

**RUAHA UNIVERSITY COLLEGE  
FACULTY OF ICT  
DEPARTMENT OF COMPUTER SCIENCE**

**RMS 222: SMALL BUSINESS AND ENTREPRENEURSHIP**

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**ENTREPRENEURSHIP AND SMALL BUSINESS**

There has been a great deal of attention paid to the subject of entrepreneurship over the past few years, stemming primarily from the discovery by economic analysts that small firms contribute considerably to economic growth and vitality. Moreover, many people have chosen entrepreneurial careers because doing so seems to offer greater economic and psychological rewards than does the large company route.

Yet, despite all of the discussion and attention paid to this issue, two fundamental questions remain unanswered: What is entrepreneurship? and Can you measure it?

**What is Entrepreneurship?**

Many definitions of entrepreneurship can be found in the literature describing business processes. The earliest definition of entrepreneurship, dating from the eighteenth century, used it as an economic term describing the process of bearing the risk of buying at certain prices and selling at uncertain prices. Other, later commentators broadened the definition to include the concept of bringing together the factors of production. This definition led others to question whether there was any unique entrepreneurial function or whether it was simply a form of management. Early this century, the concept of innovation was added to the definition of entrepreneurship. This innovation could be process innovation, market innovation, product innovation, factor innovation, and even organisational innovation. Later definitions described

entrepreneurship as involving the creation of new enterprises and that the entrepreneur is the founder.

Considerable effort has also gone into trying to understand the psychological and sociological wellsprings of entrepreneurship. These studies have noted some common characteristics among entrepreneurs with respect to need for achievement, perceived locus of control, orientation toward intuitive rather than sensate thinking, and risk-taking propensity.

At first glance then, we may have the beginnings of a definition of entrepreneurship. However, detailed study of both the literature and actual examples of entrepreneurship tend to make a definition more difficult, if not impossible.

Consider, for example, the degree to which entrepreneurship is synonymous with 'bearing risk', 'innovation', or even founding a company. Each of the terms described above focuses upon some aspect of some entrepreneurs, but if one has to be the founder to be an entrepreneur, then neither Thomas Watson of IBM nor Ray Kroc of McDonald's will qualify; yet few would seriously argue that these individuals were not entrepreneurs.

Although risk bearing is an important element of entrepreneurial behaviour, many entrepreneurs have succeeded by avoiding risk where possible and seeking others to bear the risk. As one extremely successful entrepreneur has said; 'My idea of risk and reward is for me to get the reward and others to take the risks'.

Creativity is often not a prerequisite for entrepreneurship either. Many successful entrepreneurs have been good at copying others and they qualify as innovators and creators only by stretching the definition beyond elastic limits.

There are similarly many questions about what the psychological and social traits of entrepreneurs are. The same traits shared by two individuals can often lead to vast different results: successful and unsuccessful entrepreneurs can share the characteristics commonly identified. As well, the studies of the life paths of entrepreneurs often show decreasing 'entrepreneurship' following success, which tends to disprove the centrality of character or personality traits as a sufficient basis for defining entrepreneurship.

So, we are left with a range of factors and behaviours which identify entrepreneurship in some individuals. All of the above tends to reinforce the view that it is difficult, if not impossible to define what an entrepreneur is, and that the word itself can be best used in the past tense to describe a successful business person.

### **Measuring Entrepreneurship**

Despite the above, there is remains a powerful impulse, particularly amongst enterprise development practitioners, to measure entrepreneurship in some way. These measurement attempts can range from simple checklists through to complex and detailed computer programmes. This need for a definition and measure of entrepreneurship is because, however defined, the entrepreneur is the key to the successful launch of any business.

He or she is the person who perceives the market opportunity and then has the motivation, drive and ability to mobilise resources to meet it. The major characteristics of entrepreneurs that have been listed by many commentators include the following.

- Self confident and multi-skilled. The person who can 'make the product, market it and count the money, but above all they have the confidence that lets them move comfortably through uncharted waters'.
- Confident in the face of difficulties and discouraging circumstances.
- Innovative skills. Not an 'inventor' in the traditional sense but one who is able to carve out a new niche in the market place, often invisible to others.
- Results-orientated. To make be successful requires the drive that only comes from setting goals and targets and getting pleasure from achieving them.
- A risk-taker. To succeed means taking measured risks. Often the successful entrepreneur exhibits an incremental approach to risk taking, at each stage exposing him/herself to only a limited, measured amount of personal risk and moving from one stage to another as each decision is proved.

- Total commitment. Hard work, energy and single-mindedness are essential elements in the entrepreneurial profile.

However, two warnings need to be attached to this partial list of entrepreneurial qualities.

*Firstly*, selecting individuals for enterprise development training by such a set of attitudes and skills in no way guarantees business success.

*Secondly*, the entrepreneurial characteristics required to launch a business successfully are often not those required for growth and even more frequently not those required to manage it once it grows to any size. The role of the entrepreneur needs to change with the business as it develops and grows, but all too often he or she is not able to make the transition.

#### Definition of Entrepreneurship

Entrepreneurship is more than simply “starting a business.” The definition of entrepreneurship is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change.

Entrepreneurs see “problems” as “opportunities,” then take action to identify the solutions to those problems and the customers who will pay to have those problems solved.

Entrepreneurial success is simply a function of the ability of an entrepreneur to see these opportunities in the marketplace, initiate change (or take advantage of change) and create value through solutions.

## **ENTREPRENEURSHIP**

Austrian economist Joseph Schumpeter's definition of entrepreneurship placed an emphasis on innovation, such as: new products

New production methods

New markets and new form of organization to mention a few

Wealth is created when such innovation results in new demand. From this viewpoint, one can define the function of the entrepreneur as one of combining various input factors in an innovative manner to generate value to the customer with the hope that this value will exceed the cost of the input factors, thus generating superior return that result in the creation of wealth.

The assumption of risk and responsibility in designing and implementing a business strategy or starting a business.

## ENTREPRENEUR

Entrepreneur - A person who is innovative and takes the risk of bringing the other factors of production together in a business concern to try and profitably satisfy the needs and wants of a particular segment of a market.

Entrepreneur - An innovator of business enterprise who recognizes opportunities to introduce a new product, a new process or an improved organization, and who raises the necessary money, assembles the factors for production and organizes an operation to exploit the opportunity.

## SMALL BUSINESS AND ENTREPRENEUR

Many people use the terms "entrepreneur" and "small business owner" synonymously. While they have much in common, there are significant differences between the entrepreneurial venture and the small business.

Entrepreneurial ventures differ from small businesses in these ways:

### 1.Amount of wealth creation

Rather than simply generating an income stream that replaces traditional employment ,a successful entrepreneurial venture creates substantial wealth, typically in excess of several million dollars of profit.

### 2. Speed of wealth creation

While a successfully small business can generate several million dollars of profit over a lifetime, entrepreneurial wealth creation often is rapid; for example, within 5 years.

### 3.Risk

The risk of an entrepreneurial venture must be high; otherwise, with the incentive of sure profits many entrepreneurs would be pursuing the idea and the opportunity no longer would exist.

### 4.Innovation

Entrepreneurship often involves substantial innovation beyond what a small business might exhibit. This innovation gives the venture the competitive advantage that results in wealth creation. The innovation may be in the product or services itself, or in the business processes used to deliver it.