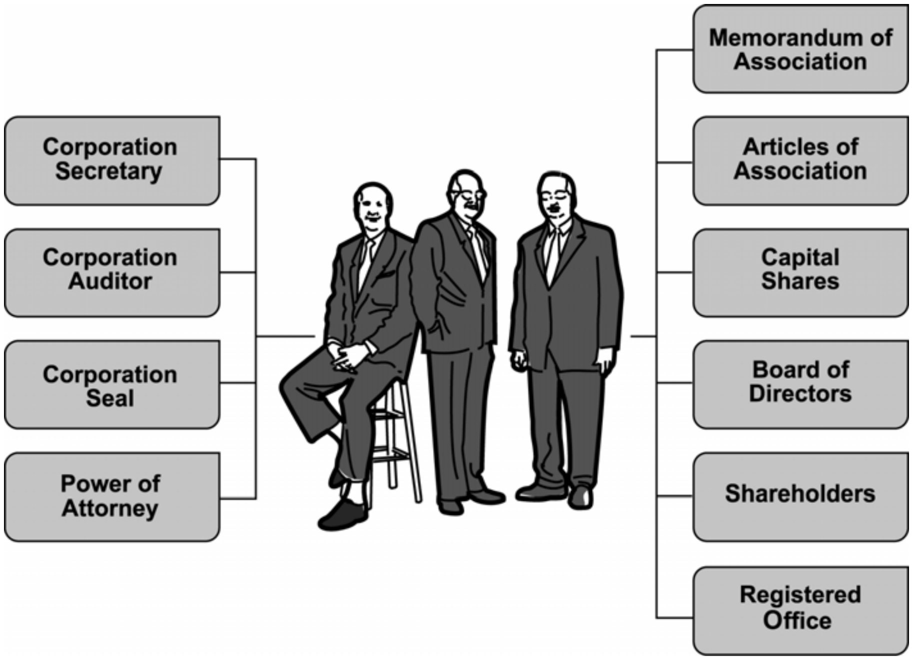


Figure 6.5: The requirements of a private limited company or corporation

(d) **Advantages and Disadvantages of Corporation**

The advantages and disadvantages of corporations are shown in Table 6.4.

Table 6.4: The Advantages and Disadvantages of Corporation

Advantages	Disadvantages
(i) **Limited Liability** The stockholder's liability is limited to the individual's investment. This is the most amount of money the person can lose.	(i) **Activities Restriction** Corporate activities are limited by the charter and by various laws.
(ii) **Transfer of Ownership** Ownership can be transferred through the sale of stock to interested buyers.	(ii) **Lack of Representation** The majority stockholders in the corporation outvote the minority stockholders.
(iii) **Unlimited Life** The Company has a life separate and distinct from that of its owners and can continue for an indefinite period.	(iii) **Regulation** Extensive governmental regulations and reports required by the state and federal agencies often result in a great deal of paperwork and red tape.
(iv) **Relative Ease of Securing Capital in Large Amounts** Capital can be acquired through the issuance of bonds and shares of stock and through short- term loans made against the assets of the business or personal guarantees of the major stockholders.	(iv) **Organising Expenses** A large amount of expenses is involved in forming a corporation.
(v) **Increased Ability and Expertise** The corporation is able to draw on the expertise and skills of a number of individuals, ranging from major stockholders to the professional managers who are brought on board.	(v) **Double Taxation** Income taxes are levied both on corporate profits and on individual salaries and dividends.

EXERCISE 6.5

Give five advantages and disadvantages of corporation.

6.5.4 Comparisons of the Three Major Forms of Business

The comparison between a sole proprietorship, a partnership and a corporation are shown in Table 6.5.

Table 6.5: Comparison of the Three Major Forms of Business

Characteristic	Sole proprietorship	Partnership	Corporation
Method of creation	Created at will by owner	Created by agreement of the parties	Charter issued by Registrar of Companies
Legal position	Not a separate entity; owner is the business	Not a separate legal entity	Always a legal entity separate and distinct from its owners – a legal fiction for the purposes of owning property and equipment and being a party to litigation
Liability	Unlimited liability	Unlimited liability (except for limited partners in a limited partnership)	Limited liability of shareholders–Shareholders are not liable for the debts of the corporation
Duration	Determined by owner; automatically dissolved upon owner 's death	Terminated by agreement of the partners, by the death of one or more of the partners by withdrawal of a partner, by bankruptcy, and so forth	Can have perpetual existence
Transfer ability of interest	Interest can be transferred by individual's proprietorship then ends	Although partnership interest can be assigned, assignee does not have full rights of a partner	Share of stock can be transferred
Management	Completely at owner's discretion	Each general partner has a direct and equal voice in management Unless expressly agreed otherwise in the partnership agreement	Share holders elect directors who set policies and appoint officers
Taxation	Owner pays personal tax on business in come	Each partner pays prorate share of income taxed on net profits, whether or not they are distributed	Double taxation – corporation pays in come tax on net profits, with no deduction for dividends, and shareholders pay in come tax on disbursed dividends they received

Source: Kenneth, W. C., Roger L. M., Gaylord A. J., & Frank B. C. West's business law (7th ed.).

6.5 SOURCES OF CAPITAL FOR ENTREPRENEURIAL ACTIVITIES

There are a variety of sources of capital for entrepreneurs that can be used to start, expand and develop their ventures. The length of time you require will depend on which of the many different sources of financing that best suits you and your business. Figure 6.7 shows the sources of capital to finance your ventures.

Figure 6.7: Sources of capital for entrepreneurial activities

(a) **Personal Funds**
Your personal savings is your first source of money. They may be funds that you have saved from certain periods of time either in a savings account, current account, money in a safe at home or cash that is readily available when you need it. Very often, personal savings are quickly exhausted when an entrepreneur starts a business.

(b) **Family and Friends**
When you exhaust your personal funds, the next place to seek money is from family and friends. They may be friends or colleagues who are in a position to lend you money. Although it may seem like a good idea at the time, you can almost guarantee that they will demand their money back when you can least afford it. Therefore, it is important to get the terms of the loan written down clearly and precisely in order to avoid any confusion later.

(c) **Retirement Accounts**
You have saved these funds for retirement. Therefore, you can use this money to fund the development of your ventures. However, the technology development business is fraught with risks. If you fail in your business, you may have to live more frugally in retirement.

(d) **Banks and Other Financial Institutions**

These institutions loan money to people who have assets that can serve as collateral for the loan. There are three types of financial institution financing:

- Long term
- Medium term
- Short term

Table 6.6: Three types of Financial Institutions Financing

No.	Types of Financial Institutions Financing	Description
1.	Long Term	This type of finance will be borrowed from external sources over a long period, usually between five to 25 years. A commercial mortgage or long term loan agreement from one of the main banks is an example of long-term financing. The money can be used for acquiring fixed assets such as plant and equipment.
2.	Medium Term	Any borrowing over a 2-7 year period can be described as medium term financing. The finance is commonly based on an agreement between yourself and the organisation that will be providing it. It will cover hire purchase, leasing and loan agreements.
3.	Short Term	The most typical and frequently used type of short-term finance is bank overdraft facilities. Although the arrangement fees can be high, you have the advantage of only paying interest on the amount actually overdrawn. With a bank loan, on the other hand, you have the use of a set amount of money and you will have to pay interest whether you use the full amount or not.

(e) **Government Loans**

Contrary to public belief, the government is taking positive steps to assist businesses and industry as a whole. There are millions set aside for the sole purpose of providing various grants and government subsidised loans in a bid to encourage investment and development. Government programmes are available and can reduce the effective interest rate of bank loans and make debts available to business ventures that would otherwise not have access to this source of funding. In general, the government is looking to assist projects, which benefit areas of declining industry with a high level of unemployment as well as promoting growth and improvement in rural areas.

(f) **Stock Markets**

These funds are obtained by offering stock in your venture to the public. Public stock offering must comply with federal regulations. Typically, the services of an investment banker are used. In exchange for capital investment, most offers typically include a percentage of ownership. This in turn would give your investor a limited amount of control within the business and share of any profits equal to the value of the percentage of ownership. This would probably be in the form of dividends.

EXERCISE 6.6

Give five sources of capital that an entrepreneur can use in starting-up or buying an existing business for new business ventures.

SUMMARY

- There are three forms of starting a new venture:
  - (i) Start-up
  - (ii) Buying an existing business
  - (iii) Franchising
- For each form, they have their own characteristics as well as advantages and disadvantage.
- There are three primary legal forms for new business ventures:
  - (i) Sole proprietorship
  - (ii) Partnership
  - (iii) Corporation
- This topic also discusses six source of capital for entrepreneurial activities:
  - (i) Personal funds
  - (ii) Family and friends
  - (iii) Retirement account
  - (iv) Bank /financial institution
  - (v) Government loan
  - (vi) Stock market

KEY TERMS

Corporation	Partnership
Due diligence	Private corporation
Franchising	Start-up company
Franchisee	Sole proprietorship

Topic 7 ▶ Entrepreneurial Networking

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Describe three advantages of having good networking;
2. Explain two types of networking;
3. Discuss six importance of networking;
4. Explain seven techniques in establishing and building confidence in networking; and
5. Identify five barriers in network building.

▶ INTRODUCTION

Networking is a business tool that plays a very significant role for the entrepreneur's success. If entrepreneurs have very good networking with both external and internal customers, it will be easier for them to take advantage of business opportunities and settle some of the problems related to their business. Good networking relationships will enable them to gain support and cooperation from networking circles. Therefore, every entrepreneur should develop networking skills, as it will act as a catalyst to achieve business goals and objectives.

