

Part I: ENTREPRENEURSHIP IN THE TWENTY-FIRST CENTURY

1: Entrepreneurship: evolution and revolution

Chapter objectives

- 1 To begin our exploration of entrepreneurship and the environment
- 2 To distinguish between business and social entrepreneurs
- 3 To distinguish between entrepreneurs and small-business owners
- 4 To explain the importance of entrepreneurs for economic growth
- 5 To examine the historical development of entrepreneurs and of entrepreneurship
- 6 To define entrepreneurship and explore the major schools of entrepreneurial thought
- 7 To realise that entrepreneurship is a pathway to freedom

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Chapter summary

Chapter 1 examined the evolution of entrepreneurship and provided a foundation for further study of this dynamic and developing discipline. We began by examining the global imperatives surrounding climate change and its effect on entrepreneurs, which will be the subject of Chapter 3. In particular, we mentioned the existential rules that affect the future careers of entrepreneurs. We differentiated entrepreneurs into two groups, social and business; and we distinguished these two types of entrepreneurs from small business owners. We presented a glimpse of the entrepreneurial mind, which will be covered further in Chapter 2. We explored the early economic definitions, as well as select contemporary ones. This chapter presented a historical picture of how entrepreneurship has evolved over the centuries.

Research in our fields has identified seven schools of thought that help organise how we think about entrepreneurship. They are divided into macro and micro approaches. We also examined the various generations of entrepreneurs and discussed entrepreneurship as a pathway to human freedom. Finally, we looked at the role of universities in entrepreneurship education.

Lecture notes

I Entrepreneurs facing the unknown

- A Human-induced climate change, greenhouse gases, carbon emissions: challenges for entrepreneurs
- B Entrepreneurs responsible for a considerable share of this through helping to destroy areas of rainforest, creating polluting industries, generating excess waste, and so forth
- C Business as usual is dead and green growth is the answer to both our climate and economic problems
- D Either way, entrepreneurs stand to gain. Entrepreneurs never waste a good crisis, could well be the saviours of our planet
- E Entrepreneurs must unleash a wave of creativity
- F Entrepreneurs are individuals who recognise opportunities where others see chaos or confusion
- G They are heroes of free enterprise; entrepreneurs start companies, create jobs and drive development

II Are you a business or social entrepreneur?

- A There are many kinds of entrepreneurs: examples include mediapreneurs, intrapreneurs, seniorpreneurs and so forth. The two most important types are:
 - i Business entrepreneurs are driven by the profit motive
 - ii Social entrepreneurs are driven by a mission and seek to find innovative ways to solve problems
- B Small-business owners may once have captured an entrepreneurial opportunity, but now would rather exploit established markets
- C Entrepreneurs, on the other hand, aim to exploit innovative venture opportunities and create new markets at home and abroad

III **Entrepreneurs have a particular enterprising mind-set**

A Enterprise – as in an enterprising individual – is the process of identifying, developing and bringing a vision to life, be it an innovative idea or simply a better way of doing something.

English is fortunate in having two complementary words: enterprise and entrepreneurship.

B Enterprise applies not only to business ventures, but also to political and social decisions.

IV **The evolution of the ‘under-taking’**

A Taken from the French ‘entreprendre’, meaning ‘to undertake’. Not all languages follow this ‘undertaker model’. Give examples from other languages.

B The entrepreneur is an aggressive agent for change in the business world, who combines an ability to manage resources and risk, and is usually characterised by aggressiveness, competitiveness, goal-oriented behaviour, confidence, opportunistic behaviour, intuitiveness, reality-based actions, the ability to learn from mistakes and the ability to employ human relations skills

V **Entrepreneurship through the ages**

Entrepreneurial activities have existed for millennia:

A Ancient Assyrians carried out innovation transfer and developed business communication

B Civilisations of Sumer and Babylon had free enterprise

C Scholars believe the eleventh century BC civilisation of Phoenicia built a commercial empire on seaborne trade

D In Biblical times, many free market activities were viewed negatively since usury, the charging of a fee for the use of money, was considered a crime

E Romans permitted usury, but not by Roman nobility, creating opportunities for freed slaves to accumulate wealth

F In ancient China, the Emperor owned all property, which discouraged free enterprise, since assets could be seized at the Emperor’s whim; instead scholarship and officialdom were the routes to success

G In the Middle Ages, wealth came not from business acumen but military success

H Over time, however, merchant entrepreneurs, such as the Medici, gained political and economic power, and entrepreneurial activity flourished during the Industrial Revolution in the late eighteenth and early nineteenth centuries

