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UNIVERSITY PRESS
SOUTHERN AFRICA

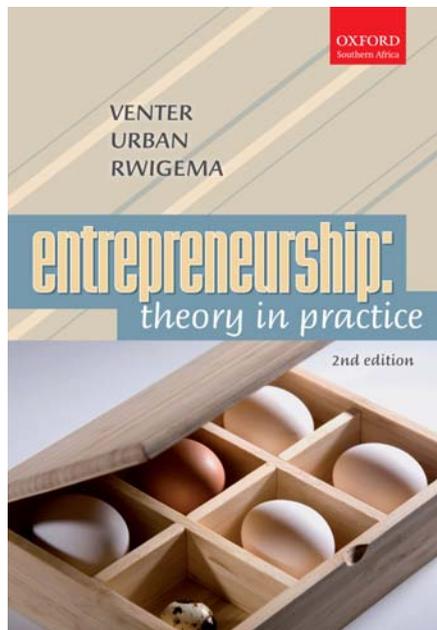
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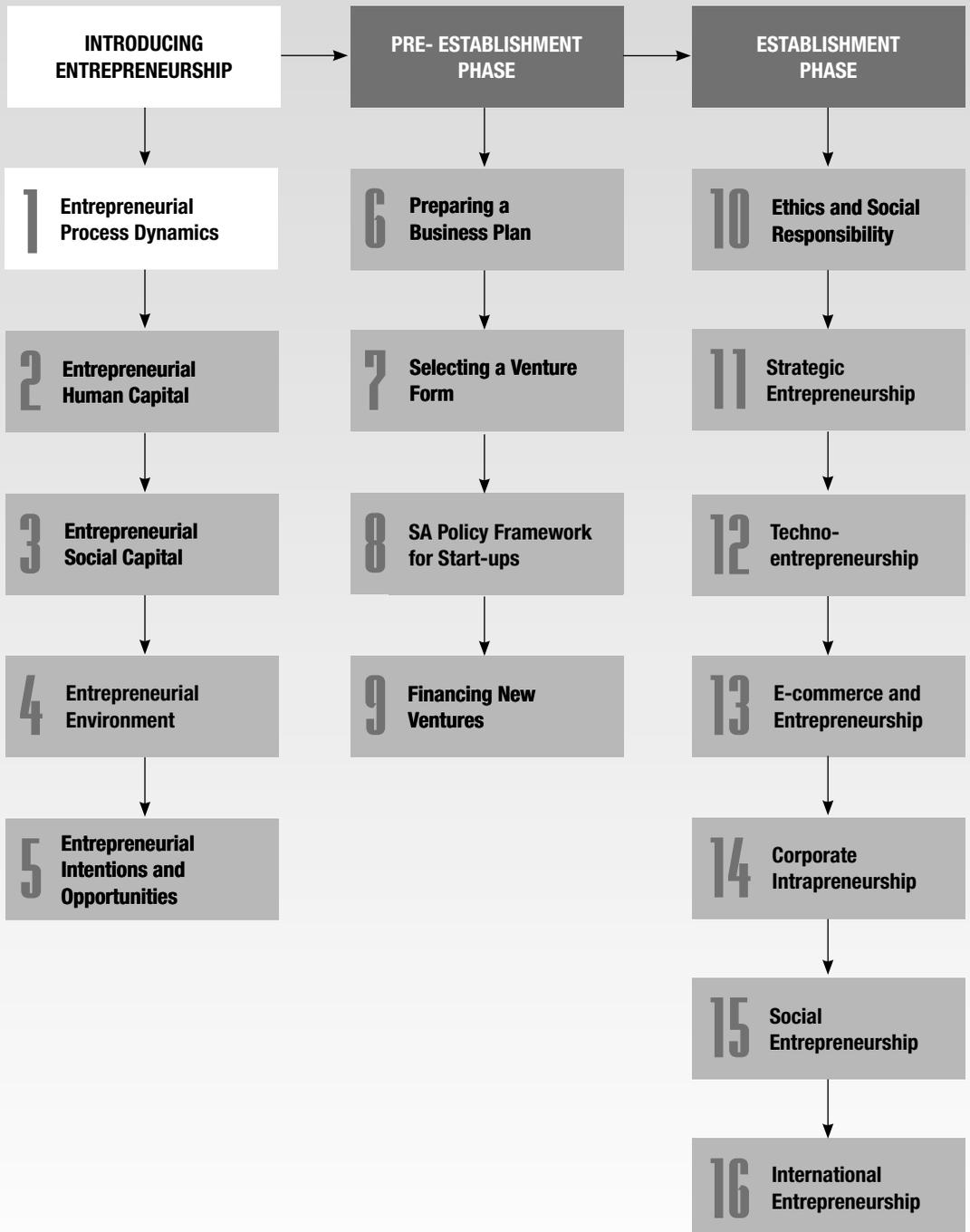
THE MANDELA RHODES
FOUNDATION

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Model of the Entrepreneurship Process



Entrepreneurial process dynamics

Learning outcomes

After reading this chapter, you will be able to demonstrate:

Comprehension in theory to:

- 1 Describe entrepreneurship as a process
- 2 Conceptualise entrepreneurship
- 3 Contrast between entrepreneurship and small business management
- 4 Outline the entrepreneurship process
- 5 Evaluate the dynamics of the entrepreneurial process
- 6 Appraise the relevance of entrepreneurship in South Africa
- 7 Discuss the evolution of the field of entrepreneurship
- 8 Discuss the dynamics of change as it relates to entrepreneurship.

Practical (transferable) skills to:

- 1 Interpret case studies based on the entrepreneurial process
- 2 Formulate own definition of entrepreneurship
- 3 Conduct a search on the nature of entrepreneurship in a changing context.

1.1 | Introduction

In this chapter we provide an overview of entrepreneurship. Definitions of entrepreneurship are examined and distinctions between entrepreneurship, traditional management and small business management allow for further interrogation of the concept. Various profile scenarios illustrate what entrepreneurship is really about, by providing pertinent examples of entrepreneurship and related concepts. The field of entrepreneurship is broadly outlined by tracing the evolution of the field via its major theorists. The entrepreneurial process is then delineated and the various components briefly explained. By viewing entrepreneurship as a process, a model is devised which serves as an integrative framework for the book. The model

is based on the principles of conceptualisation and execution – a process of thinking and doing – a blend of theory and practice – resonating with the title of the book. Subsequently, the relevance of entrepreneurship is examined in various contexts, and finally entrepreneurship is viewed as a dynamic changing process. The chapter ends with a case exercise.

1.2 | Conceptualising entrepreneurship

To understand what **entrepreneurship** is about and what lies at its core, it becomes important to unpack the meaning of this widely-used term. It has been suggested that the fundamental activity of entrepreneurship is new venture creation and new venture creation is a process.

Shane and Venkataraman (2001) suggest that the field of entrepreneurship focus on the central question of the entrepreneur – why, when and how some people and not others discover and exploit opportunities.

Many definitions of entrepreneurship are offered by researchers and practitioners:

- ‘Entrepreneurship is the act of forming a new organisation of value’ (Bateman & Snell 1996:208).
- ‘Entrepreneurship is the seemingly discontinuous process of combining resources to produce new goods or services’ (Stoner, Freeman & Gilbert 1995:160).
- ‘... the creation of new enterprise’ (Bartol & Martin 1998:672).
- ‘... the creation of an innovative economic organisation (or network of organisations) for the purpose of gain under conditions of risk and uncertainty’ (Dollinger 1995:7).
- ... ‘the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence’ (Hisrich & Peters 1998:9).

And the following has been said of entrepreneurs:

- ‘... [they] serve as agents of change; provide creative, innovative ideas for business enterprise; and help businesses grow ...’ (Kuratko & Hodgetts 1998:32)
- ‘... [is] a person who habitually creates and innovates to build something of recognised value around perceived opportunities’ (Bolton & Thompson 2004:16).

Additionally, entrepreneurship is often used in the context of **small business**, and based on a quantitative definition we can define a small business as a distinct business whose size lies below specified thresholds.

The National Small Business Act (102 of 1996) specifies that the number of employees determines whether the business is micro, very small, or small:

- A small business can employ up to fifty people.
- A very small business employs no more than ten people.
- Micro or survivalist businesses are usually one-person operations, though they could employ up to five persons (Rwigema & Karungu 1999:107–124).

According to Fillion (1997), people tend to perceive entrepreneurs and define entrepreneurs using the premises of their own background or disciplines. For example, the economists emphasise the classic models of economic behaviour and innovation, the behaviourists the characteristics and profiles of entrepreneurs, the management specialists the resourcefulness and organising capabilities of entrepreneurs. However, these differences need not create confusion, since similarities do emerge within each discipline.

Some of these similarities in definitions include the following terms used to describe entrepreneurship:

- Innovation
- Idea creation
- Opportunity recognition
- Achievement orientation
- Risk taking
- Resourcefulness.

Based on these formulations, it seems evident that entrepreneurs recognise opportunities and then use various means to *exploit or develop* these opportunities, thus producing a wide range of *outcomes*.