7.1 WHAT IS NETWORKING?

Networking is both an outcome of past relationship strategy and a resource for future strategy. Relationship rights and obligations are the results of the resources, which the company initially brought to the network, the experience it has gained and the investment it has made in its relationships. This means that in addition to the analysis of the company's relationship portfolio and understanding of networking, this also involves a listing of those additional resources that have been built through interaction. These could be analysed using a conventional view of the bases of power which the company may possess.

7.2 ADVANTAGES OF HAVING GOOD NETWORKING

The advantages gained by an entrepreneur from having good networking are as follows:

(a) **Accessibility**

Networking is very important for the entrepreneur to gain either tangible or intangible resources directly or indirectly. Among the tangible resources are financial support, transfer of technology and accessibility in gaining information to produce the right times product at the right cost and the right time as demanded by the market. On the other hand, the intangible resources are the moral support, guidance and confidence given by various groups to the entrepreneurs in operating their business.

(b) **Reputation**

Reputation refers to the ability of entrepreneurs to exercise leadership, or to influence the decision making of other network members, based on the expertise that they have. Good reputation enables the entrepreneur to attract members in networking circles to give priority to the products or services produced by them.

(c) **Expectations**

These can both facilitate and restrict the freedom of the company's actions. For example, network members could have the expectation that a particular company will effectively set prices for a number of other companies. On the other hand, a company may be expected not to take advantage of product shortages by raising prices or to conform to conventional competition or to set higher ethical standards than others.

7.3 WHAT IS STRATEGIC NETWORKING?

Being strategic entrepreneur is to vision the future and take the necessary steps to create that future. Strategic networking, then, is gaining clarity on an entrepreneur's goals and objectives to be achieved in running the business by utilising their interaction with others and determining the best action that should be taken. While it is tempting to jump into action, it is essential for entrepreneurs to understand where they are now and where they want to go. Successful networking is the result of proper planning and careful construction and execution. Entrepreneurs need to find ways and means to create good networking and gain maximum benefit from it. Networking should be one of the core marketing tactics of most independent professionals and small business owners. Entrepreneurs may use client-centred networking to lessen their reliance on cost and time in getting and distributing information. Over time, this business building strategy will reward the entrepreneur with a steady stream of new clients, besides maintaining the existing ones.

EXERCISE 7.1

Outline advantages that an entrepreneur would gain from good networking.

7.4 TYPES OF NETWORKING

The two types of networking are as follows:

(a) **Formal Networking**
Formal networking is the existing relationships between various people who have a symbiotic relationship with the entrepreneur. Those who have networking correlation are better prepared to take the initiative for creating business opportunities and solving the problems they face in the networking chain. Every member in the networking circle is ready to share his experience and strength for mutual advantage.

(b) **Informal Networking**
Informal networking is established through relationships with childhood friends, members of one's family and people sharing common interests or hobbies. It enables an entrepreneur to discuss his business informally, without making appointments.

Informal networking provides opportunities for the entrepreneur to gain new information or exchange of information. Services provided by informal networking members are usually free of charge or with minimal charges. Usually informal networking will enable the entrepreneur to get opinion, advice, moral and financial support. Such support will help entrepreneurs to be more confident and increase their ability for effective decision making and minimises business risks. Members in informal networking circles include friends, mentors and professionals. Figure 7.1 illustrates the members in an informal networking circle.

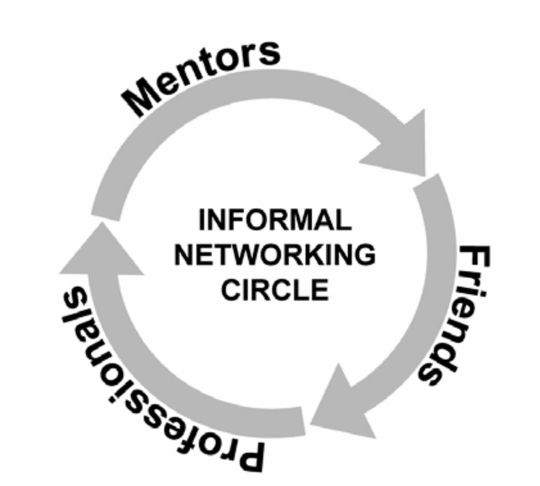


Figure 7.1: Informal networking circle

7.5 THE IMPORTANCE OF NETWORKING

Now let us look at the importance of networking. Figure 7.2 shows the importance of networking.

Figure 7.2: The importance of networking

(a) **Build Confidence**
In business, entrepreneurs may face uncertainties, for example, investment, losses, competitors and products which cannot penetrate into the market. Good networking can reduce these uncertainties. An entrepreneur may obtain reliable information on investment opportunities, market share and product preferences. Networking also helps the entrepreneur to face changes in business environments, such as:

(i) Changes in competitors' strategies

(ii) Demographic changes

(iii) Changes in customer satisfaction

(b) **Reduce Bureaucracy**
Rigid bureaucracy delays the process of business activities. Networking helps to reduce red tape in decision-making by:

(i) Speeding up the application process.

(ii) Saving time, finance and other resources.

(iii) Preventing entrepreneurs from repeating mistakes.

(iv) Eliminating irresponsibility ("passing the buck").

(c) **Increase Information**
Networking will build an entrepreneur's reputation as everybody in the networking circle will know what the entrepreneur is doing. At the same time, information like who is who in the networking circles will enable the entrepreneur to get the information necessary for successful progress of his business.

(d) **Develop Trust**
Trust is one of the most important factors when establishing networking. With trust, a member in the networking circle will be prepared to give priority to the entrepreneur's products or services. Trust also motivates people to promote the entrepreneurs products or services by word of mouth.

(e) **Create an Interdependent Situation**
Someone's success might come from another's contribution. Maybe your success too comes from someone else's contribution. People, thus, rely on others. So whatever we do must benefit others. Everybody must react with a symbiotic spirit. So, the concept of give-and-take is a must for developing good networking relationships.

(f) **Source of Creativity**

Networking is also a source of creativity for an entrepreneur operating a business. Various group in networking circles will help to develop new ideas to create new products or services, and new ways of producing and marketing. In addition, members in the networking circle will provide new business opportunity. All these ideas may come from friends, workers, customers and distributors. Support and various contributions from various members of the networking circle will enable entrepreneurs to:

(i) Improve product quality

(ii) Improve distribution

(iii) Improve techniques of production

(iv) Improve the technique for better after sales services

(v) Suggest new ways of promoting the product

7.6 HOW TO ESTABLISH STRATEGIC NETWORKING FOR ENTREPRENEURS

There are three ways for entrepreneurs to establish strategic networking as shown in Figure 7.3:

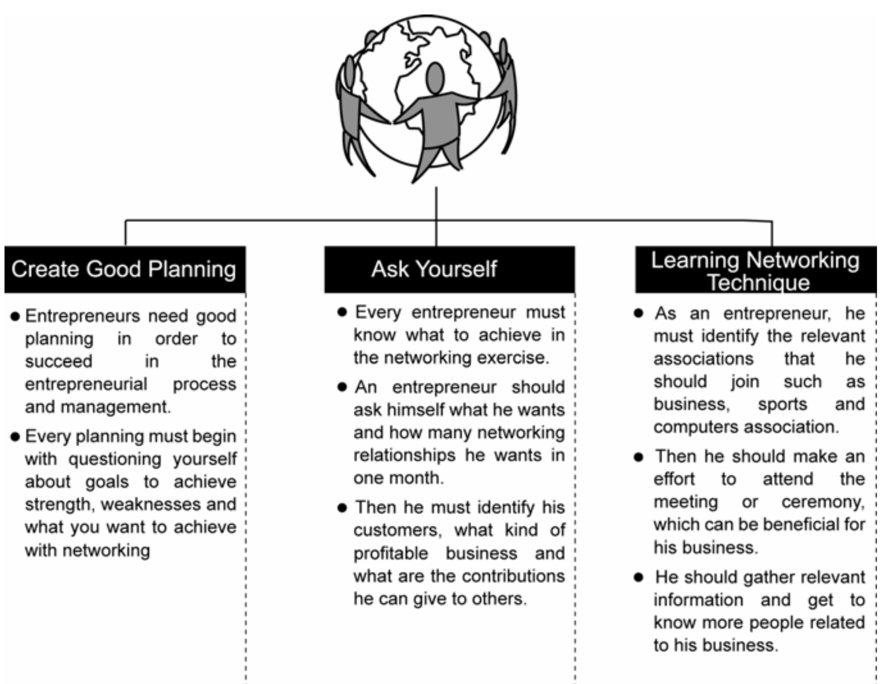


Figure 7.3: Three ways to establish strategic networking

EXERCISE 7.2

Describe three ways to establish strategic networking for entrepreneurs.

7.7 ENTREPRENEURS AND NETWORKING

To be a successful entrepreneur, one must have the strength to work together with others. Here are some strategies for developing effective networking.

- Ready to listen
- Ready to compromise
- Skills in giving confidence
- Very much at peace

When we are ready to listen to other people, we will get some ideas that could help us change. We need to compromise with others and show our confidence. Every entrepreneur who wishes to engage good networking strategies must possess these qualities. Any failure to build good networking will:

- Increase cost
- Waste time
- Waste the resources of the company
- Damage the entrepreneur's reputation
- Damage the company's reputation
- Create dilemmas

7.8 STRATEGIC NETWORKING CONSOLIDATION

These strategies are techniques in developing relationships between entrepreneurs and other people to build good networking. Good relationships with other people could help us to make positive changes. These strategies also help entrepreneurs to overcome changes. The strategies are as follows:

(a) **Strategy for Networking Consolidation**

This strategy is a technique for developing relationships between entrepreneurs and other people who have business experience and those who will be involved in the business in the future. In addition, the entrepreneur must also make the effort to keep other people in mind even though they may not have any business dealings now. There are many ways to develop strategic networking consolidation. These include:

- Paying visits
- Participating in formal functions
- Networking through third persons
- Giving souvenirs
- Sending cards e.g. Congratulatory cards, condolence cards, invitation cards
- Writing letters and e-mails as well as replying them
- Giving out business cards
- Sending facsimiles
- Talking on the phone

(b) **Strategy for Developing Self-confidence**

Entrepreneurs must show their capacity, personality and skills when responsibility is given to them. They should also show their responsibility and make sure the person who gave the responsibility will be satisfied and ready to give more responsibility in future. When we make changes, we must be responsible and do our best, so that our ideas will not fail. Some important matters for attention include the following:

- Ability to do something which others cannot do.
- Ability to solve problems which others cannot solve.
- Ability to generate ideas constructively when needed.
- Ability to show that we can compete with others.
- Ability to make interpretations.
- Ability to show we are a place of reference for others.
- Always be right in decision-making.
- Make someone comfortable or happy when communicating with us.
- Expression, which does not suggest dominating leadership.
- Ability to control tone of voice when talking.