I Through history, the entrepreneur is recognised as an agent of change

VI Early definitions of entrepreneurship

- A No single definition of entrepreneur exists
- B Recognition of entrepreneurs in academic literature dates back to eighteenth-century France
- C Until 1950 the majority of definitions and references came from economists
- D Ronstadt said, 'Entrepreneurship is the dynamic process of creating incremental wealth'
- E In present day the word entrepreneur has become closely linked with free enterprise and capitalism
- F Entrepreneurs serve as agents for change, provide creative, innovative ideas for business enterprise and help businesses grow and become profitable
- G Considered heroes of free enterprise
- H Many people regard entrepreneurship as 'pioneership' on the frontier of business

VII Approaches to entrepreneurship

- A A theory on entrepreneurship is a verifiable and logically coherent formulation of relationships, or underlying principles, that explain entrepreneurship
- B No comprehensive theory has emerged but a number of approaches have been suggested to increase understanding of the field
- C The schools of thought in entrepreneurship
 - i The macro view: broad array of factors that relate to the success or failure of a venture; often outside an individual entrepreneur's control
 - ii The social and cultural school of thought: deals with the external factors that affect a potential entrepreneur's lifestyle; focuses on institutions, values, and morals
 - iii The financial/capital school of thought: Deals with the search for seed capital and growth capital. Views the entire entrepreneurial venture from a financial management standpoint
 - iv The displacement school of thought: Holds that the group affects or eliminates certain factors that project the individual into an entrepreneurial venture. Three major types of displacement:
 - a Political displacement: Deals with government's policies and regulations
 - b Cultural displacement: Deals with social groups precluded from professional fields

- c Economic displacement: Deals with economic variations of recession and depression
 - v The ecological school of entrepreneurial thought.
 - a Based on the relationship of the natural world to entrepreneurs.
 - b Systems which uphold life on our planet can no longer endure the rhythm of wanton exploitation and consumption that entrepreneurs have subjected them to
 - c This school of thought is based on the fields of green economics and ecological economics
 - d Focus on intergenerational equity, irreversibility of environmental change, uncertainty of long-term outcomes and sustainable development
- D The micro view: factors that the potential entrepreneur has the ability to control
- E The entrepreneurial trait school of thought
 - i The study of successful people who tend to exhibit similar characteristics that would increase successful opportunities
 - ii Four factors usually exhibited by successful entrepreneurs are achievement, creativity, determination and technological knowledge
 - iii Deals with the family development idea; focuses on the nurturing and support that exists within the home atmosphere
- F The venture opportunity school of thought
 - i The search for sources of ideas, the development of concepts, and the implementation of venture opportunities
 - ii Views creativity and market awareness as essentials
 - iii Deals with the ability to recognise new ideas and opportunities and to implement the necessary steps of action
 - iv Corridor principle: new opportunities or pathways will arise from previous ideas
- G The strategic planning school of thought emphasises the planning process in successful venture development. Four major factors in considering the strategic formulation:
 - i Unique markets: identifying new segments not currently being served
 - ii Unique people: who have specific skills or talents that the venture is built around
 - iii Unique products: which incorporate innovations
 - iv Unique resources: ability to gather or harness special resources over the long term

VIII The entrepreneurial revolution: a global phenomenon

- A Generation E: around the world, the most entrepreneurial generation since the Industrial Revolution

Entrepreneurial firms make two indispensable contributions to the economy. First, they are an integral part of the renewal process that pervades and defines market economies. Second, entrepreneurial firms are the essential mechanism by which millions enter the economic and social mainstream of society.

- B Predominance of new ventures in the economy

- i Increasingly, small firms are creating more jobs than large firms
- ii Research suggests that entrepreneurship provides a positive contribution to job creation and economic growth
- iii High growth versus lifestyle: while entrepreneurs are a major force in the economy, many only want to achieve modest goals of funding their lifestyles or supporting their families

- C Entrepreneurs' contribution to the economy

- i Drive change in the economy
- ii Mechanism for allowing many to enter the economic and social mainstream of society

- D Different cultural and social norms encourage entrepreneurship to varying degrees. Table 1.3 shows different stages of economic development depending on the type of economy (i.e. efficiency, innovation, factor-driven).

- E The impact of gazelles

New and smaller firms create the most jobs in the US economy. Fastest growing firms are those with at least 20 per cent sales growth every year (for five years), starting with a base of at least US\$100,000. These are known as gazelles.

New and smaller firms have been responsible for 55 per cent of the innovations in 362 different industries and for 95 per cent of all radical innovations.

Gazelles produce twice as many product innovations per employee as do larger firms.

New and smaller firms obtain more patents per sales dollar than do larger firms.

- F Entrepreneurship as pathway to freedom

How can you become the 'proprietor of the rest of your life'?

Entrepreneurship, or the enterprising spirit, is actually central to our very concept of freedom. People who control their own destiny, who do not want to be a wage-slave to another, are called sovereign individuals.