Focusing on what an entrepreneur does, rather than what he or she is, allows for the articulation of the following. He or she:

- Identifies new opportunities for products and services
- Is creative and innovative
- Starts own enterprise(s)
- Manages own enterprise
- Organises and controls resources to ensure profit
- Is able to market a concept, product or service
- Obtains financial means
- Is willing to take calculated risks.

In drawing upon our first definition – why, when and how some people and not others discover and exploit opportunities – we see the ‘who’ as a person and the ‘what’ as a process that involves creativity and innovation and results in something of value that can be recognised by others. It is imperative to remember that the individual is at the beginning of this entrepreneurship process, and consequently the focus in the next chapter is on human capital. Understanding the **entrepreneurial process** represents

one of the core questions for the domain of entrepreneurship (Gartner 1990; Gaglio & Katz 2001).

This conceptualisation fits with our overall model and allows for a clear understanding of the entrepreneurial process. The building process, of course, first needs an opportunity to build on, and this is something the entrepreneur is always able to spot.

The entrepreneurship process further recognises that starting a new venture is not a smooth, continuous, orderly process, but a disjointed, discontinuous, unique event, and we need to understand the change in the antecedent variables that trigger the event: variables in human capital, social capital, and entrepreneurial environment. It may happen that small differences in the initial conditions produce very great ones in the final phenomena (Bygrave 1989b:14). To put this in a simplistic form, entrepreneurs cause entrepreneurship:

$$E = f(e): \text{ [entrepreneurship (E) is a function of entrepreneurs (e)]}$$

Based on these initial conceptualisations, it seems that entrepreneurship can best be understood when comparing it to traditional management and small business management. Differences between entrepreneurship, traditional management, and small businesses are now discussed.

1.2.1 | Entrepreneurship versus traditional management

Traditional management is essentially functionalist in design, and fails to acknowledge adequately the early stages of organisational development. Entrepreneurship is primarily concerned with the discovery stage of organisational development, where a different set of skills is required from those of controlling and co-ordinating resources, which is often commensurate with latter stages of organisational development – predominantly management of existing resources.

For entrepreneurship, emphasis is on new venture creation and growth. Initiation is the responsibility of the entrepreneur, who examines ideas, develops opportunity and handles the nuts and bolts of registering the venture.

In the start-up phase, when the venture is still small, the entrepreneur usually manages the enterprise. As the organisation grows, professional managers may be hired to handle administration and strategic management.

Managers perform functions like planning, organising, human resource management, leading, and controlling, so that management is more akin to administration. Managers may be hired hands who played no part in founding the venture.

Management skills are obviously necessary for entrepreneurial ventures, but it is the difference in degree of how they are applied to new

venture creation that is often neglected. In fact, it has been suggested that the differences between emerging and existing business are quantum differences, since management work is 'enacted, interpreted, and retained in a fundamentally different manner when compared to entrepreneurial activity' (Laukkanen 2000; Gartner, Bird & Starr 1992).

Business entry (entrepreneurship) is a fundamentally different activity from business management. Its scope includes but is not limited to:

- The ability to detect and exploit opportunities
- The ability to plan in greater detail and project further into the future
- Greater bias towards creativity
- Multidisciplinary and process-orientated approaches
- Enhancement of entrepreneurial behaviour
- Fostering self-reliance
- Bridging of gaps between functional areas.

Entrepreneurship is seen as a component of community support infrastructure (Gorman, Hanlon & King 1997).

A clear distinction is also necessary between intrapreneurship and entrepreneurship. Intrapreneurship is primarily concerned with innovative activities within an established organisation. The principles of entrepreneurship, via creativity, innovation and risk-taking, are applied in a different context – typically a large organisation (a separate chapter examines the concept of intrapreneurship – often considered a sub-discipline of entrepreneurship). Intrapreneurship is essentially about big business, while the typical aim of entrepreneurship is the development of a cadre of entrepreneurs who will promote economic growth and create employment.

1.2.2 | Entrepreneurship versus small business management

Another important distinction is that between entrepreneurship and small business management. Typically, small business management is concerned with the management – limited in scope – of an established business or the start-up of a business – which is not necessarily new. Not all small businesses are entrepreneurial, as many are started with limited growth ambitions. For example, a retired couple may open a café to supplement their income and keep them busy. No plans exist to grow the shop spectacularly. Indeed, for leisure's sake, they may deliberately keep it small. Hisrich and Peters (1998:13) describe this as a 'lifestyle organisation: a small venture that supports the owners and usually does not grow'. Other start-ups, such as micro enterprises, have such limited scope that their prosperity is doubtful, although some defy the odds. After all, entrepreneurship is supposed to be opportunity rather than resource driven.

By contrast, entrepreneurs usually aim for high potential ventures. However small they start, they revel in parenting rapidly growing,

innovative businesses. Whether they succeed or not, few entrepreneurs would settle for stagnation.

Three factors distinguish entrepreneurial organisations from small businesses: innovation, growth potential, and strategic objectives (Wickham 2001:24).

1 Innovation

The entrepreneurial venture is usually based on a significant innovation, which is based on differentiated offerings, marketing, distribution, or the way the organisation is structured and managed differently, or the way relationships are maintained between organisations. The small business, on the other hand is usually involved in established markets, products or services. Nonetheless, a small business may be delivering an innovation, albeit limited in scope, and likely to be established and produced in an established manner. Contrastingly, an entrepreneurial venture is usually based on a significantly new way of doing something. We will discuss evolutionary versus revolutionary innovations and changes in subsequent chapters, to unpack the significance of these differences.

2 Potential for growth

As was indicated previously, a quantitative definition of what constitutes a small business is a matter of judgement depending on the country, government or industrial sector. Suffice it to say, an entrepreneurial venture usually has a great deal more potential for growth than does a small business. A small business operates within an established market, whereas the entrepreneurial venture has the potential to create its own market.

3 Strategic objectives

An entrepreneurial venture distinguishes itself from a small business by its strategic posturing and objective setting. Strategic objectives relate to such things as:

- Sustainable competitive advantage
- Market development or growth
- Market share
- Market position.

We will discuss strategy and competitive advantage in subsequent chapters in order to focus on the strategic nature of entrepreneurship.

Profile in entrepreneurship

Read the scenario below in conjunction with the chapter text:

Bulelwa Qupe: Cape fisherwoman nets it big

Bulelwa Qupe couldn't find enough hake on the wholesale market for her township fish and chips shop. So she bought shares in a boat and hired a crew to catch fish for her – becoming the first black woman in the Eastern Cape to win a fishing quota. But the Port Elizabeth mother of four found she had too much to sell when her skipper returned with 65 tons of white hake. Now Qupe has opened her own export company, launching her on a path to becoming 'a big fish' in a world heavily dominated by white males. This weekend Qupe surrendered her 2002 Technology for Women in Business Award at an event in Mpumalanga, but told this year's nominees to 'use challenges as your propeller'.

'I intend being a shark on the global market, going into the Far East and Europe,' said Qupe, 44. 'People in the fishing industry couldn't accept me. They said, 'What does she know about fish?' But I never lost hope, and now I am in a position to create employment – and that, more than anything, is success.'

Boya Chetty, secretary of the Eastern Cape Fishing Forum, said Qupe knew 'absolutely nothing' about the industry when she approached him for advice on a quota application in 1998. So Qupe took a course in mariculture at the University of Port Elizabeth in 2000. Chetty added: 'What's so interesting about Bulelwa is that she is not renting her quota out, as many people do – she is directly involved in the fishing itself. She had no idea what long-line fishing was when I first met her, and now she's using that and other methods as well.' A hospital nurse for most of her adult life, Qupe decided to boost her income in 1995 by taking a food outlet franchise in Motherwell Township. Needing a steady supply of hake, she formed a close corporation with seven other women – called Ezabantu Fishing – to apply for a 33-ton quota. Qupe bought a 14 per cent stake in a 29 metre boat and employs 24 crew members. 'I wanted to train for emergencies with the crew – to show them how important it is for me that they are safe – but I am not a good swimmer, so it was a big challenge,' she said. Now she has formed Buntu Marketing and Exporting, which is to export white hake to Spain from this month and, eventually, abalone to Asia. 'Other areas like tuna fishing are for the big boys. I'm not ready for that scale yet. But who knows? You have to dream big.'

Source: Rowan Philp, *Sunday Times*, 10 August 2001

1.3 | The evolution of entrepreneurship

Industrial history, specifically through studying early the 17th and 18th century industrialists such as Cantillon and Say, confirms the birth of new industries, which have always depended upon the revolutionary skills of innovators (Filion 1997). During the industrial revolution, entrepreneurs, although traditionally trained as professional engineers, instinctively taught themselves to become expert business professionals (Oakey 2003).

1.3.1 | Origins of entrepreneurship

Filion (1997) interrogates the origin and development of the term 'entrepreneur', revealing that it acquired its meaning in the 17th century, with Richard Cantillon being the first to offer a clear conception of the entrepreneurial function and its relation to innovation.