- Not taking advantage of others.
- Always ready to talk frankly.
- Ready to accept opinions other than one's own.
- Ready to accept and appreciate other people and their abilities.
- Accept others' advice and give advice to others.
- Be able to control ourselves.
- Flexible.
- Give and take when conflicts start.

Such strategies will help an entrepreneur overcome many personal shortcomings and enable him to conduct his business as smoothly as possible with the people he is involved with.

ACTIVITY 7.1

You have planned a Thanksgiving party in your house. You have invited your friends and relatives to the party. Explain how you will develop good networking with them in the party.

7.9 TECHNIQUES FOR DEVELOPING CONFIDENCE AMONG ENTREPRENEURS

As an entrepreneur, you must have the trust of many people. People will have confidence in an entrepreneur who shows that he can successfully do the work given. These are some strategies that could help you to be confident.

(a) **Communicate Effectively and with Full Confidence**
An inability to deliver a message or opinion effectively will affect the confidence people have in you. To communicate well, be prepared with accurate information and data. Also, keep in mind that your audience may have a perspective quite different from your own. Face changes confidently and be prepared to talk about any problems and ideas for solutions that you have.

(b) **Prove Your Abilities to Others**
You must remember that people develop confidence in you when they know that you are capable of doing the work assigned to you. As an entrepreneur, you must prove that you are capable of managing changes and guiding others to cope with the changes.

(c) **Show Concern for Other People**

Show that you are ready to help others. When you are ready to help a person who needs help, you will make them remember you. You can also guide the people who find it difficult to adapt to the changes.

(d) **Always be Fair**

If you are not fair in your actions, you will destroy the network that you have built. So, to avoid problems you must be fair when mentoring, as well as giving help, benefits and attention. You must adapt to changes in a team.

(e) **Always be Ready to Admit Your Own Mistakes**

Every human being will make mistakes. So when you make mistakes, you must be ready to admit your mistakes. Such humility will show others that you are sincere. You must always be ready to ask whatever you do not understand. Avoid asking questions which purposely test other people. When you share an idea with others, you help yourself to cope with changes. This is because you will have many new ideas and thus, you should be able to make good decisions.

(f) **Show Teamwork Spirit**

We must always consider ourselves a team member and make sure others feel they belong to the same team. Avoid being a loner or dissipating others. We must be friendly with all team members to know how they feel about the organisation so that we are able to work together to solve problems and make any new changes.

(g) **Be Confident of Others**

When we show our confidence in others, they will also tend to be confident in us. One of the ways we could prove our faith in others is to be ready to share information. When we show confidence, people accept our ideas more readily and their co-operation is more easily gained.

ACTIVITY 7.2

You have just been appointed as the team leader in your organisation. How would you react if your team members do not agree with your opinions?

SELF-CHECK 7.1

Describe some strategies that you could use to bolster your confidence.

7.10 BARRIERS IN BUILDING STRATEGIC NETWORKS

There are five main barriers, which must be avoided by entrepreneurs keen on building effective strategic networking. If we fail to implement an effective network strategy, we will also fail to adapt to changes. First, entrepreneurs must take the initiative to identify their own weaknesses. The five barriers are shown in Figure 7.4.

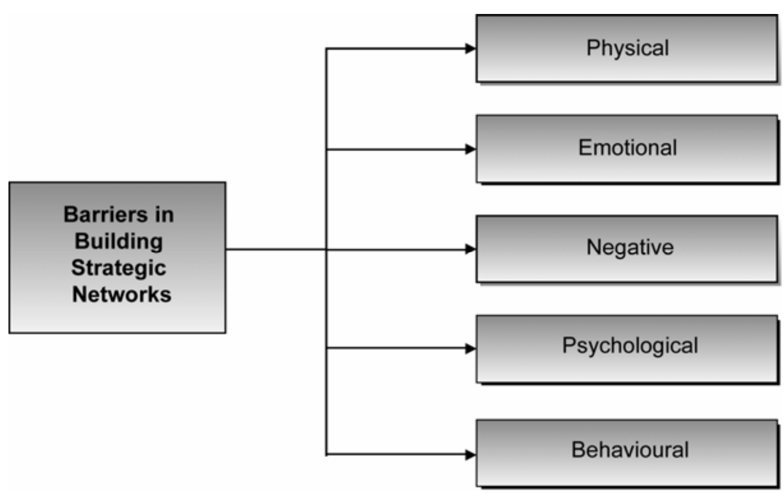


Figure 7.4: Five barriers in building strategic networks

(a) **Emotional**

Barriers may arise from emotional flaws apparent in the characteristics, personality and ego of an entrepreneur. These barriers will create a social space which will separate the entrepreneur from others. A social space could cause entrepreneurs fail to adapt to changes. Emotional barriers are caused by the following elements or flaws in the personality of an entrepreneur:

(i) Overly aggressive

(ii) Fearful

(iii) Speech which reveal a negative tendency to assume the authority of a principle leader

(iv) Carelessness in actions

(v) Thinking and acting in ways that suggest one is better than others

(vi) Arrogance

(vii) Hypocrisy

(viii) Being a perfectionist but taking perfection to extremes

(ix) Indecorous assumption of leadership

(x) Never being punctual

(xi) Unwilling to admit one's mistakes

(xii) Unwilling to recognise other people's talents and abilities

(b) **Physical**

Physical barriers might arise from an entrepreneur's personal lack of confidence in himself or from his inattention to other important matters with respect to manners and attire. An entrepreneur who has little regard for his own personal deportment could easily fail to inspire confidence among his fellow colleagues. People often feel that an individual whose manners, appearance or attire are wanting will likewise be incapable of running an organisation well. They will thus have a greater tendency to resist any changes that such an entrepreneur may seek to introduce. The following are pitfalls in physical deportment which will raise unnecessary barriers to strategic networking:

(i) Improper attire

(ii) Physical appearance suggestive of poor health or exhaustion

(iii) Poor or total lack of self-management

(iv) Nervous behaviour

(v) Manners or speech that betray a lack of confidence

(vi) Habitually avoiding eye contact when speaking to others

(vii) An unfriendly countenance

(viii) Overly expressive body language when attempting to communicate with others

(ix) Speaking in an unnecessarily high tone or pitch

(c) **Psychological**

Factors and characteristics affecting the psychological make-up of an entrepreneur will influence his ability to build strategic networks. Psychological barriers affect an entrepreneur's interactions with other people. If, for instance, he is one who is prone to feelings of loneliness or inferiority, he will face difficulties building an effective network. An entrepreneur who is psychologically well-balanced has a better chance of inspiring support and confidence. He will also be in a position of strength when attempting to bring about needed changes in an organisation. One who lacks this balance will instead create a bad impression and face an uphill battle mustering support.

Psychological barriers include behavioural characteristics indicative of:

(i) Nervousness

(ii) Indecision

(iii) Emotional problems resulting in strong feelings such as hatred or anger

(iv) Towards others

(v) Loneliness

(vi) Frustration

(vii) Failure to achieve goals

(viii) Shyness

(ix) Strong need for approval and acceptance

(x) Desire to be pre-eminent

(xi) Obsessive passion

(xii) Inability to discuss problems

(d) **Behavioural**

The way we behave will determine whether we are closed or distant from others. Good behaviour will help us generate good changes. Bad behaviour characteristics include:

(i) Slandering other people

(ii) Carelessness in making decisions

(iii) Always wanting to be first

(iv) Always wanting to be the leader

(v) Teasing other people

(vi) Making other people appear foolish

(vii) Pretending to know everything

(viii) Thinking and acting as if other people were incapable of making mistakes

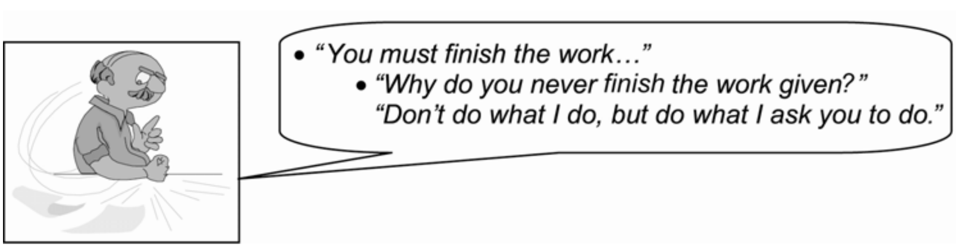
(ix) Reluctance to accept other people's opinion

(x) Not appreciative of other people's contributions.