Go over percentage of self-employment of some new-millennium professions.

Discuss the Circle of Life in Figure 1.6.

G Is your university entrepreneurial?

Research shows that the higher your educational level, the higher will be your propensity to exploit entrepreneurial opportunities.

How your education influences your desire to be an entrepreneur depends on whether the curriculum is relevant and on what your family, peers and culture 'educate' you about becoming an entrepreneur.

Education should really accelerate your self-efficacy.

Universities can have a 'university-based entrepreneurship ecosystem'.

Review & discussion questions

1. What is the potential role for entrepreneurs in the era of climate change?

Entrepreneurs can help ease the problems of climate change because they recognise opportunities where others see chaos or confusion. They could well be the saviours of our planet. Entrepreneurs can reap commercial success out of the opportunities.

2. What is the difference between social entrepreneurs and business entrepreneurs?

Enterprising means 'marked by imagination, initiative and readiness to undertake new projects'. Entrepreneurial means 'willing to take risks in order to create value'. While anyone – in any profession – can be enterprising, entrepreneurship connotes building value through business. Business entrepreneurs are focused and driven more by the profit motive and seek growth for their company. Social entrepreneurs are driven to find solutions to problems that are not being addressed by the market or public sector.

3. What is the difference between entrepreneurs and small-business managers?

Small-business owners simply optimise established markets. Entrepreneurs seek to create new markets. Small-business owners rest on their laurels. Entrepreneurs are constantly seeking new niche advantage and markets.

4. Briefly describe what is meant by the term 'entrepreneurship'.

Entrepreneurship is more than the mere creation of a business. Seeking opportunity, taking risks, and having the tenacity to push ideas into reality, are special characteristics that permeate entrepreneurial individuals. Entrepreneurship is an integrated concept that has revolutionised the way business is conducted.

The word 'entrepreneur' is derived from the French *entreprendre*, meaning 'to undertake'. No single definition of the word exists at present. The recognition of entrepreneurs dates back to eighteenth-century France when economist Richard Cantillon associated the 'risk bearing' activity in the economy with the entrepreneur. In England during the same period, the Industrial Revolution was evolving, with the entrepreneur playing a visible role in risk taking and the transformation of resources. Until the 1950s, the majority of definitions and references to entrepreneurship had come from economists. In the twentieth century, the word became synonymous or at least closely linked with free enterprise and capitalism. In the twenty-first century, entrepreneurs are now considered the heroes of free enterprise.

5. Why do we use the French word instead of an English equivalent?

The literal translation of the French word 'entrepreneur' is 'undertaker', a word already in use in the English language in a much different context.

6. Is there a distinction between 'enterprising' and 'entrepreneurial' in your language? If so, what is it?

Note: Some languages do not make the distinction.

7. How were entrepreneurs historically viewed? What challenges did they face throughout history?

A number of ancient civilisations were entrepreneurial, and the entrepreneurial spirit has driven many of humanity's achievements. However, entrepreneurs were also often looked down upon and their activities were at times considered illegal, and they could be dealt with by harsh penalties such as having their assets seized, or even being put to death.

8. In your culture, what is the history of enterprise and entrepreneurship?

Obviously this will vary from culture to culture. Some cultures do not have a tradition of entrepreneurship.

9. When was the word 'entrepreneur' first used in economic literature?

The French economist, Cantillon, first tied risk-bearing activities to entrepreneurs in the eighteenth century. Economists such as Jean-Baptiste Say (1803) and Joseph Schumpeter (1934) continued to write about entrepreneurship and its impact on economic development.

10. Which school of entrepreneurial thought makes most sense to you, and why?

Adequate answers will take a stand promoting one school of thought or may contrast and weigh more than one school of thought. Extra credit for inventing a new school of thought.

11. What are the generational differences in entrepreneurial activity?

Different generations view entrepreneurship and work differently. The generation in which one has grown up in affects things like the amount of wealth and experience they have (i.e. baby boomers), and Generation Y being quite entrepreneurial.

12. Is entrepreneurship really another word for 'human freedom'?

According to Sen, the usefulness of wealth lies in the things that it allows us to do. According to him, the highest expression of freedom is the ability to choose what kind of life one wants to lead, to be the sole proprietor of one's own destiny. So the answer is yes.

13. What are the professions that have the highest proportion of self-employed people?

Artists, photographers, construction managers, property, real estate, animal trainers, writers and authors, dentists, musicians, singers and related workers, and designers.

14. Is your personal entrepreneurship education curriculum relevant to you?

While studies find that people with higher levels of education are more likely to become entrepreneurs, answers may vary as students realise that they don't want to become an entrepreneur, but rather learn about entrepreneurs.

15. What personal gain do you expect out of your entrepreneurship education?

Answers could include become rich, help people, innovate things, become a great business leaders, etc.