Entrepreneurs have existed throughout history. At various times, individuals spotted an opportunity and set up a structure to exploit it. They mobilised resources and traded or manufactured something for profit. Then – as now – they faced risk to create employment (however modest) and add value (through profitability). Societies with more entrepreneurs have tended to economically outperform those with a relative scarcity.

The modern interpretation of entrepreneurship derives from the French verb *entreprendre*, which means 'to undertake'. In this interpretation, the entrepreneur is seen as a 'go-between'. Such, for example, was the case with Marco Polo, the Italian adventurer and trader who, between 1271 and 1295 AD, consolidated a trade route between Genoa (in Italy) and China. He borrowed money to buy and sell goods along the way, thereby assuming the trading and emotional risks. His profits were eventually shared with the original funder (Hisrich & Peters 1998:7).

In Europe during the Middle Ages, entrepreneurs played the role of today's project managers: building castles, cathedrals and other monuments. Later in South Africa, pioneering European entrepreneurs radiated outwards from Cape Town to exploit commercial and farming opportunities inland.

1.3.2 | The renaissance and industrial revolution periods

The Renaissance in Europe took some years to come to fruition and has been described as the origin of a distinctive new Western personality '[m]arked by individualism, secularity, strength of will, multiplicity of interest and impulse, creative innovation, and a willingness to defy traditional limitations on human activity' (Bolton & Thompson 2004:16).

This is not unlike a description of an entrepreneur, and may explain the remarkable economic growth seen in the western world.

Not until the 18th century did the link between entrepreneur and risk emerge, as investors contracted with government to supply goods and services. With a fixed contractual price, the entrepreneur gained all profits and suffered all losses. The onus lay with the entrepreneur to ensure profitability or suffer the consequences. Frenchman Richard Cantillon was one of the first to associate entrepreneurship with risk bearing among farmers, craftsmen, merchants and others. The entrepreneur's role, which gained currency during the Industrial Revolution, was seen as one of organising, managing, and assuming the risks of a business (Hisrich & Peters 1998:7). In all probability, the Industrial Revolution popularised entrepreneurship, since the factory system shaped circumstances and

broadened the need for an entrepreneurial class. Around 1800, Jean-Baptiste Say described anyone transferring resources from a low- to a high-yielding venture as an entrepreneur. In his view, the entrepreneur thrived under conditions of change, as change provided space for innovation. His sentiments were later echoed by, among others, economist Joseph Schumpeter (1947), who posited that a changing environment (symbolised by 'dynamic disequilibrium') signalled a healthy economy and improved prospects for innovation and value creation, despite attendant risks (Zimmerer & Scarborough 1996:2).

1.3.3 | Modern-era entrepreneurship

Aspects of entrepreneurship have developed over time with the seminal works of Weber, McClelland, and Schumpeter being considered the major contributors to this field in the last century.

Max Weber was perhaps the first theorist to indicate that ideological values lead directly to entrepreneurial behaviour (Jennings 1994:123).

One of the earliest and most familiar attempts to link entrepreneurship to the larger social context was Weber's classic work *The Protestant Ethic and the Spirit of Capitalism*. Weber argued that the rise of Protestantism encouraged hard work, thrift and striving for material advancement, which in turn gave rise to Capitalism.

An important social aspect of Weber's model is the 'Protestant work ethic' which demanded a life of good works and the avoidance of spontaneous, impulsive self-enjoyment. This belief in a life of good works produced an intensive exertion in occupational pursuits and became a motivating factor in entrepreneurial activity. The Protestant work ethic correlates with the virtue of industriousness contained in the *Spirit of Capitalism*.

During his visit to America, Weber was 'impressed by the grandiose efficiency of a type of man bred by free association in which the individual had to prove himself before his equals, where no authoritative commands, but autonomous decisions, good sense and responsible conduct train for citizenship' (Weber 1958).

David McClelland (1965, 1976, 1986) identified three basic needs of an individual, normally considered as a content motivational theory: the need for achievement, the need for affiliation, and the need for power.

The need for achievement (*n ach*) can be defined as accomplishment of something difficult to master, to overcome obstacles, to attain a high standard, and to rival and surpass others, but mainly to compete with oneself.

The *n ach* has been recognised as a dominant factor in describing or characterising entrepreneurs, specifically because they exhibit such behaviours to start-up ventures. Moreover, on a national level the *n ach* is closely associated with higher successful economic development

in countries, whose citizens would be predisposed to a high *n ach*. McClelland will be discussed again, as his theory plays an integral part in entrepreneurial human capital.

Schumpeter (1947) categorically launched the field of entrepreneurship, not only by associating entrepreneurs with innovation, but also by demonstrating the importance of entrepreneurs in *creative destruction* (radical improvements and changes that make old technology obsolete), and hence economic development.

Schumpeter (1947) left the legacy of revolutionary concepts such as *dynamic circular flow* and *creative destruction*, both of which have been used to explain entrepreneurship. His concept of economic development in terms of the circular flow model has five phases, which are listed as:

- The introduction of a new good
- The introduction of a new method of production
- The opening of a new market
- The conquest of a new source of supply of raw materials
- The carrying out of the new organisation of an industry.

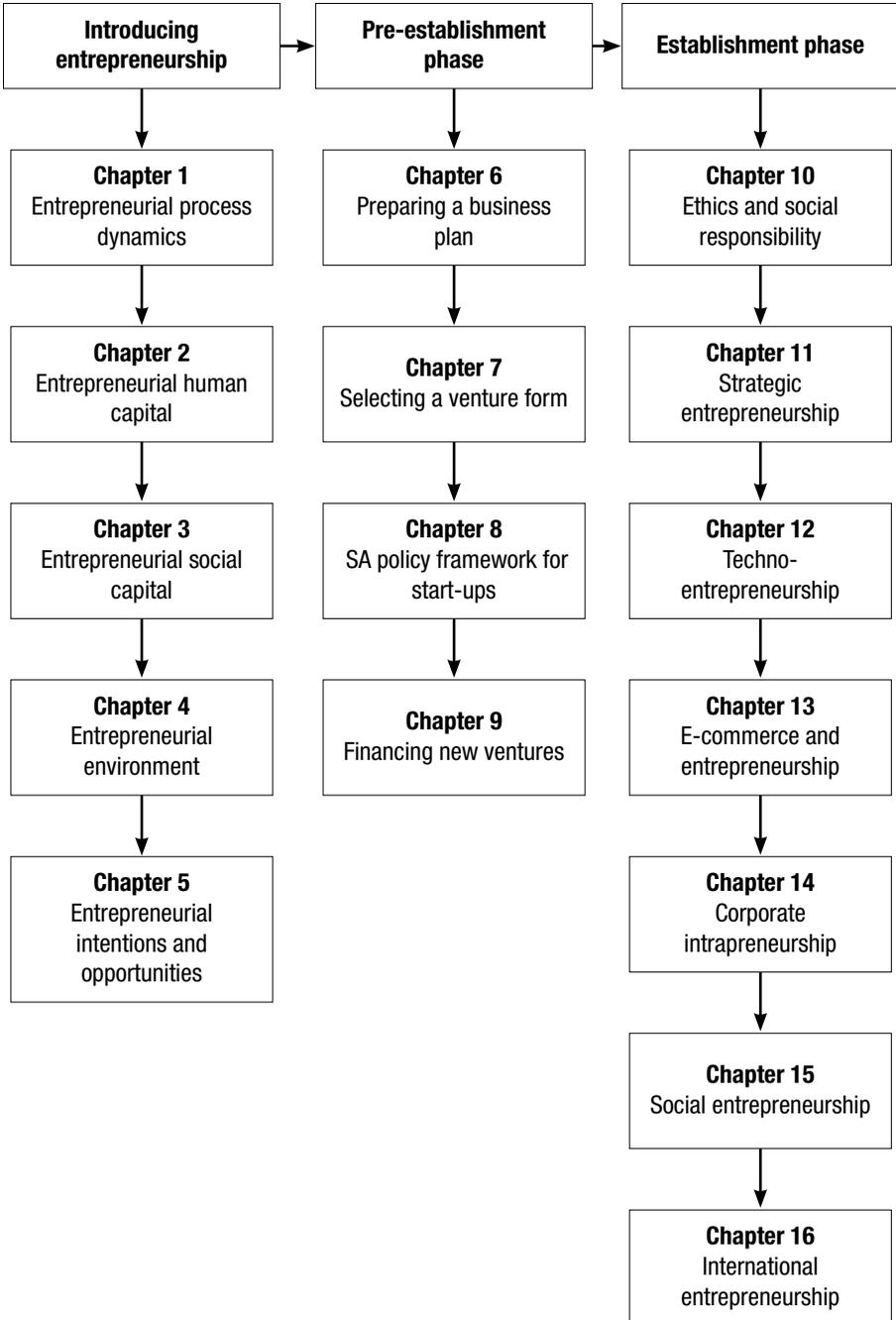
Today, entrepreneurs are conventionally viewed as movers and shakers – people who challenge convention in pursuit of new venture creation. Through innovation they guide ‘the way people live, work, learn, play, and lead’ (Timmons 1999:17). The products, services and processes they pioneer or beneficate afford consumer convenience in all walks of life and benefit consumers and investors alike.