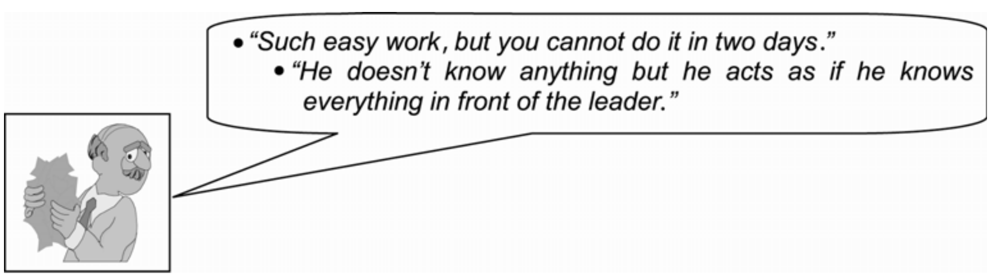
(e) **Negative Expressions**

Expressions could help build, or spoil a strategic network. The way we express ourselves, is important. When we are careless about the way we express ourselves, we might easily offend others. Garnering their support in a network will then be difficult. Expressions to avoid include the following:

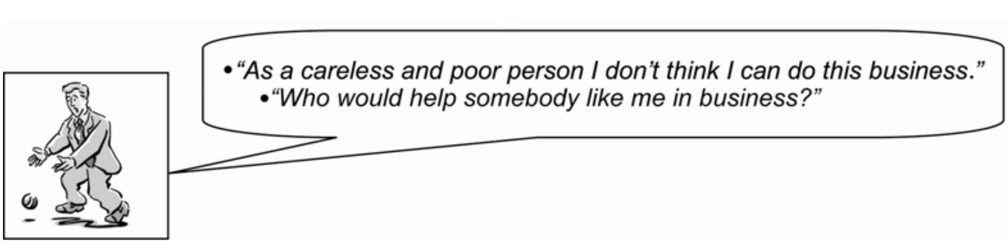
(i) **Expressions Indicating Dominance**



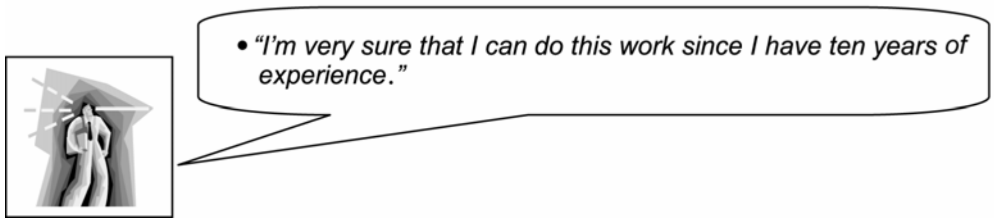
(ii) **Expressions Indicating Ridicule or Mockery**



(iii) **Expressions Indicating an Inferiority Complex**



(iv) **Expressions Indicating an Egoistic Nature**



An entrepreneur must therefore do his best to avoid the five barriers to building a strategic network. By confidently applying the knowledge that he possesses, the entrepreneur should be able to set up an effective network for successful business. Such a network would be mutually advantageous to both the entrepreneur and others within the network. The entrepreneur who is keen on achieving his full potential through a good network will understand that he cannot strive to dominate others. Instead, it is important to seek cooperation from all concerned. Also, in any situation where changes need to be implemented, the opinions of other members must be considered. Treating fellow workers or associates with consideration and respect yields better results than attempting to control, intimidate or offend them into submission.

SELF-CHECK 7.2

What kinds of expression should you avoid in order to maintain good networking?

SUMMARY

- Networking is both an outcome of past relationship strategy and resource for future strategy.
- The advantages of networking include accessibility, reputation, and expectations.
- There are two types of networking (a) Formal networking and (b) Informal networking. Formal networking is the existing relationship between various people who have a symbiotic relationship with the entrepreneur. Informal networking is established through relationships with childhood friends, members of one's family and people sharing common interests or hobbies.
- Networking is important because it builds confidence, reduces bureaucracy, increases information, develops trust, creates an interdependent situation, and generates creativity.
- To establish and build confidence in networking, you can apply the following seven techniques:
  - (i) communicate effectively and with full confidence;
  - (ii) prove your abilities to others;
  - (iii) show concern for other people;
  - (iv) always be fair;
  - (v) always be ready to admit your own mistakes;
  - (vi) show team spirit; and
  - (vii) be confident of others.
- Barriers to network building include physical, emotional, psychological, behavioural, and expressive barriers.

KEY TERMS

Formal networking	Strategic networking
Informal networking	Barriers to network building

Topic 8 ▸ Evaluation of Entrepreneurial Opportunities

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Review six common pitfalls in the selection of new-venture ideas;
2. Explain eight critical factors involved in new-venture assessment;
3. Describe three major factors that underlie venture success;
4. Analyse four evaluation process methods; and
5. Outline the specific activities involved in a comprehensive feasibility evaluation.

▸ INTRODUCTION

The cases of new-venture start-ups have been increasing during the past few years. There are several reasons for entrepreneurs starting up new ventures. As ideas develop into new-venture start-ups, the real challenge is then for those firms to survive and grow.

What will make you become a successful entrepreneur? Have you ever thought of the necessary aspects that you should be familiar with? In order to face the real challenge in the world of entrepreneurship, you need to have a very deep knowledge and understanding on the common pitfalls in selecting new venture. This topic will also bring you forward in identifying critical factors for new venture development and underlying factors of venture success. We will also be discussing on the effective evaluation process for new ventures.

Now let us start!

8.1 PITFALLS IN SELECTING NEW VENTURES

The stage of transition from an idea to a potential venture can be the most critical for understanding new venture development. Below are six common pitfalls that an entrepreneur may encounter in the process of selecting a new venture (see Figure 8.1).

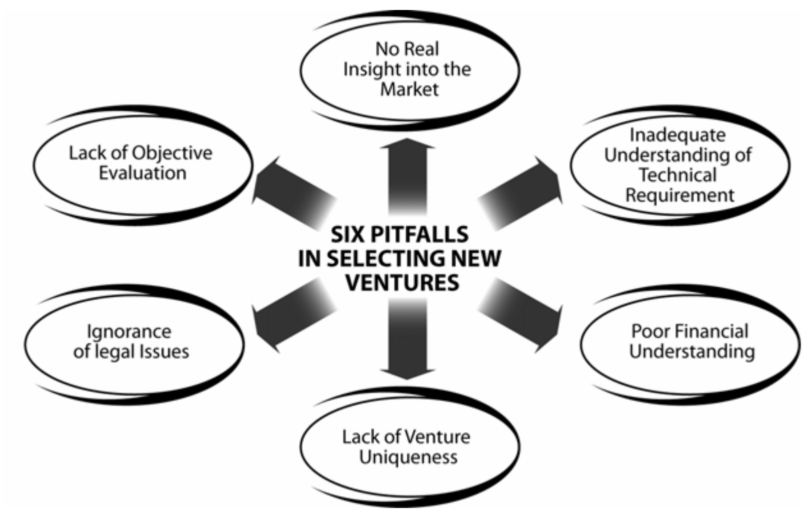


Figure 8.1: Six pitfalls in selecting new ventures

Okay, now let us look at a brief description of each pitfall.

(a) **Lack of Objective Evaluation**

- Many entrepreneurs lack objectivity and do not realise the importance of careful examination they should give for their work. All ideas should be studied and investigated to avoid this pitfall.

(b) **No Real Insight into the Market**

- The importance of developing a marketing approach as the basis for a new venture is often ignored. According to **Levitt (1960)**, "they show a managerial short sightedness".
- They also fail to take into account the life cycle of a new product/service.
- Entrepreneur must realise that timing is crucial. Projecting the life cycle of new products is important as well as introducing the product at the right moment.

(c) **Inadequate Understanding of Technical Requirements**

- Before initiating it, entrepreneurs should conduct a thorough study of the project.
- Technical problems often arise and this will take up a lot of the entrepreneurs' time thus resulting in costly issues.

(d) **Poor Financial Understanding**

- Costs are often ignored by entrepreneurs. They may also not conduct proper planning.
- Underestimation of development costs by huge margins is not something unusal.

(e) **Lack of Venture Uniqueness**

- Concepts with special design and characteristics will attract customers to the venture. As such, entrepreneurs would not be able to attract customers if there is no uniqueness in their ventures.
- Product differentiation is the best way to create awareness of differences between rivals' products and own firms' products among customers.

(f) **Ignorance of Legal Issues**

- Major problems can arise if legal issues are overlooked.
- Examples of legal requirements: creating a safe working environment, ensuring quality control of products and services, and the need for copyrights and patents to protect one's products and creation.

ACTIVITY 8.1

Name two world renowned firms that have failed in their "new" business ventures. What could be their problems? Share this information with your tutor and friends during tutorial session.

8.2 CRITICAL FACTORS FOR NEW VENTURE DEVELOPMENT

Another thing we must consider in new venture development is the critical factors. Vesper (1990) state that an entrepreneur should use a checklist of new venture idea which covers eight areas as shown in Figure 8.2.