16. Are you in an entrepreneurial university?

Does your university offer entrepreneurial events and resources such as business plan competitions, seminars on entrepreneurship, degrees in entrepreneurship or make all students take entrepreneurship courses? Does the university have spaces where students can go to start businesses? Does the university work to commercialise its science and research? Is there a commercialisation office? Most of the relevant information will be easily found on a university's website.

Additional key terms & concepts

Anthropogenic, baby boomers, Entrepreneurial Revolution, entrepreneurship, existential risks, gazelles, Generation Alpha, Generation Y, Generation Z, sequester, social discount rate, university-based entrepreneurship ecosystem (U-BEE).

Teaching notes for end-of-chapter exercises

Experiencing entrepreneurship: Finding your own personal entrepreneurial ecosystem

This is an interesting thought exercise that brings together 'entrepreneurship' and 'ecosystem' in the sense of a physical location of organisms living together. It also introduces the concept of 'balanced'. This is not necessarily an assignment, but it does allow students to speak frankly or even write a serious essay about their own personal ecosystem. It covers the openness of one's own culture; helps them identify mentors; assists in locating resources and critiquing the public infrastructure around them. A provocative aspect is question 6 which ask them to think about relocating.

Experiencing entrepreneurship: Understanding your beliefs about successful entrepreneurs

In this exercise, students are given a list of 10 statements and asked to respond from 1 to 10 on how much they agree with it. They then put their scores in a table, using a scoring system in which some answers are placed directly into the given space while others are subtracted from 11 and put into the given space. The scores in the spaces are then added up and compared to a scoring key. The exercise measures how much the student believes the myths of entrepreneurship. The higher the score, the more the student understands the facts about entrepreneurs. The lower the score, the more the student needs to review material from the chapter.

Experiencing entrepreneurship: Are you a high achiever?

One of the most important characteristics of a successful entrepreneur is the desire to be a high achiever. Ten questions are provided to help the reader identify their achievement drive. Choices for each question are a, b, and c. A scoring table is provided after the exercise. Once the reader has tabulated their score, information for interpreting the results is provided.

Teaching notes for end-of-chapter case studies

Case 1.1: *Gazelle ... or turtle?*

1. Is Summit Software a gazelle? Support your answer

Yes, Summit Software would be considered a gazelle, since the definition is a business establishment with at least 20 per cent sales growth every year over a 5 year period starting with a base of \$100,000.

2. What problems may Jim face owning such a fast-growing business?

Survival may be Jim's biggest challenge. Firms can grow too fast and fail from not being able to cope with the growth. Jim is struggling with how to handle the administrative duties simultaneously with generating new accounts. He may need to hire more employees to meet these challenges.

3. Are gazelles more important to the economy than traditional growth businesses? Why or why not?

The 'gazelle factor' may be the most important finding in economic growth. Consider that, despite the continual downsizing in major corporations over the last decade, gazelles produced 5 million jobs and brought net employment growth to 4.2 million jobs in the US. More recently, gazelles (which currently number about 358,000, or 4 per cent of all ongoing companies) generated practically as many jobs (10.7 million) as the entire US economy (11.1 million) during the same period. Their extraordinary performance and contribution warrants their recognition. Research shows that they have been leaders in innovation, growth, and survival.

Case 1.2: *Paul Cave*

1. What was the opportunity that Cave saw that allowed him to market someone else's product without any money?

Cave provides a service of helping people climb the Sydney Harbour Bridge. He does not own the bridge, nor does he pay for much of the marketing of his service. Instead, most customers learn about the opportunity to climb the Harbour Bridge by word-of-mouth, or by the Australian Tourist Commission, which spends some \$20–30 million indirectly marketing Cave's service, as it uses one of Australia's most famous icons to market Sydney and Australia as tourist destinations.

2. Cave gives meaning to the I Ching's hexagram 'in adversity, it furthers one to be persevering'. Give your own interpretations to this. What does Cave mean when he discusses enabling the customers to become heroes?

Students can give many examples from their own experiences about how they overcame adversity by being persistent.

In the case, Cave overcame a number of barriers including financiers and government bureaucrats who continually answered 'No' to Cave's idea to provide his service. As Cave succeeded in his venture, he overcame other challenges, such as offering the service to blind and deaf people. He continues to overcome barriers as he provides special services to those who want to propose marriage on the Sydney Harbour Bridge, as well as those in wheelchairs.

Cave's service is valuable to customers because it helps them overcome the challenge of climbing to the top of the bridge. In this way, Cave's company is helping customers succeed.

3. What entrepreneurial traits did Cave exhibit in starting this business?

Recognising an opportunity, persistently overcoming barriers, utilising resources that he did not directly control (including the bridge itself, as well as advertising funds).