Radical innovations like the Internet have transformed the way we communicate, trade, and live. Electronic mail, commerce, and the plethora of entertainment choices available on the Internet demonstrate this point. But even more modest, incremental innovation helps growth – provided consumers consider it beneficial. Revamped products and services boost profits while fending off competitors. In this way, investors gain from enhanced profitability and consumers enjoy improved products and services. Dynamic growth is accomplished by inventively combining human, material, financial, and physical resources. Risk is diminished through contingency planning, under which alternative plans are prepared for various eventualities. Entrepreneurs, not bureaucrats, are the engine of economic growth and job creation. Their organisations become major tax payers, employers, charity donors, and architects of economic wealth. Without them, America, for example, would have fallen far short of the 34 million new jobs created between 1980 and 1998 (Timmons 1999:4).

Through innovation, entrepreneurs present profitable products and ventures that did not exist before. In this sense, they add value. Entrepreneurs generate innovations, fill market gaps, and increase competition, consequently promoting economic efficiency. As a global phenomenon, it has been estimated that about 73 million people are active entrepreneurs in 34 nations (Minniti *et al* 2005).

1.4 | The entrepreneurial process

Figure 1.1 Model of the entrepreneurship process



A **framework** is proposed to approach the interaction between the individual entrepreneur and the venture context more systematically. Such a framework will ultimately fulfil the purpose of this book by integrating various aspects of entrepreneurship into one cohesive framework.

Figure 1.1 presents an original organising framework that serves as a guide for navigating this entrepreneurial process. Subsequently each chapter represents a core component of the entrepreneurial process, and is briefly outlined here.

- Chapter 1 = *Entrepreneurial process dynamics*: An overview of entrepreneurship and related terms is introduced.
- Chapter 2 = *Entrepreneurial human capital*: Our model starts with human capital. Entrepreneurial human capital is largely acquired on an individual basis, and consists of a combination of skills, knowledge and resources that distinguish an entrepreneur from his or her competitors. Human capital represents the individual's experience, intelligence, training, education, and skills.
- Chapter 3 = *Entrepreneurial social capital*: The second component is social capital. Social capital is explained as it refers to cultural values which shape entrepreneurs. Networking is also referred to as the entrepreneur's social capital base and social capital is crucial to entrepreneurs to build on social habits reinforcing entrepreneurship.
- Chapter 4 = *Entrepreneurial environment*: The environmental context is an important part of the process and can be conducive or hostile towards environmental activity. The business regulatory environment and the broader institutional environments are examined in context of entrepreneurial activity in South Africa. The macro-environmental influences are then explained in terms of implications for entrepreneurship.
- Chapter 5 = *Entrepreneurial intentions and opportunities*: These represent the individual's conscious state of mind that precedes any action but directs his or her focus towards the goal of starting a new business. The placement of the intentions and opportunity constructs in this model is consistent with the notion that an individual's intention to create a venture precedes the search for new venture opportunities.
- Chapter 6 = *Preparing a business plan*: The pre-establishment phase is primarily concerned with planning and preparing for venture start-ups. It involves detailed business planning, selection of venture types, and understanding of the policy framework which the entrepreneur is operating within.
- Chapter 7 = *Selecting a new venture form*: The establishment phase is the actual opening up for business – the launch of the venture so to speak. Here strategy and finance are discussed. Through strategising, the venture grows towards sustainability. Most importantly to maintain sustainability, entrepreneurs must preclude others from imitating the business idea and allow the entrepreneur to capture the profits from exploiting the opportunity.

- Chapter 8 = *South African policy framework for start-ups*: Venture performance and outcomes are based on successful venture growth and focus on key performance areas. These include control of resources, establishment of barriers to imitation, and establishing a reputation to maintain high growth and performance.
- Chapter 9 = *Financing new ventures*: This deals with sources of finance for entrepreneurial ventures.
- Chapters 10 to 16: These chapters represent various entrepreneurial outcomes which are the result of the entrepreneurial process and include:
 - ▶ *Ethics and social responsibility*
 - ▶ *Strategic entrepreneurship*
 - ▶ *Techno-entrepreneurship*
 - ▶ *E-commerce entrepreneurship*
 - ▶ *Corporate intrapreneurship*
 - ▶ *Social entrepreneurship*
 - ▶ *International entrepreneurship*.

1.4.1 | The entrepreneurial process as interrelated parts

The model in this book outlines the different components in the entrepreneurial process so that readers may see the process holistically as **interrelated parts** (chapters) which make sense only together, as a whole, rather than as unrelated fragments.

Though the process has many components, it remains important to remember that individuals are first-order forces explaining entrepreneurship, and environmental forces second-order. Why, when and how certain individuals exploit opportunities appears to be a function of the environment, opportunity, and the nature of the individual (Shane & Venkataraman 2000).

The creation of a new venture is a multidimensional phenomenon; each component describes only a single dimension of the phenomenon and cannot be taken alone. There is a growing awareness that the process of starting a business is not a single well-worn route marched along again and again by identical entrepreneurs.

The conceptual framework provided can be seen as a kaleidoscope, as an instrument through which to view the enormously varying patterns of new venture creation (Gartner 1985).

Any new venture is a *gestalt* of variables. No new venture creation can be comprehensively described, nor can its complexity be adequately accounted for unless all of its variables are investigated and an attempt is made to discover how variables interact with each other.

New venture creation must be viewed as a process, which means that the aims and motivations of (potential) entrepreneurs can operate at different levels, including deep-seated antecedent influences as well as immediate triggers. The entrepreneurship literature contains numerous

models and frameworks developed to analyse the process of starting a business, most of which have been based on research undertaken in developed market economies. Nonetheless, in the context of a transition environment, such frameworks are potentially useful for analysing the barriers faced by entrepreneurs and potential entrepreneurs, since it is likely that these barriers will vary at different stages of market development (Smallbone & Welter 2005).

In considering models and concepts of entrepreneurship in a different (transitional or developmental) context, it may be helpful to discuss briefly a number of definitional issues that are potentially relevant to any process. Entrepreneurship involves both inputs and outputs. Inputs involve entrepreneurial skills and qualities, with participation in the competitive process as the main output. An organisation is a vehicle for transforming the personal qualities and ambitions of entrepreneurs into actions and outputs. Context may be viewed as a third dimension of entrepreneurship, since the specific internal organisational and external operating contexts provide the framework within which the input and output dimensions can take place.

Entrepreneurship is also a multidimensional concept, which can be analysed at different levels. Firstly, entrepreneurship is concerned with individuals in terms of their roles, traits and actions, integral to which are their learning abilities and behaviours (Pedler *et al* 1998).

Individual entrepreneurs can operate on their own or in teams. The second dimension is at the organisational level (corporate entrepreneurship) and the third at the aggregate level of industries, regions and nations. A consideration of the role and characteristics of entrepreneurship in a transition context involves linking the individual level to the aggregate level, as the context for entrepreneurship is a distinctive one, with a much stronger influence on entrepreneurship compared to mature market economies. The broader South African context will be discussed in Chapter 4, *Entrepreneurial environment* to elucidate the need for entrepreneurship to be analysed as a reciprocal process between an individual entrepreneur or organisation and the external environment, with the entrepreneur and his or her environment interacting and influencing each other (Smallbone & Welter 2005).

1.4.2 | Entrepreneurial process dynamics

New ventures are not random events of environmental influences. Rather, they are direct outcomes of individuals' intentions and consequent behaviours. This creation of a venture is a process of conceptualisation and execution.

Broadly, the entrepreneurial process involves founding (or re-inventing) a business venture and growing it into a thriving, agile enterprise. Specific steps based on similar processes, include:

- Identifying, measuring and refining an opportunity from multiple ideas
- Formulating a business plan

- Marshalling the resources
- Organising and mobilising the entrepreneurial team, and
- Overseeing new venture creation and growth.

Performing these functions better than competitors confers competitive advantage, something that distinguishes an organisation from competitors (Coulter 2001:15).

For example, someone who wants to launch a new soft drink needs to improve on the taste of Coca-Cola® or Pepsi®, or come up with an idea that generates a more emotive response than these brands do, at a more competitive price. Successful ventures add value by meeting consumer needs competitively. Adding value means offering a product of which the customer value – that is, how desirable the product is to the consumer – and the price it commands exceed the cost of production. So, if a customer is prepared to pay R15 for a product that costs R10 to produce, value is added. Therefore, adding value produces profits, which sustain growth.

The entrepreneur is the galvanising force behind the venture, blending opportunity, resources, and the team to produce something new or distinctive in the marketplace, to add value in the face of dynamic competition and a volatile environment. Even to maintain competitive edge requires continuous innovation in our hypercompetitive world. Then again, entrepreneurs are adept networkers and readers, who keep themselves abreast of developments. Building a sustainable, high growth venture that meets market needs demands alertness and continual innovation. Products, processes and skills must keep up with market tastes and economical, cultural, technological and other changes. Entrepreneurs act as agents of change. Managing change means anticipating, executing, and monitoring it. This requires proactive engagement with the external environment from which opportunities, resources, and the team emanate.