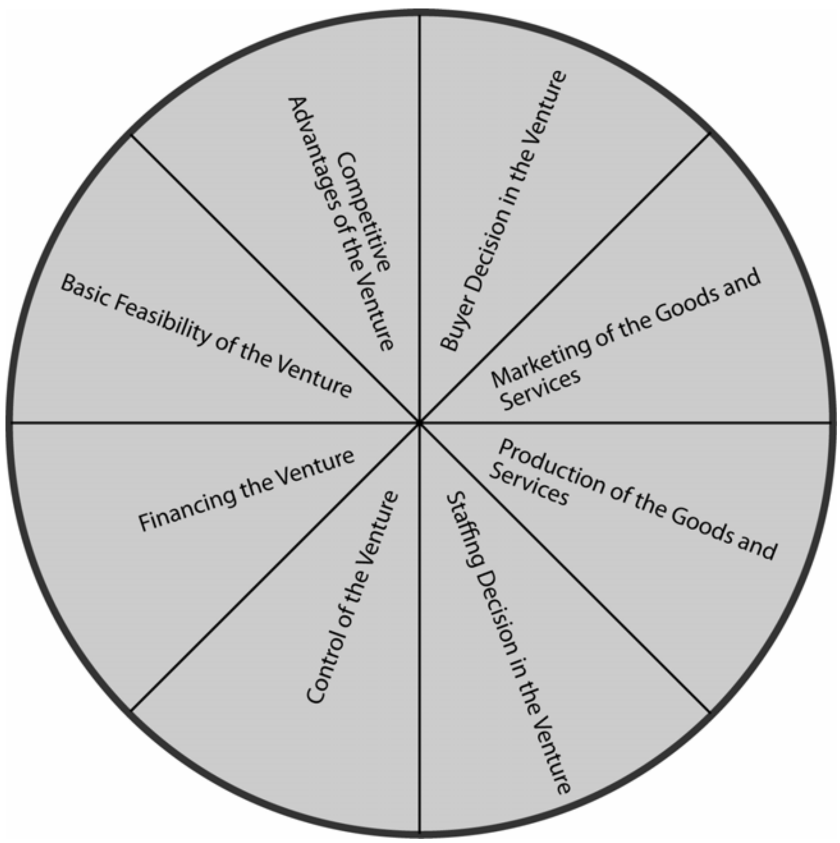


Figure 8.2: Eight areas to be considered in new venture development

Table 8.1 shows a checklist of new venture ideas that an entrepreneur should consider in the assessment of new venture.

Table 8.1: A Checklist of New Venture Ideas

No.	Area	Assessment Question
(a)	Basic Feasibility of the Venture	• Can the product or service work? • Is it legal?
(b)	Competitive Advantages of the Venture	• What specific competitive advantage will the product or service offer? • How will the competitors likely to respond?
(c)	Buyer Decision in the Venture	• Who are the customers likely to be? • How much will each customer buy and how many customers are there?
(d)	Marketing of the Goods and Services	• How much will be spent on advertising? • What share of the market will the company capture? • Who will perform the selling function?
(e)	Production of the Goods and Services	• Will the company make or buy what it sells? • Are sources of supplies available at reasonable price?
(f)	Staffing Decision in the Venture	• How will competencies in each area of the business ensured? • Who does the hiring?
(g)	Control of the Venture	• What records will be needed? When? • Will any special controls be required?
(h)	Financing the Venture	• How much will be needed for development? • How much is the working capital? • Who will be providing the financing? At what cost?

ACTIVITY 8.2

What are the critical factors that need to be considered for a new venture development?

8.3 WHY NEW VENTURES FAIL

Many newly established businesses vanish within a year or two. Only a small percentage are successful. According to Bruno et al (1987) and Karakaya and Kobu (1994), there are three major causes that contribute to the failure of new ventures as you can see in Figure 8.3.

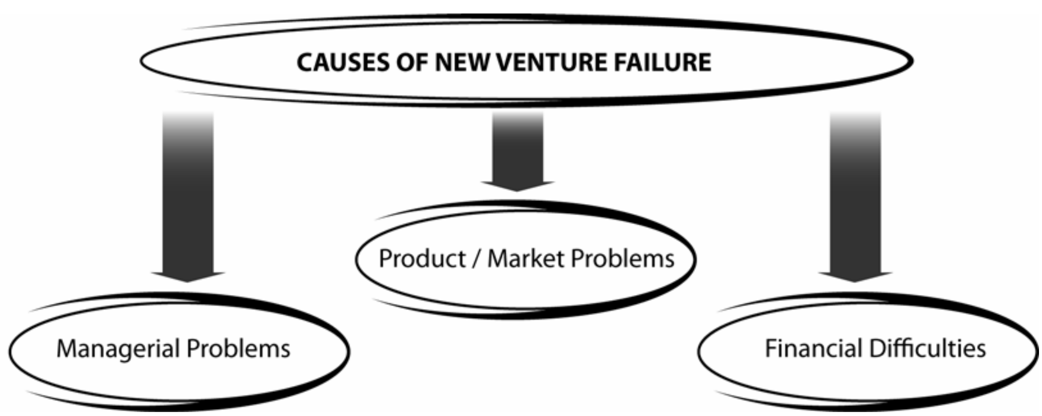


Figure 8.3: Three major factors that contribute to the failure of new ventures

Meanwhile, Table 8.2 below describes the factors that lead to the causes of failure.

Table 8.2: Factors that Lead to the Causes of Failure

No	Causes of Failure	Factors
(a)	Product/market problems	• Poor timing • Product design problems • Inappropriate distribution strategy • Unclear business definition • Over reliance on one customer
(b)	Financial difficulties	• Initial undercapitalisation • Assuming debt too early • Venture capital relationship problems
(c)	Managerial problems	• Concept of a team approach (e.g. hiring and promotions based on nepotism rather than qualification; poor relationships with parent companies and venture capitalist; founders who focus on their weaknesses rather than their strengths; incompetent support professionals). • Human resource problems (e.g. kickbacks and subsequent firings; deceit on the part of the venture capitalist; verbal agreements not honoured; protracted lawsuits).

8.4 THE EVALUATION PROCESS

Now let us move to the evaluation process section.

A critical task of starting a business enterprise is conducting solid analysis and evaluation of the feasibility of the product/service idea getting off the ground. Entrepreneurs would later on discover that the proposal contains many fatal flaws if the initial analysis was not properly conducted.

Figure 8.4 illustrates the evaluation process highlighted by Kuratko and Hodgetts (2004).

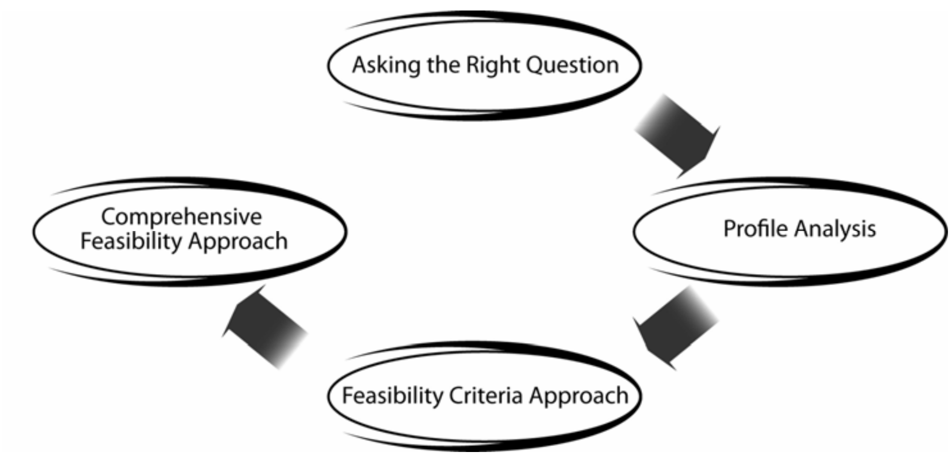


Figure 8.4: Evaluation process

Kuratko and Hodgetts (2004) highlights the following evaluation process.

(a) **Asking the Right Question**

Many important evaluation-related questions should be asked. Examples of questions that entrepreneurs should ask themselves are as follows:

- Is it a new product/service idea? Is it proprietary? Can it be patented or copyrighted?
- Has a prototype been tested by independent testers who try to blow the system or rip the product to shreds? What are the weak points? Will it stand up?
- Has it been taken to a trade show? If so, what reactions did it receive? Were there any sales made?
- Is the product or service easily understood by customers, bankers, venture capitalists, accountants, lawyers and insurance agents?
- What is the overall market? What are the market segments? Can the product penetrate these segments? Can any special niches be exploited?
- Has market research been conducted? Who are the competitors?
- What distribution and sales methods will be used?
- How will the product be made? How much will it cost?
- Will the business concept be developed and licensed to others or developed and sold away?

(b) **Profile Analysis**

A single strategic variable seldom shapes the ultimate success or failure of a new business venture. In most instances a combination of variables influences the outcome. It is important to identify and investigate these variables before new ideas is put into practice. The results of such a profile analysis enable the entrepreneur to judge the business' potential.

(c) **Feasibility Criteria Approach**

The Feasibility Criteria Approach was developed as a criteria selection list from which entrepreneurs can gain insights into the viability of their venture. According to Kuratko and Hodgetts (2004), feasibility criteria approach would ask various questions as follows:

- Is it proprietary?
- Are the initial production costs realistic?
- Are the initial marketing costs realistic?
- Does the product have potential for very high margins?
- Is the time required to get to market and to reach the break-even point realistic?
- Is the potential market large?
- Is there any initial customer?
- Is the cost of development and calender time realistic?
- Is it a growing industry?
- Can the product and the need for it be understood by the financial community?

(d) **Comprehensive Feasibility Approach**

It refers to a more comprehensive and systematic feasibility analysis that incorporates external factors.

There are two major factors involved in a comprehensive feasilibility study of a new venture (see Table 8.3).

Table 8.3: Two Major Factors Involved in a Comprehensive Feasibility Study of a New Venture

Technical Feasibility	Marketability
It means identifying the technical requirements for producing a product or service that will satisfy the expectations of potential customers. The important criteria for the requirement are as follows: • Functional design of the product and attractiveness in appearance. • Flexibility, for example, permitting ready modification of the external features of the product to meet customer demands or technological and competitive changes. • Durability of the materials from which the product is made. • Reliability, for example, ensuring performance as expected under normal operating conditions.	It means how saleable the product or service is in the market and what is the demand like. Three major areas in this type of analysis are: • Investigating the full market potential and identifying customers for the goods or services. • Analysing the extent to which the enterprise might exploit this potential market. • Using the market analysis to determine the opportunities and risks associated with the venture.

To address these areas, a variety of informational sources must be found and used. For a market feasibility analysis, general sources would include the following:

(a) Trends in the general economic (various economic indicators etc.);

(b) Market information (customers, customer demand patterns);

(c) Pricing information (range of prices for the same, complementary and substitute products; base prices and discount structures); and

(d) Competitive information (major competitors and their competitive strength).

SUMMARY

- New venture selection may foresee a few pitfalls such as the insufficient objective evaluation of the venture, lack of market potential knowledge, less understanding of the technical requirements, insufficient financial understanding, lack of unique ideas and being unaware of legal issues.
- Major factors that may cause the failure of new ventures are: insufficient market knowledge, faulty product, ineffective sales and marketing strategy, lack of awareness of competitive pressure, timing problem and insufficient capital.
- By asking the right questions, making a profile analysis and carrying out a feasibility criteria study, the feasibility of an entrepreneur's product or service can be assessed.

KEY TERMS

Critical factors	Product differentiation
Customer availability	Profile analysis
Legal requirements	Technical feasibility
Marketability	Uniqueness
Product availability	

Topic 9 ▸ Strategic Planning for Emerging Ventures

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Discuss the nature of strategic planning;
2. Examine five factors that influence a firm's planning process;
3. Discuss five reasons why entrepreneurs do not carry out strategic planning;
4. Explain the benefits of strategic planning; and
5. Examine four of the most common approaches used by entrepreneurs in implementing a strategic plan.

▸ INTRODUCTION

Although many ways of strategically planning a venture exist, all have one common element: each is an extension of the entrepreneur's vision – each takes the owner's concept of the business and puts it into action.

This topic deals primarily with strategic planning for emerging ventures. Some of the important areas this topic discusses are the nature of planning in emerging firms, strategic planning, problems that entrepreneurs have when trying to plan, the benefits of strategic planning and ways to implement a strategic plan.

9.1 THE NATURE OF PLANNING IN EMERGING FIRMS

We will now look at the nature of planning in emerging firms. According to Naffziger and Kuratko (1991), most entrepreneurs do some form of planning for their ventures but it often tends to be informal and unsystematic. The actual need for systematic planning will vary with the nature, size and structure of the business.

An entrepreneur's planning will need to shift from an informal to a formal systematic style for some reasons. Do you know what are the reasons? There are three reasons why planning must be in a formal systematic style as shown in Table 9.1.

Table 9.1: Three Reasons Why Planning must be in a Formal Systematic Style

No.	Reason	Description
(a)	The degree of uncertainty	With greater levels of uncertainty, entrepreneurs have a stronger need to deal with the challenges facing their venture.
(b)	The strength of competition	Chaganti et al (1989) claim that the strength of competition will add to the importance of more systematic planning in order for a new venture to monitor its operations and objectives more closely.
(c)	The amount and type of experience the entrepreneur has	It may be a factor in deciding the extent of formal planning. A lack of adequate experience may constrain the entrepreneur's understanding and thus necessitate formal planning to help determine the future path for the organisation.

ACTIVITY 9.1

Relate to an actual case whereby an entrepreneur's planning shifted from an informal to a formal basis. What, in your opinion, actually triggered this shift?

9.2 STRATEGIC PLANNING

Strategic planning is the formulation of long-range plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses. It is the primary step in determining the future direction of a business.

Wheelen and Hunger (2000) identified five basic steps that must be followed in strategic planning (refer to Figure 9.1).

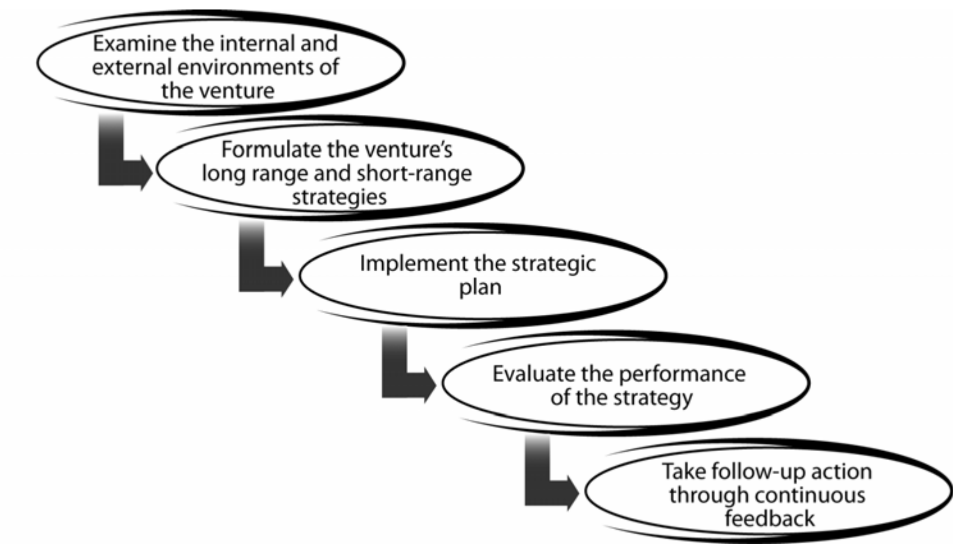


Figure 9.1: Five basic steps that must be followed in strategic planning

Now we will move on and have a look at the detailed information of each step.

(a) **Examine the internal and external environments of the venture**

- A clear review of a venture's internal and external factors (please refer to Table 9.2) is needed, and both sets of factors must be considered when performing an environmental analysis.

Table 9.2: Internal and External Factors

Internal factors	External factors
• Structure (chain of command) • Culture (beliefs, expectations and values) • Resources (assets, skills, competencies and knowledge)	• Social environment • Task environment (industry analysis)

- This is often called SWOT analysis where SWOT is an acronym for a venture's internal Strengths and Weaknesses and its external Opportunities and Threats.

(b) **Formulate the venture's long range and short-range strategies**

- Mission [reason for existence], objectives [what results to accomplish by when], strategies [plans to achieve the mission and objectives] and policies [broad guidelines for decision making] needs to be formulated.

(c) **Implement the strategic plan**

- Activities that needed to accomplish a plan and cost of the programmes need to be identified.
- Sequence of steps (i.e. procedures) also needs to be taken into account in order to implement a strategy.

(d) **Evaluate the performance of the strategy**

- Process to monitor performance and take corrective action to improve the strategy.

(e) **Take follow-up action through continuous feedback**

- Must learn from the mistakes made and accept criticism in order to improve the performance of the strategy.

It should also be noted that there are five factors that influence a firm's strategic planning activities. What are the five factors? Let us refer to Figure 9.2.

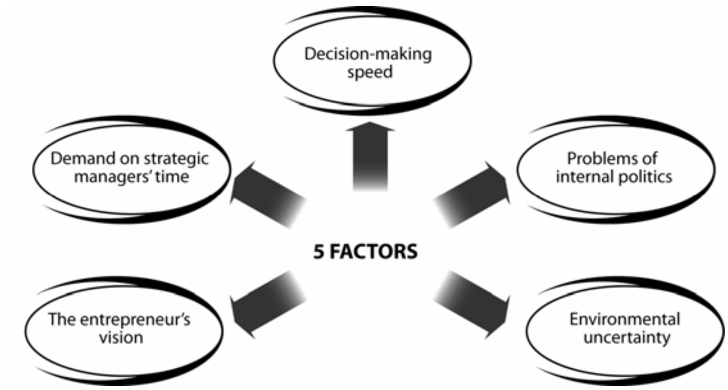


Figure 9.2: Five factors that influence a firm's strategic planning activities

(a) **Demand on strategic managers' time**

- The increasing demand on key owner-managers' time that accompanies the complexity brought on by the growth of the entrepreneurial firm brings about a need for more rigorous strategic management practices.

(b) **Decision-making speed**

- The decision to be made can be expected to increase both in number and frequency.
- More systematic strategy planning practices are needed for entrepreneurs to guide and control the increasing decision making within the firm.

(c) **Problems of internal politics**

- Strategic planning helps to control the politics that emerge as an entrepreneurial firm grows and develops organisational power seekers.

(d) **Environmental uncertainty**

- Robinson Jr. and Pearce II (1986) suggested that the need for strategic planning is greater in the presence of increased environment uncertainty.

(e) **The entrepreneur's vision**

- Venture planning is an extension of the entrepreneurial ego. Planning is the process of transforming entrepreneurial vision and ideas into action.

- This process involves three basic steps:
  - (i) Commitment to an open planning process.
  - (ii) Accountability to a corporate conscience.
  - (iii) Establishment of a pattern of subordinate participation in the development of the strategic plan.

SELF-CHECK 9.1

1. What are the steps in a strategic planning?
2. Discuss the factors that will influence a firm's strategic planning.

9.3 THE LACK OF STRATEGIC PLANNING

The importance of new venture to the economy is substantial in terms of innovation, employment and sales. An effective planning can help these new firms survive and grow. Unfortunately, research has shown a distinct lack of planning on the part of new ventures. Do you know what are the reasons that lead to the lack of strategic planning?

Table 9. 3 describe some of the reasons.

Table 9.3: Reasons for the Lack of Strategic Planning

No.	Reasons for the Lack of Strategic Planning	Description
(a)	Time scarcity	Managers report that their time is scarce and difficult to allocate to planning in the face of day-to-day operating schedules.
(b)	Lack of knowledge	Small firm owners/managers have minimal exposure to, and knowledge of, the planning process.
(c)	Lack of expertise/skills	Small-business managers typically are generalists. They often lack the specialised expertise necessary for the planning process.
(d)	Lack of trust and openness	Small firm owners/managers are highly sensitive and guarded about their businesses and the decisions that affect them.
(e)	Perception of high cost	Small business owners perceive the cost associated with planning to be very high [see, for example, Robinson Jr. and Pearce II (1984) and Shrader et al (1989)].