The entrepreneur must exercise leadership in raising capital and needs a business plan for this. The business plan communicates the manner in which resources, opportunity, and team will be harnessed.

New venture creation is a complex phenomenon. It is not enough to seek out and focus on some concept of the ‘average’ entrepreneur and the ‘typical’ venture creation. New organisational forms evolve through variation, and this variation in new venture creation needs to be captured.

What is the value of comparing the creation of a pet store by two unemployed physical therapists to the creation of a 2 000-hectare business park by four real estate developers? The goal is not to smooth over any differences that might exist among these new ventures or to throw these very different individuals into the same pot in order to extract the typical qualities of the typical entrepreneur. The goal is to identify the specific variables that describe how each new venture was related, in order that meaningful contrasts and comparisons among new ventures can be made (Gartner 1985:69).

1.5 | Relevance of entrepreneurship in South Africa

Entrepreneurship is often associated with facilitating national economic growth, creation of new ventures, re-orientation of existing business toward more entrepreneurial goals, and even the redirection of national institutional infrastructure. There are substantial national consequences for entrepreneurial activity and as a global phenomenon entrepreneurial activity absorbs a substantial amount of human and financial resources (Minniti *et al* 2005:14).

South Africa's entrepreneurs have played, and continue to play, a seminal role in economic vitality. Such names as Oppenheimer (mining and numerous other fields), Donald Gordon (insurance), Anton Rupert (tobacco and luxury goods), Sol Kerzner (hospitality) and Jeremy Ord (information technology), to name a few, loom large in the annals of South African entrepreneurship. Not only did their organisations create thousands of jobs, earn foreign exchange, and pay millions in taxes and fund social investment; they also served as models for innovation and change. So did many of their distributors and suppliers. Through the decades, entrepreneurial organisations have inspired and funded myriad start-ups. Cumulatively, entrepreneurial ventures have served as South Africa's economic bedrock.

Nowadays, the economic growth of nations is intertwined with the volume and calibre of its entrepreneurs. Whole industries (e.g. biotechnology, personal computers, software, and health-enhancing products) have been popularised by entrepreneurs. New or revamped products, services and processes have spawned new markets and revived old ones (Timmons 1999:17). Fledgling start-ups have been known to employ thousands and earn billions annually within a decade or two – as this book will show. Innovative start-ups create wealth that trickles into the general economy, triggering secondary growth.

From humble beginnings have emerged such giants as Anglo American, De Beers, Rembrandt, Southern Sun Hotels and, more recently, Dimension Data. Some earn revenues and have assets matching – if not exceeding – those of small countries. These high-flying start-ups are popularly termed 'gazelles'. Kuratko and Hodgetts (1998:11) describe a gazelle as a 'leader of innovation' – typically a creative start-up that offers exciting new products and services, therefore growing rapidly and creating disproportionate wealth. A famous example of a gazelle is Microsoft, which was only a dream in the mind of Bill Gates three decades ago. Locally, Southern Sun originated in the fertile mind of Sol Kerzner and has grown into an economic force in South and southern Africa. The profiles in this book show how Raymond Ackerman transformed four retail stores into South Africa's largest chain and how Herman Mashaba founded and grew Black Like Me against all odds into a vibrant producer of niche cosmetics.

These examples illustrate a general point: high growth ventures often have modest origins but with a strong-minded, inventive entrepreneur

behind them, they can have tremendous lasting impact on economic growth and job creation in a country where unemployment, poverty, and inequality are rife. For instance, 77 per cent of the 34 million new jobs created in the United States between 1980 and 1998 can be attributed to five per cent of the country's small organisations (Timmons 1999:5). Those few had a disproportionate impact on jobs and economic growth. It can be described as America's 'entrepreneurial revolution' (Kuratko & Hodgetts 1998:4).

In South East Asia, erstwhile 'tigers' (Singapore, Malaysia, South Korea, and Taiwan) were propelled to their pinnacle by thousands of gazelles. While new-venture statistics are lacking for South Africa, the meteoric rise of companies like Dimension Data, Nando's, and hundreds of others (some still out of the public eye) illustrates the impact of entrepreneurship on wealth and job creation. In little over a decade, Nando's had expanded from one restaurant to 271 stores by August 2001, and currently operates in twelve countries. Jeremy Ord developed Dimension Data from a R1-million data communications consultancy in 1983 to a diversified information technology organisation with R7-billion in turnover by the year 2000. Since then, it has expanded to the London Stock Exchange, joining the 100 selected stocks of the prestigious Financial Times Securities Exchange (FTSE).

As subsequent case studies will illustrate, many budding entrepreneurs are starting exciting new ventures out of the public eye, some of which could become tomorrow's titans. Their success will determine our economy's job creating and growth potential. Such is the speed and impact of the 'entrepreneurial revolution' those countries, regions, and cities are scrambling to lure entrepreneurial organisations. Those who nurture entrepreneurs are likely to generate a larger pool of sustainable ventures than those who don't. The supply of entrepreneurs will determine the difference between growth and stagnation or decay. Unless South Africa (or any other country) can replenish its entrepreneurial stock, it will suffer the same fate as an organisation that ignores its assets. As Kuratko & Hodgetts (1998:7) point out: 'Entrepreneurs will continue to be critical contributors to economic growth through their leadership, management, innovation, research and development effectiveness, job creation, competitiveness, productivity, and formation of new industry'.

Although generally studied in the context of business, knowledge of entrepreneurship can be applied to all walks of life. It is as relevant to government departments, parastatals, the arts, non-government organisations (NGOs), farmers, informal businesses, and other pursuits. In an increasingly globalised world, survival depends on people who are driven by opportunity and who seek to maximise their goals in a sustainable way. While goals and missions may vary, entrepreneurial (and intrapreneurial) skills apply universally. Entrepreneurship has a social and an economic dimension. Even in business, entrepreneurial inspiration transcends mere money-making. The desire to improve one's community is frequently cited.

Profile in entrepreneurship

Read the scenario below in conjunction with the chapter text:

Sisa Bikitsha's irrepressible spirit makes him a winner

KwaZulu-Natal businessman Sisa Bikitsha was chosen as the winner of the Entrepreneur of the Year Award.

Bikitsha, whose business empire includes eight Kentucky Fried Chicken (KFC) outlets and generates sales of R27-million a year, represents 'the irrepressible spirit of entrepreneurship from which will spring the new economy', say the organisers.

He came to Johannesburg from the Transkei in the 1960s to seek his fortune, but found himself up against apartheid and on one occasion was told he had 72 hours to return to his 'homeland'. 'I was unemployed and alone in Johannesburg, and I could have become a tsotsi, but I decided to beat the system,' says Bikitsha.

Short on cash but not on chutzpah, he set himself up as an informal undertaker, escorting bereaved families through funeral parlour showrooms and collecting a commission on sales. He later returned to KwaZulu-Natal and then the Transkei, where he landed the KFC franchise. When KFC disinvested in 1986, he snapped up the Durban franchise and gradually built up a network.

'I hope in winning this award I can show black people that they must take their destinies into their own hands and stop waiting for someone else to provide a living for them,' he says.

Source: Ciaran Ryan, *Business Times*, 12 October 1997

1.5.1 | Entrepreneurship and job creation

In South Africa, the role of small business is pivotal. Not all small-scale businesses are entrepreneurial, but collectively they make a significant economic contribution. In South Africa (SA), the growth and development of the small and micro-enterprise business sector, in particular, has been identified by many stakeholders as being of the utmost importance in an effort to create employment and address poverty (South African Survey 2006/2007).

The growth in the number of entrepreneurs in both the formal and informal sectors reflects the accelerated growth rate experienced by the South African economy.

The higher growth rate of formal sector entrepreneurs bodes well for the economy as formal small enterprises are generally acknowledged to have a higher propensity for employment creation than their informal counterparts, which are characterised by numerous one-person enterprises. The latest *Global Entrepreneurship Monitor* (GEM) 2007 report on high-growth entrepreneurship finds that of all regions, entrepreneurial activity in Africa is heavily skewed toward low-rate expectation activity (Autio 2007:5). Similarly, SA's Total Entrepreneurial Activity (TEA) rate is dominated by

necessity entrepreneurs with low expectations of growth and job creation (Autio 2550:23), that is, entrepreneurs who say they are involved in an entrepreneurial effort because they have no other choice, where returns are low and intermittent and motivation is personal survival.

Survivalist enterprises are typically informal and have limited growth prospects, despite occasional exceptions. It is among the larger – but still small-scale – ventures that employment prospects are more promising. For example, 338 000 enterprises employed 734 000 people in 2001 – an average of 2,2 employees apiece. Based on these figures, it is safe to assume over three million employees (including the self-employed) in small and micro enterprises. This amounts to nearly 30 per cent of the 10,8 million people employed in 2002.

In 2002, unemployment stood at between 30 per cent (those looking for employment) and 41 per cent (if we include those who, at the time, had not job-hunted for four weeks). It is estimated that 300 000 jobs must be created annually just to halt growing unemployment. Not surprisingly, 3,3 million South Africans are eking out a living in the informal sector (South Africa at a Glance 2003:126). Many take up informal trading as a last resort. The bulk of these traders are young South Africans. Those between 15 and 34 years comprised 73 per cent of the unemployed by February 2001 (Statistics SA 2001, 2002).