Orpen (1985) conducted a research on the perceived difficulties of long range planning. He identified thirteen areas that have resulted in firms not wanting to conduct planning (especially long term planning). The difficulties of long term planning are as follows:

- Inadequately defined objectives
- Securing commitment from employees
- Insufficient time for planning
- Generating enough alternatives
- Unpredictable political environment
- Coordinating the planning process
- Unfavourable economic situation
- Testing initial planning assumptions
- Insufficient subordinate participation
- Poor planning climate
- Too expensive to do properly
- Obtaining trustworthy data
- Inexperienced managers

SELF-CHECK 9.2

Why is there a lack of strategic planning?

9.4 BENEFITS OF IMPLEMENTING A STRATEGIC PLAN

There are many benefits that can be derived by having a strategic plan. Let us look at the benefits in two perspectives: company and also individual.

(a) **Company Benefits**

- The process of developing a plan leads to greater interaction and relationship among employees.
- The manager can see how his department/unit fits into the overall system and know what the corporate objectives are.

- Manager can understand instances where cooperation is required. Managers are also able to rank the various proposals in terms of importance.

(b) **Individual Benefits**

- Manager better understand the direction & objectives of company.
- Proposals submitted to higher level managers will be consistent with and relevant to their thinking, thus enhancing prestige and career prospects.
- Can apply the planning process used on their individual self.

New ventures can use a number of approaches to implement a strategic plan. The specific choice will be a function of the entrepreneur's personality and the environment in which the firm operates.

There are four basic approaches to implement a strategic plan (refer to Figure 9.3).

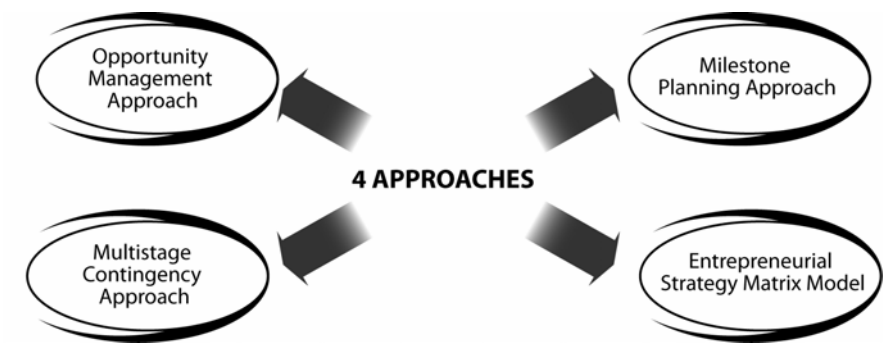


Figure 9.3: Four basic approaches to implement a strategic plan

Let us now examine each of these approaches in more detail.

(a) **Opportunity Management Approach**
Olson and Carey (1985) commented that the Opportunity Management Approach is based most heavily on environmental analysis. The process begins with the construction of a strategic profile that considers the following:

- An evaluation of internal resources.
- A forecast of external market conditions.
- An evaluation of company strengths and weaknesses.
- A formulation of business objectives.

On the basis of strategic profile, an opportunity profile is constructed. In this profile, action programmes are designed, resources are allocated, expected results are identified and implementation and control steps followed. This approach is popular because it is easy to understand and implementation can be adjusted to meet changing conditions.

(b) **Milestone Planning Approach**
Block and MacMillan (1985) emphasised that the Milestone Planning Approach is based on the use of incremental goal attainment that takes a new venture from start-up through strategy reformulation. There are three major advantages of milestone planning:

- The use of logical and practical milestones.
- The avoidance of costly mistakes caused by failure to consider key parts.
- A methodology for replanning, based on continuous feedback from the environment.

This approach is popular with new ventures that are technical in nature, have multiple phases, or involves large sums of money.

(c) **Entrepreneurial Strategy Matrix Model**

- Sonfield and Lussier (1997) developed an entrepreneurial strategy matrix that measures risk and innovation.
- Risk is defined as the probability of major financial loss.
- Innovation is defined as the creation of something new and different.

(d) **Multistage Contingency Approach**
This process was developed by reviewing the various approaches to entrepreneurship. There are three distinct variables critical to any strategic analysis:

(i) The individual

(ii) The venture

(iii) The environment

However, the stages of any venture (ideas, pre-venture, start-up, early growth, harvest) are also critical to strategic analysis. A career perspective should be considered. The entrepreneur's career stage (early, middle, and late) can be a decisive factor when differentiating the variables within the venture development stages.

SELF-CHECK 9.3

What are the approaches available to implement a strategic plan?

SUMMARY

- An entrepreneur's planning will need to shift from an informal to a formal systematic style for few reasons. They are: the degree of uncertainty, the strength of the competition and the amount and type of experience the entrepreneur has.
- Strategic planning is the formulation of long-term plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses.
- Entrepreneurs do not use strategic planning for many reasons. Among them scarcity of time, lack of knowledge about how to plan, lack of expertise in the planning process and lack of trust in others.
- There are many benefits in having a strategic plan. There are four ways to carry out a strategic plan: opportunity management approach, milestone planning approach, entrepreneurial strategy matrix and multistage contingency approach.

KEY TERMS

Career perspective	Multistage contingency approach
Entrepreneurial strategic matrix	Milestone planning approach
Environmental uncertainty	Opportunity management approach
Risk	Strategic planning
Innovation	Time scarcity

Answers

TOPIC 1: INTRODUCTION TO ENTREPRENEURSHIP

Exercise 1.1

1. The ten myths of entrepreneurship are:
   (a) Entrepreneurs Are Doers, Not Thinker
   (b) Entrepreneurs Are Born, Not Made
   (c) Entrepreneurs Are Always Inventors
   (d) Entrepreneurs Are Academic and Social Misfits
   (e) Entrepreneurs Must Fit the "Profile"
   (f) All Entrepreneurs Need Is Money
   (g) All Entrepreneurs Need Is Luck
   (h) Ignorance Is Bliss for Entrepreneurs
   (i) Entrepreneurs Seek Success but Experience High Failure Rates
   (j) Entrepreneurs Are Extreme Risk Takers (Gamblers)

2. Entrepreneurship is important because of the following reasons:
   (a) It is a catalyst for economic change and growth.
   (b) It increases per capita output and income.
   (c) It involves initiating and constituting change in the structure of business and society.
   (d) It increases country's output and productivity
   (e) It encourages innovation and creativity
   (f) It develops new products or services for the market to fulfill human's need. Society will get better goods and services at a cheaper price.
   (g) It stimulates investment interest in the new ventures being created.
   (h) Entrepreneurship through its process of innovation creates new investment of new ventures
   (i) More ventures being created, new jobs will be produced, thus reduce the unemployment rate.
   (j) Creating and promoting wealth distribution

3. Give the scenarios of entrepreneurship development in Malaysia.

   Entrepreneurship has long been operated in Malaysia (Malaya) since the interaction of Malacca with outside traders. But, when British colonize Malaya they change the structure of the society and practiced the' divide and rule' system whereby the Malay society engaged in administration and agriculture; the Chinese society engaged in mining and business; and the Indian society engaged in rubber estate. As a result of this system, Chinese society were far ahead in business as compared to the Malay and Indian.

   After independent and realizing that entrepreneurship is important to individual, society and country, Malaysian Government have to restructure back the society in order to prosper the country. Since then, the government has been focusing in the field of entrepreneurship until today. The New Economic Policy (1971-1990), the Country Development Policy (1991-2000) and the Vision 2020, all encourage and support the entrepreneurship development in Malaysia.

   The government encourages entrepreneurship development and gives recognition to entrepreneurs because they can contribute to the development of the country. In 1995, the government had incorporated the Ministry of Entrepreneurship Development as a specific body to manage and promote the growth of entrepreneurship in Malaysia. Today, this ministry has been change to the Ministry of Entrepreneurship Development and Co-operation.

TOPIC 2: IDENTIFYING ENTREPRENEURIAL CHARACTERISTICS

Exercise 2.1

The common characteristics of successful entrepreneurs are:

(a) Initiative and responsibility

(b) High Degree of Commitment

(c) Opportunity Orientation

(d) Moderate Risk Taker

(e) Confidence and Optimistic

(f) Creative and Innovative

(g) Seeking Feedback

(h) Drive to Achieve

(i) Vision

(j) Skill at Organizing

(k) Internal Locus of Control

(l) Tolerance for Failure

(m) High Level of Energy

(n) Team Building

(o) Independence

(p) Flexibility

TOPIC 3: DEVELOPING ENTREPRENEURIAL CREATIVITY AND INNOVATION

Exercise 3.1

Creativity involves the development of unique and novel responses to problems and opportunities.

(ii) There are four main phases or steps in the creative process:

(a) **Phase 1: Background or knowledge accumulation**
This involves some form of reading, discussion with others working in the same field, attending professional seminars or workshops and so forth in order to gather related information.

(b) **Phase 2: The incubation process**
Individuals are not involved with any business related activities directly to solve the problems. Instead, they will try to get rid of the problems and let their subconscious minds work on it.

(c) **Phase 3: The idea experience**
During this phase, the long sought after solution or answer for an existing problem is finally found. Sometimes this phase is also referred to as the 'eureka factor'.

(d) **Phase 4: Evaluation and implementation**
In the final phase, an entrepreneur will transform an idea into reality. And this is an extremely difficult phase because it requires courage, self-regulation, high confidence, and perseverance.

Exercise 3.2

There are several techniques for generating creative ideas:

(i) **Mind mapping**
This technique allows one to use pictures and/or word phrases to organise and develop thoughts in a non-linear fashion. It helps people "see" a problem and its solution.

(ii) **Nominal groups**
Nominal groups are used to generate ideas and evaluate solutions face-to-face in non-threatening group circumstances, in which members do so by writing down silently as many ideas as possible.