So bleak a scenario underscores the need for entrepreneurship and the role it must play in South Africa. Under the right conditions, a few small-scale businesses may grow into giants with a disproportionate impact on employment and wealth creation. Without a steady supply of entrepreneurs, South Africa is likely to stagnate and decline economically.

1.5.2 | Entrepreneurship and education

In South Africa, entrepreneurial education is partially institutionalised as part of the new outcomes-based education (OBE) school curriculum; and entrepreneurial education forms part of academic offerings at several higher education institutions. As entrepreneurial knowledge proliferates, so do schools, universities, and other educational institutions. In industrialised countries, entire schools exist for entrepreneurship.

The trend is gaining momentum in South Africa, too. Over the past decade, entrepreneurship has increasingly been taught as a stand-alone module or as a major subject. With the spread of capitalism and globalisation, entrepreneurship continues to gain importance. Globalisation exposes entrepreneurs everywhere to merciless competition (actual and potential) from 190-odd countries. As tariffs reduce and trading straddles national borders, survival will depend upon the creativity and resilience of a country's entrepreneurs.

Differences in levels of entrepreneurship can be explained in that individuals with more education and from households with higher incomes are more likely to pursue opportunity entrepreneurship (high-growth

ventures), than those with less education and from poor households who are more likely to pursue necessity entrepreneurship (survivalist ventures). Perhaps more relevant in terms of education is the positive impact of greater post-secondary educational activity on increases in opportunity entrepreneurship. Identifying business opportunities and having confidence in personal skills to implement a business may be enhanced through education and training with evidence suggesting that those with more education are more likely to pursue opportunity entrepreneurship, which may have overall benefits for national growth (Reynolds *et al* 2003).

Entrepreneurial education is growing fast not only in the US and Europe but also in South Africa, Australia, New Zealand, Japan, Canada, China and Brazil, with the number of schools in the hundreds, and dozens of programs offered by top business schools at the graduate and undergraduate levels. Katz (2003:279) puts it succinctly: 'there are too many academics, too much established infrastructure and too much demand from students, organisations and governments to let entrepreneurship fall into disuse or disarray'.

1.5.3 | Entrepreneurship in government and parastatals

Entrepreneurship is commonly discussed in the context of private business, but government departments, parastatals, and other organs of state have as pressing a need to think and act entrepreneurially. Faced with dwindling subsidies, public scrutiny, and privatisation, their need may even be greater.

In government, one is used to lumbering bureaucracies, funded from the public fiscus (tax revenue) and often deaf to public service. Their mission is largely undefined or unfulfilled. Instead, it is replaced with inordinate reverence for rules and procedures, and contempt for civilian concerns. Success is defined in terms of organisational stability and not 'rocking the boat'. This depiction is admittedly overstated and stereotypical, but nonetheless largely true. Organisations such as these are condemned to permanent dependence on public funding because they create little value and eschew innovation in the face of changing times.

Gradually, many are waking up to the chilly winds of change. In South Africa and internationally, government departments face shrinking budgets and growing public expectations. As a result, they have to compete for legitimacy and funding in the same market as private organisations and non-governmental organisations. To survive, most are turning to intrapreneurship in the hope of staying competitive. Not surprisingly, *bosberade* have turned into one of South Africa's more lucrative industries as civil servants seek to establish themselves as intrapreneurs. Essentially, they are seeking to identify and acquire entrepreneurial skills with which to turn their organisations around.

To these organisations, the integration of opportunity, resources, and a dynamic team applies every bit as strongly as it does in the private sector.

Activity similar to that in government is occurring in parastatals such as Eskom, Telkom, Transnet, and others who are facing unprecedented

competition. Resting on their laurels is unthinkable, and most are rising to the challenge, with varying degrees of success. This trend will culminate in the reorientation of the public sector along basic entrepreneurial principles. Government ministers repeatedly stress movement towards a leaner, more efficient public service. Considering the long-standing inertia and trade union opposition, this will not happen overnight. Turning these organisations around involves a change of culture, which takes time. However, it is possible to predict with some confidence that winners will emerge from among those who choose the entrepreneurial path rather than dig in their heels.

1.5.4 | Entrepreneurship in NGOs and social entrepreneurs

Similar sentiments apply to non-government organisations (NGOs). Many sprang up during the 1980s, to oppose apartheid. Foreign funding was fairly abundant for those with connections. Post-1994, many found themselves without a cause, and folded. Others underwent transformational change to survive in this 'brave new world'. Success has varied, as it has in the business sector, but many are flourishing. For example, IDASA (the Independent Democratic Association of South Africa) has moved on to greener pastures as political analysts and development experts. They sought and developed new opportunities.

With dwindling funds, NGOs now find themselves even more pressed to find new niches and compete in a fierce market.

Over the last decade, a critical mass of foundations and non-profit organisations has emerged. Worldwide policy-makers are using the language of local capacity building as a strategy to assist impoverished communities become self-reliant (Peredo & Chrisman 2006).

To a large extent social entrepreneurs are reformers and revolutionaries, as described by Schumpeter (1947), but with a social mission, they affect fundamental changes in the way things are done in the social sector. Social entrepreneurs are perceived as mission-based businesses rather than as charities, they seek to create systemic changes and sustainable improvements, and they take on risks on behalf of the people their organisation serves. Though they may act locally, their actions have the potential to stimulate global improvements in various fields, whether that is education, health care, economic development, the environment, the arts, or any other social field.

The contribution of social entrepreneurs is increasingly celebrated as was witnessed at the World Economic Forum's conference on Africa in Cape Town recently. Correspondingly, Warren Buffett's recent \$30,7 billion donation to the Bill & Melinda Gates Foundation indicates that venture philanthropy means a significant change in how people think about transferring wealth.

Many dedicated centres have also evolved, for instance, the Skoll Centre for Social Entrepreneurship at Oxford University. Created by Jeff Skoll, the

foundation's mission is to advance systemic change to benefit communities around the world by investing in, connecting with and celebrating social entrepreneurs (Kramer 2005; Dees 2001). An entire chapter is dedicated in this book to this phenomenon of social entrepreneurship.

1.5.5 | Entrepreneurship in politics

The impact of change and the need for entrepreneurship is pertinent in education, sport, charity work, law – virtually every aspect of life, including politics. Coping with change, although stressful, is potentially rewarding. Those who analyse the situation accurately and reposition strategically, change the odds in their favour. In every threat lies an opportunity.

Voters can be fickle and parties that take them for granted may find themselves without an electorate. Already certain South African parties have shrunk to the verge of extinction in only nine years. A case in point is the Pan African Congress, particularly after the departure of Patricia de Lille. The party is thought to have no apparent strategy and weak leadership. By contrast, the ANC appears to have refocused itself from merely opposing apartheid to running a modern state.

In the United States and other industrialised western nations, parties are run on business principles, parlaying their leaders as marketable 'products'. In late 2003, less than a year before the next election was to take place, parties like the ANC and Democratic Alliance (DA) began to follow suit. They had to create value for voters (by meeting new or existing needs better than the competition) or face losing electoral support.

Various South African political parties are trying to reposition themselves in a post-democratic world as new opportunities and dangers arise. Merging, down-sizing and other formations are popular reactions to changing times. By 2003, the ANC had an electoral alliance with the DA in KwaZulu-Natal. In Western Cape, the ANC and National Party, traditional nemeses, ruled jointly. While some alliances were electorally driven, some reflected a search for relevance.

Those organisations and politicians who continually apply entrepreneurial skills may weather the storm much more easily than those who cling to the status quo. Entrepreneurial leadership therefore remains relevant in the political arena, non-profit organisations, social and cultural ventures, and in other areas. In short, entrepreneurship is pertinent to every endeavour. Its principles apply wherever people aspire to manage change.

1.5.6 | Entrepreneurship in the arts

The legacy of great artists is their work. The ability of some artists to exploit the far more limited opportunities that were available to them – in order that they might utilise and exploit their natural gifts and talents – is testimony to the fact that many artists do possess a number of critically

important entrepreneur character themes. Typically they would have to look for commissions and patrons – which demanded networking skills and emotional intelligence. In reality, many of them had to overcome a wide range of obstacles, especially the envy and hostility of their rivals, in order to pursue and complete their work – indicating the presence of ego, dedication and courage. In fact most great artists are the ones that surpass what is currently accepted as great art and innovate to create a new art form. Many did not attain wealth when they were alive – although some of them did become wealthy, but it seems achievement was the driving motive that led them to overcome material poverty and mental anguish to pursue their art. Their creations, simply, help us to see things differently (Bolton & Thompson 2004:16).