(ii) **Brainstorming**
Brainstorming is the most common and powerful technique used to hatch ideas. During a brainstorming session, all the members of a group suggest ideas that are then discussed. The ideal number of group members involved in brainstorming is between four to seven.

TOPIC 4: VENTURES ENVIRONMENT ASSESSMENT

Exercise 4.1

Ventures environments can be divided into two parts, which are known as:

(a) The macro view of the external environment; and

(b) The micro view of the external environment and the internal environment. Each of these consist of many components that need to be assessed.

(i) The macro environment consists of the following elements:

- Politic and legislation
- Economy
- Social-cultural

- Technology

(ii) The micro environment consists of the following elements:

- Customers
- Competitors
- Suppliers
- Financial institutions
- Non-government organisation
- Government agencies

(iii) The internal organisation environment consists of the following elements as below:

- Organisation structure
- Culture
- Resources

Exercise 4.2

Entrepreneurs need to analyse each component of the macro and microenvironment because of the following reasons:

- The macro environment also known as the external environment, is important for the entrepreneur because they can identify opportunities and threats after scanning and assessing it. This environment can influence business decision making in the long term and uncontrollable elements by entrepreneurs.

- The microenvironment of a business venture is also part of the venture external environment, but could directly influence the entrepreneurs' decisions and activities. It is also known as the industrial environment.

- The internal environment could also influence the decision making of entrepreneurs directly. But they control these elements.

Exercise 4.3

The seven potential opportunities are:

(a) **The unexpected**
Opportunities can be found when situations and events are unanticipated. The event might be in unexpected success/good news or unexpected failure/bad news that can be an opportunity for entrepreneurs to pursue.

(b) **The incongruous**
Incongruous situations happen when there are inconsistencies in the way things appear. For example, there are opportunities when conventional wisdom about the way things should be no longer holds true. In this type of situation, entrepreneurs who are willing to think beyond the traditional approach may find a potential possibility.

(c) **The process need**
Entrepreneurial opportunities could also surface throughout the process of discovery, such as the process of research and development done by the researchers and technicians of products or services. Even before a breakthrough, there are numerous opportunities that could be captured by entrepreneurs during the process.

(d) **Industry and market structures**
Changes in technology, social value and customer tastes can change the structure of an industry and the market. These situations however will give entrepreneurs opportunities to innovate their product or services.

(e) **Demographics**
Changes in demographics will influence industries and markets with regards to their target market and the market segmentation. These can be entrepreneurial opportunities in anticipating and meeting the needs of the population.

(f) **Change in perception**
Perception is one's view of reality. Changes in perception get to the heart of people's psychographic profiles of what their values are, what they believe in, and what they care about. Changes in these attitudes and values create potential market opportunities for alert entrepreneurs.

(g) **New knowledge**
New knowledge can be a source of opportunities for entrepreneurs. An example of new knowledge is new technologies and new discoveries that

can be sources of information for entrepreneurial innovation. Entrepreneurs who come out with new products and processes that can compete with other products can manipulate this kind of knowledge.

TOPIC 5: BUSINESS PLAN

Exercise 5.1

A business plan is important for entrepreneurs because of the following reasons:

(a) Increase opportunities for success.

(b) Develop a mission for business.

(c) Determine the main competitor/s.

(d) Determine the right ways of managing the business.

(e) Increase the stakeholders' confidence.

(f) Identify barriers in business.

(g) As a performance tool.

Exercise 5.2

The important elements in a good business plan are:

(a) Introduction

(b) Executive summary

(c) Objectives of the business plan

(d) Business background

(e) Owner's background

(f) Organizational Plan

(g) Marketing plan

(h) Operational plan

(i) Financial plan

(j) Conclusion

(k) Appendix

Exercise 5.3

The factors which contribute to the failure of business plans are:

(a) No realistic goals.

(b) Failure to anticipate obstacles.

(c) No commitment or dedication.

(d) Lack of business or technical experience.

(e) No market niche.

TOPIC 6: STARTING AN ENTREPRENEURIAL NEW VENTURE

Exercise 6.1

1. A start-up company is a recently formed company. It is a process where an entrepreneur creates a completely new business starting from scratch.

2. There are three phases start-up:
   - Pre start-up.
   - Start-up.
   - Post start-up.

3. Five critical factors which are important for any new-venture assessment are as follows:

   (a) The uniqueness of the venture.

   (b) The investment size at start-up.

   (c) The expected increase in sales and profits as the venture cruises through the start-up phase.

   (d) The availability of products during the two phases.

   (e) The availability of customers during the two phases.

Exercise 6.2

(a) **Five advantages of start-up are as follows:**

(i) The freedom of making one's own decisions.

(ii) The opportunity of using one's ideas.

(iii) The freedom to select the ideal location, plants, equipment, products or services, employees, suppliers and bankers.

(iv) Undesirable precedents, policies, procedure and legal commitments of existing firms are not a problem for a start-up venture.

(v) It will not affect the reputation of the business because it is a new venture

(b) **Five disadvantages of start-up are as follows:**

(i) It requires a lot of time, money and additional effort.

(ii) At the initial stage of the venture, entrepreneurs will make minimal profits or losses.

(iii) There is no history of business records.

(iv) There is no ready customer.

(v) The difficulty of obtaining loans from financial institutions.

2. Buying an existing business means buying or acquiring either the shares of the existing company or all of the assets of an existing company or business.

3. (a) **Advantages of buying an existing business are as follows:**

(i) Immediate operations.

(ii) Easier financing.

(iii) Quick cash flow.

(iv) A market for the product or service will have already been establish.

(v) Existing customers.

(vi) A business plan and marketing method should already be in place.

(b) **Disadvantages of buying an existing business are as follows:**

(i) Costly.

(ii) Neglected business needs large investment.

(iii) Outstanding contracts.

(iv) Inherent problems.

(v) Personal conflicts.

(vi) Obsolete goods.

Exercise 6.3

1. The legal forms of organisations are as follows:

(i) Sole proprietorship

(ii) Partnership

(iii) Corporation

2. (a) The advantages of sole proprietorships are as follows:

(i) Ease of formation.

(ii) Sole ownership profits.

(iii) Decision-making and control vested in one owner.

(iv) Flexibility.

(v) Relative freedom from governmental control.

(b) The disadvantages of sole proprietorship are as follow:

(i) Unlimited liability.

(ii) Lack of continuity.

(iii) Relatively difficult to obtain long-term financing.

(iv) Less available capital.

(v) Relatively listed viewpoint and experience.

Exercise 6.4

(a) Advantages of partnerships are as follows:

(i) Ease of formation.

(ii) Direct rewards.
(iii) Growth and performance facilitated.
(iv) Flexibility.
(v) Relatively free from governmental control and regulation.

(b) Disadvantages of partnerships are as follows:
(i) Unlimited liability.
(ii) Lack of continuity.
(iii) Relatively difficult to obtain large sums of capital.
(iv) Difficulty of disposing of partnership interest.
(v) Bound by the acts of just one partner.

Exercise 6.5

(a) The advantages of corporation are as follows:
(i) Limited liability.
(ii) Transfer of ownership.
(iii) Unlimited life.
(iv) Relative ease of securing capital in large amounts.
(v) Increased ability and expertise.

(b) The disadvantages of corporations are as follows:
(i) Activities restricted.
(ii) Lack of representation.
(iii) Extensive governmental regulations and reports required.
(iv) Organising expenses.
(v) Double taxation.

Exercise 6.6

Five sources of capital that entrepreneurs can use in start-up and buying an existing business are as follows.

(a) Personal funds.
(b) Family and friends.

(c) Retirement accounts.

(d) Banks and other financial institutions.

(e) Government loans.

(f) Stock markets.

(Any five answers)

TOPIC 7: ENTREPRENEURIAL NETWORKING

Exercise 7.1

The advantages that an entrepreneur would gain from good networking are:

(a) **Accessibility**
Networking is very important for the entrepreneur in order to gain either tangible or intangible resources directly or indirectly. Among the tangible resources are financial support, transfer of technology and accessibility in gaining information to produce the right product at the right cost and right time as demanded by the market. On the other hand, the intangible resources are the moral support, guidance and confidence given by various groups to entrepreneurs in operating their business.

(b) **Reputation**
Reputation refers to the ability of the entrepreneur to influence the decision making of other network members, based on the expertise that they have. Good reputation enables the entrepreneur to attract members in networking circles to give priority to the product or services produced by them.

(c) **Expectations**
These can be both facilities and restriction to the freedom of company's action. For example, network members could have the expectation that a particular company will effectively set prices for a number of other companies. On the other hand, a company may be expected not to take advantage of product shortages by raising prices or to conform to conventional competition or to set higher ethical standards than others.

Exercise 7.2

Three ways to establish strategic networking for entrepreneurs are:

(a) Good Planning
To be successful in the entrepreneurial process and management, we must have good planning. Every plan must begin with the questions:

- What your goals?
- What are your strengths?
- What are your weaknesses?
- What do you want to achieve through networking?

(b) Ask Yourself
Every entrepreneur must do the networking draft in planning. An entrepreneur must ask himself what he wants and how many networking relationships he wants in one month. Then he must identify his customers, what kind of business gives profit and what are his contributions to people.

(c) Learning Networking Technique
As an entrepreneur, he must attend business association meetings and be a member of an association. Identify business association, sports association and computer associations. By attending these ceremonies, the entrepreneur will gain the spirit to achieve his business plan.

Although networking is good for business, entrepreneurs must remember that they cannot waste their time to establish networking but must find alternative methods for success. They also have to choose the best associations to join – those that are beneficial and those to which they can also contribute benefits. Identify those people who contribute to business and form a communication group to get more information from them. Then send e-mails or letters to express appreciation for them.