Profile in entrepreneurship

Read the scenario below in conjunction with the chapter text:

Adrian Gardiner

A decade ago, a piece of land somewhere between Port Elizabeth and Grahamstown was made up of 14 degraded, overgrazed farms. Only one was occupied, although all were farmed by herdsmen. Together, the farms, on 20 000 hectares, employed about 15 people. Today this land has been consolidated into one unit where the word 'ecosystems' is heard a lot. Shamwari employs 250 people, mostly from local communities, and turns over more than R30-million a year. If you include the multiplier effect – things like airfares – it is generating business worth more than R100-million a year. The development demanded vision and courage from Adrian Gardiner and his team.

That vision recently won Gardiner South Africa's highest conservation accolade, the Audi Terra Nova award. He points out that Shamwari has won 15 international awards, but this is the first accolade it has been given in South Africa. 'We tend to take what we have for granted,' says Gardiner. He joined the ranks of previous winners: Robert Mazibuko, who spread the message of deep-trench farming to combat soil erosion; Nan Rice, tireless campaigner for marine conservation; Credo Mutwa, whose mission it was to create African cultural villages around the country; and Dr Sue Hart, who founded EcoLink, which helps communities to use and conserve natural resources. Significantly, this was the first time the award had been made to a businessman. Gardiner may be a conservationist at heart – and he is at pains to point out that wildlife comes first at Shamwari – but he runs the reserve as a business. It's a thriving concern with conservation at its core. 'It has to be a proper commercial enterprise if it is to succeed,' he says.

The Shamwari dream started when Gardiner bought a 1 200 hectare farm near Grahamstown to be close to his children, who were at school in the city. 'I started reading about what kind of animals had occurred there ... it became a passion to put back what people had destroyed over the past 150 years,' he says. Slowly, Gardiner began buying up surrounding farms, reintroducing game (Shamwari is now home to the Big Five) and implementing a strict land management programme. Shamwari added five upmarket guest lodges, an African arts and culture village, and the Born Free Foundation. Somehow Gardiner

persuaded the foundation, which supports a big cat sanctuary, to relocate to Shamwari from Kent in England. The sanctuary doubles as an education tool for about 300 children who visit each month. Gardiner has also persuaded his friend and mentor, Dr Ian Player, to move the headquarters of his Wilderness Foundation from KwaZulu-Natal to Shamwari. Gardiner's goals for Shamwari include drawing in as much as possible the communities who live close to the reserve, as well as having Africa's first privately owned wilderness area proclaimed. With education and tourism as his big focus now, he is behind plans to offer a hotel management and hospitality degree. The campus will be Port Alfred's Halyards Hotel and Cowie Grand. 'Economic success in the Eastern Cape has to be around tourism. But what we lack most are skills.' Gardiner's hand is evident – with that of Dr Player – in the decision to hold the World Wilderness Congress in Port Elizabeth in November. It's only ever been held in South Africa, in Johannesburg, once before. 'It will profile this province like it's never been profiled before,' says Gardiner.

The Mantis Collection, part of the Gardiner Group, has equity stakes or management contracts at Steenberg Country Hotel in Constantia Valley, the Lake Pleasant Hotel on the Garden Route, The Saxon in Johannesburg, The Stanley and Livingstone at Victoria Falls, and Indigo Bay on Bazaruto Island off Mozambique. The group's interests spread across tourism services, such as travel agents, property companies, transport (Material Handling Consultants) and crane hire (Castle Crane Hire). 'Yes, it's a very diverse portfolio. I think that is a result of where I live [Port Elizabeth] and not wanting to move to Johannesburg,' says Gardiner. He took four years full time and three years part time to earn his B Com. 'I had difficulty understanding the theory without the practical,' he explains. After six years of 'working for other people', Gardiner stepped out on his own, in 1969, with R10 000. He bought a pool-building franchise. Soon, he owned all the franchises in Port Elizabeth and became involved in construction. Next came a crane and plant hire business, which collapsed in 1979 owing to a bad debt and bad judgement. 'It was probably the best experience of my life. It taught me that you have very few real friends in life. And it taught me about gearing in a business.' Gardiner managed to buy it all back within two years. Like a true entrepreneur, he took his lessons into the future. And does the future include a listing? 'That has crossed my mind,' he says. 'But I think I'm too old to chase that now. I'll leave that to my children.'

Source: Janette Bennett, *Business Times*, 19 August 2001

1.6 | Dynamics of entrepreneurial change

By all accounts, it seems the pace, magnitude and direction of change will continue to accelerate in this 21st century, with entrepreneurs assuming a more powerful and prominent role (Shaker 1999). Not only will the entrepreneurial process unfold under conditions of rapid change in the technological, economic, customer, legal and social environments, but it will be vital for entrepreneurs to understand the dynamics of this process and nature of change, so that they can shape the impact thereof instead of passively succumbing to it.

The entrepreneurial economy is becoming embedded in many countries and economies around the globe. Governments and public policy makers have enacted laws encouraging entrepreneurship and are capacity building for entrepreneurial activity. They have also improved the economic and technological infrastructures necessary to undertake entrepreneurship. Improvements in telecommunications and transportations have contributed to enhancing entrepreneurial activity. Participation in the global economy requires keeping abreast with constant innovation and entrepreneurial risk-taking (Shaker 1999).

One of the most important lessons of the past decades is that intellect and knowledge are the fuel of global competitiveness and growth. Developing, nurturing, sustaining, and cultivating this knowledge are among the most important ways societies can achieve economic growth and social development.

Patents have exploded from an overwhelming 4 000 applications in 1991 to 22 000 in 1995, but one year later they mushroomed to 500 000 per year, with such exceptional growth expected to continue (Whetten & Cameron 2005:491).

In order to capitalise on such changing and shifting conditions, individuals will be more likely to change based on the degree to which the process of change meets the following criteria:

- Change must be a pre-planned process.
- The availability and amount of information regarding the process must be adequate.
- The change must satisfy all relevant needs.
- The expectation must be created that the change will be positive experience.
- It must be the choice of the individual to experience change.

Moreover, change requires consideration of:

- The factors that promote change
- What changes are required (that is, the nature of change)
- The magnitude thereof – whether it should be radical or marginal
- Timing – when to change (this is crucial since delays can be costly)
- Mitigation of any negative impacts of change – for example, reversing undesirable trends.

1.6.1 | Frameworks to support change

Frameworks often help provide stability and order in the midst of constant change. They clarify complex or ambiguous situations. Individuals who are more familiar with frameworks can adapt better to complex scenarios more effectively because they can respond to fewer exceptions. Individuals without frameworks are left to react to every piece of information as a unique and novel event. Nobel Laureate Herbert A. Simon demonstrated the importance of frameworks by conducting a simple experiment. Subjects

were shown a chess board and pieces as it appeared in mid-game. Some of the subjects were experienced players, some were novices. They were allowed to observe the chess board for 10 seconds, and then the board was wiped clean. The subjects then had to replace the pieces exactly as they had been before the board was wiped clean. Multiple trials were run, since the experiment was computer generated. The results of this experiment were remarkable: novices accurately replaced the pieces less than five per cent of the time and experienced players were accurate more than 80 per cent of the time. These experienced players looked at the board and saw familiar patterns or what might be called frameworks. The experienced players were able to interpret the arrangement of game pieces and patterns quickly, and then pay attention to the few exceptions on the board. The novices, on the other hand, needed to pay attention to every single piece as if it was an exception, since no pattern or framework was available to guide their decision (Whetten & Cameron 2005:491–492).

This analogy has relevance not only to established organisations which are purposively structured and organised to create stability, steadiness and certainty, but also to entrepreneurship and the way this book is structured to explain this phenomenon. Based on the framework proposed earlier in this chapter this book attempts to explain the many variables which past research has identified, and to provide a comprehensive framework to describe entrepreneurship coherently. This view will provide valuable insight into the process of entrepreneurship and offer a supporting framework, allowing ‘patterns’ to emerge and allow decisions to be made from a more solid foundation.

1.6.2 | Change barriers

Change is often talked about and conceptually entertained but not implemented by individuals. The reason is that change is often seen as a foreign element intruding into what is a relatively stable mindset. Many people perceive changes as a threat for their personal status. Changes move the person out of their ‘comfort zone’. One must move out of such a comfort zone to change; this disruption from an established *status quo* meets often meets with resistance. Different defence mechanisms are responsible for resisting change. These include, but are not limited to:

- *Cognitive barriers*: lack of complete and correct information. Probably the best solution is a balanced mix of information and creative ideas. Alternatively, sticking to predetermined plans and strategies may over-emphasise what has worked in the past and cause an individual to become too rigid to past behaviours. Here one is not open to the ebb and flow of change.
- *Environmental barriers*: lack of institutional support or co-operation, for example, too much bureaucracy in place to launch a venture. Typically the environment is conducive or hostile to entrepreneurial activities. Different scenarios are discussed in Chapter 4, *Entrepreneurial*

environment, with specific reference to the South African entrepreneurial environment.

- *Conceptual barriers*: difficulties in identifying and analysing the core issue. The issue is viewed too narrowly or alternatives are not provided. Problems are approached with a one-sided view that focuses on particular aspects only, and individuals fail to look at problems holistically.
- *Cultural barriers*: tradition and change may hinder change. It is a challenging task to overcome ingrained traditions. Often traditions can be a major obstacle, particularly when traditions prevent an individual from being enterprising. For instance, in many societies women are precluded from entrepreneurial activities.

1.6.3 | Positive entrepreneurial change

A key to understanding change is recognising the different reasons that individuals offer when undertaking a new venture decision. Based on established literature, there are a plethora of reasons offered for start-ups, which include: the need for personal development, independence, seeking approval, following others example, financial success, and self-realisation (Drnovsek & Glas 2002). In a recent study Urban (2007) validated the following reasons for starting a venture – see Table 1.1 below for a full list of variables and their scores.

Table 1.1 Reasons for start-ups

Items	Mean	Standard deviation
Reason for start up – I want to be my own boss.	2,48	1,656
Reason for start up – I want freedom at work.	2,43	1,576
Reason for start up – I would like to achieve and get approval.	2,52	1,623
Reason for start up – I will continue family tradition.	2,83	1,458
Reason for start up – I would like to develop a business idea.	2,54	1,488
Reason for start up – I would like to have more influence in the community.	2,50	1,470
Reason for start up – I see a promising opportunity to seize.	2,64	1,299
Reason for start up – I would like to grow as a person.	2,39	1,696
Reason for start up – I want to realise my dreams.	2,24	1,669
Reason for start up – I want to have control of my life.	2,32	1,690
Reason for start up – I want to provide security for my family.	2,30	1,655
Reason for start up – I want to achieve life-time employment.	2,31	1,600
Reason for start up – I see few other possibilities; the only chance is to work is for myself.	2,85	1,245

Notes: All the items were measured on a 1–5 Likert scale, where respondents indicated the most relevant reason for start-up. The highest score was for the item ‘I see few other possibilities; the only chance to work is for myself’, followed by ‘I will continue family tradition’.

Many of these reasons mean moving out of a comfort zone and taking a leap into the unknown. Change is something the entrepreneur must generally be comfortable with – entrepreneurs have a high tolerance of ambiguity, and are challenged by change, not paralysed by it. We will discuss this in more detail in the next chapter.

Case scenario and exercise

Raymond Ackerman

Raymond Ackerman started his business career as an employee of Ackermans, a retail chain co-founded by his father. His first job involved sorting buttons and welcoming customers. Later, he took up employment with Greatermans which, in 1955, converted an old store into the first of what became the Checkers store chain. Eleven years later, Raymond Ackerman had expanded the chain from two to 85 stores while gaining fame for consumer advocacy in the media. Uncomfortable with his aggressive marketing and media profile, his employers fired him (*Business Times*, 18 March 2001:1).

This enabled him to buy four retail stores which he combined into a new chain that he termed Pick n Pay. The price was R620 000, of which he contributed R10 000 from his savings. As he recalls it, starting Pick n Pay took ‘ninety per cent guts and ten per cent capital’ (*Sunday Times Millennium Souvenir*, 2 January 2000). Founded on the principles of consumer sovereignty that young Ackerman had learned from Prof. WF Hutt at the University of Cape Town, Pick n Pay set out ‘to interpret and satisfy customers’ needs by selling quality products at competitive prices, and providing courteous service in stores which are well located and pleasing to shop in. A policy of refunding goods without question has enabled Pick n Pay to establish long-term customer relationships which bring people back into its stores’ (<www.picknpay.co.za>).

During the early years, Pick n Pay endured targeted competition by the OK Bazaars and Checkers in Cape Town. Ackerman opened up stores in Johannesburg and Port Elizabeth instead and the chain has continued to grow countrywide and across southern Africa and Australia. Over the years, the organisation has grown into ‘one of Africa’s largest and most consistently successful retailers of food, clothing and general merchandise’ (*ibid*). They also have a 70-store presence in Australia. Their stores are divided into hypermarkets, supermarkets, family franchises, mini markets, and home shopping. In addition, they own Score supermarkets, Health-Pharm Pharmacies and Go! Banking. Along the way, Ackerman pioneered hypermarkets, no-name branding, and price-busting.

The organisation has a history of consumer advocacy. Among its long-term battles has been its fight to deregulate the petrol retail sector, based on the belief that consumers would pay considerably less without government regulation. The battle goes back to 1976, when the organisation took advantage of legal loopholes and sold discounted petrol until their petrol supplies were eventually cut off. Even today, to great public acclaim, Pick n Pay continues to advocate the deregulation of the industry. Other battles have included the sale of bread below cost in 1982 and a R3-million subsidy on maize meal, designed to curb price rises imposed by government (*ibid*). Pick n Pay has since created supermarket chains for different market segments, including Rite Value and others. Their organisation's customer focus remains as strong as ever and has included expansion to Internet marketing. Since 1995, the organisation has added three to six supermarkets annually and had grown by about a quarter by 2001 (*Business Times*, 18 March 2001). It employs over 30 000 people in several countries and had R127 400 000 in capital assets in 2002 (<www.assore.com>).

So phenomenal has Pick n Pay's growth been that, reportedly, R100 invested with Ackerman in 1968 would have grown to R160 000 by 2001. Annual revenues exceeded R15-billion in 2001 with profits of R475-million (*Sunday Times*, 11 November 2001). At the end of 2001, the *Sunday Times* awarded Raymond Ackerman its Lifetime Achievement Award. And all this started with a four-store venture founded thirty-six years ago.

Exercise

Based on the case scenario, interpret whether Raymond Ackerman is an entrepreneur, traditional manager or small business owner. Justify your answer by explaining key differences. You may make assumptions about Pick n Pay based on your general knowledge of this organisation (state your assumptions clearly).

Chapter key terms and core concepts

- barriers to change
- creativity
- dynamics of change
- entrepreneurship
- entrepreneurship process
- evolution of entrepreneurship
- innovation
- integrated framework
- interrelated components
- job creation, government, politics, education, arts and social entrepreneurs
- reasons for start-ups
- relevance of entrepreneurship
- small business
- traditional management
- Weber, McClelland and Schumpeter

Chapter summary

- This chapter introduced the concept of entrepreneurship and made it clear that the individual is at the beginning of this entrepreneurship process. In drawing upon various definitions, several key terms surfaced. The 'who' in entrepreneurship was conceptualised as a person, and the

‘what’ as a process that involves creativity and innovation and results in something of value that can be recognised by others.

- To clarify entrepreneurship further, it was contrasted against traditional management and small business management, with the main differences emphasising entrepreneurship as being preoccupied with the start-up phase of business, strategic objectives, innovation, and having potential for growth.
- The evolution of entrepreneurship was traced and the major contributors identified as Weber, Schumpeter and McClelland.
- The entrepreneurial process was outlined as the underlying structure to this book and the different components were conceptualised holistically as interrelated parts which only make sense together, as a whole, rather than as unrelated fragments. Based on the premise that the creation of a new venture is a multidimensional phenomenon, the conceptual framework allows one to view the enormously varying patterns of new venture creation taking into account the entrepreneurial context.
- The relevance of entrepreneurship in South Africa was discussed in terms of job creation, education, government and parastatals, NGOs and social entrepreneurs, politics and arts.
- Dynamics of entrepreneurial change revealed that the entrepreneurial process unfolds under conditions of rapid change in the environment, and it is vital for entrepreneurs to understand the dynamics of this process and the nature of change, so that they can shape the impact thereof instead of passively succumbing to it. Individuals who are more familiar with frameworks can adapt to complex scenarios more effectively because they respond to fewer exceptions.
- Change barriers were briefly identified and positive entrepreneurial change was discussed, based on different reasons offered for start-ups.
- Building on the essential foundations of this chapter, in the next chapter entrepreneurial human capital is interrogated as it relates to an individual’s experience, intelligence, training, education, and skills.

Chapter review questions

- 1 Compare different definitions of entrepreneurship.
- 2 Formulate your own definition of entrepreneurship.
- 3 List 5 different activities an entrepreneur performs.
- 4 Compare and contrast entrepreneurship with (a) small business management and (b) traditional management.
- 5 Briefly outline and describe the entrepreneurial process.
- 6 Interpret the formula $E = f(e)$.
- 7 Who are the three major contributors to the field of entrepreneurship in the modern era?
- 8 What is the main research finding on the relationship between entrepreneurship and education?

- 9 Provide typical reasons for business start-ups.
- 10 Discuss the use of frameworks to assist entrepreneurs and potential entrepreneurs.

Application questions

- 1 Identify an entrepreneur who has successfully navigated a process similar to the one in this book. Describe the different components in this process as they apply to this entrepreneur.
- 2 Research a press article exhibiting the relevance of entrepreneurship to present-day South Africa.
- 3 Contextualise entrepreneurship in any other field than business or commerce by describing how entrepreneurship is evident in this field.
- 4 Survey several entrepreneurs to identify their reasons for starting up their ventures. Are there any similarities between these reasons?

Relevant chapter web sites

Visit these web sites and report back to your facilitator with team presentations:

<www.abssmallbiz.com>

<www.bizops.co.za>

<www.blackenterprise.com>

<www.entrepreneur.com>

<www.morebusiness.com>

<www.saguides.co.za>

<www.smallbusinessnotes.com>

<www.statsa.gov.za>

[All web sites accessed on 20 May 2008.]

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