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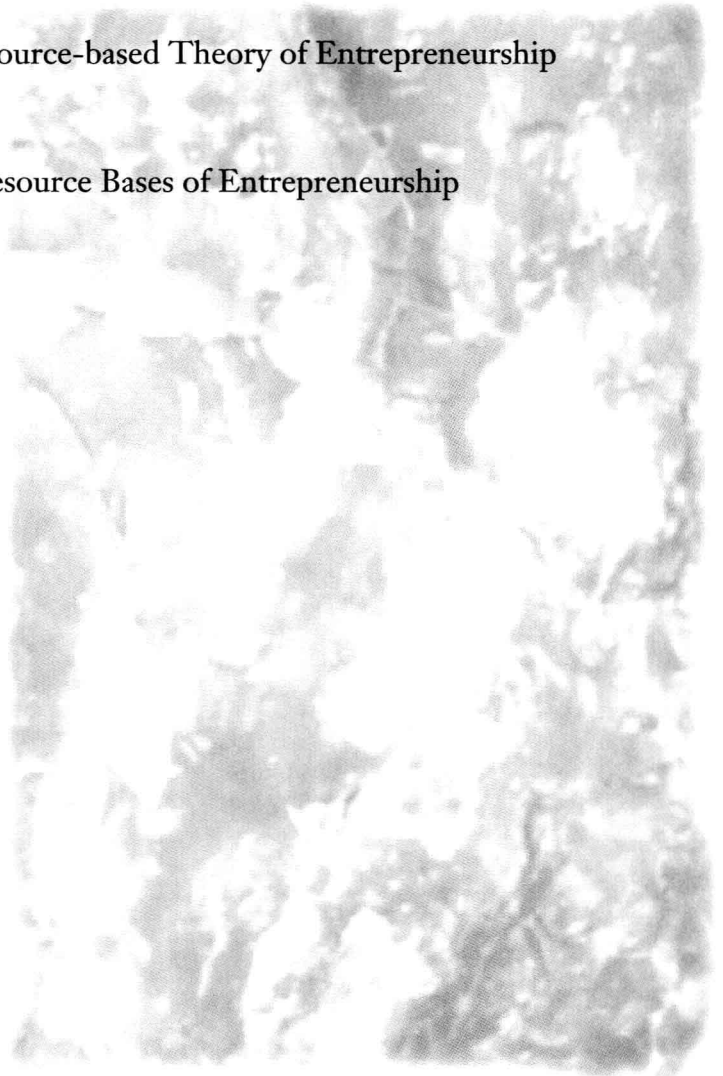
**INTRODUCTION TO ENTREPRENEURSHIP**

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*1* A Framework for Entrepreneurship

*2* The Resource-based Theory of Entrepreneurship

*3* Personal Resource Bases of Entrepreneurship





# C h a p t e r 1

## A FRAMEWORK FOR ENTREPRENEURSHIP

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### O u t l i n e

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Entrepreneurship and Your Future

Entrepreneurship in History

Defining Entrepreneurship

*Creation*

*Economic Organization*

*Risk and Uncertainty*

Introduction to the Resource-based Framework

*New Venture Creation*

*Resource-based Theory*

Dimensions of Entrepreneurship

*Individuals*

*Environments*

*Organizations*

Themes of the Book

*Quality*

*Value*

*Ethics*

Organization of the Book

A Final Word

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**I**n school, getting one right out of one is an A, whereas getting two right out of twenty is an F. In business, two for twenty is an A, whereas one for one is probably luck.

—Carey Rosen, executive director of the  
National Center for Employee  
Ownership, Oakland, CA.

## ENTREPRENEURSHIP AND YOUR FUTURE

A recent best-selling book on the future of business organizations, work environments, and the nature of change, *The Age of Unreason*, presented the following visions for firms and products in the twenty-first century:

- Portable phones linked to faxes and laptop computers will turn cars, trains, and airport terminals into offices.
- Monoclonal antibodies and scavenger proteins designed to locate blood fats, cancers, and viruses will be available, prolonging life and the quality of life.
- A transgenic pig developed to produce organs for human transplant will populate pig farms, transforming agriculture into medical science.
- Genetically engineered crops will be able to take nitrogen directly from the air instead of the ground, reducing the need for most fertilizer and increasing usable acreage immensely.
- Microbes that can change waste materials into energy sources are under investigation. Previously unproductive ores will be usable.
- Computerized medical expert systems will be available to all physicians; expert systems will increase the productivity of all professionals, technicians, and even the supermarket's purchasing department.
- Voice-sensitive computers will make keyboards and keyboarding skills irrelevant.
- Irradiated food will make all food safe to eat and fresh year round. Appetite-reducing drugs and healthier foods will let people have it both ways.
- Telecatalogues, already available in some areas, will become commonplace. Shopping at home will be standard practice, with a small charge for delivery. Personal shopping will take on leisure and hobby functions.
- Smart cards will replace credit cards, debit cards, and keys for home and auto.
- Genetic mapping will be employed as identification devices, replacing easily overcome Personal Identification Numbers (PINs).
- Windshield maps will act as guidance screens in an auto so the driver can maintain eye contact with the road at all times.
- Mileage bills will replace road usage taxes, as cables under the roads read meters in the cars and charge different rates for different parts of the city and different times, producing the equivalent of a phone bill for your car.<sup>1</sup>

The resources, technologies, organizations, and people who will soon bring the world these innovations already exist. It is only a matter of time before these changes are felt in our lives. The spirit of entrepreneurship—the notion of human progress, development, achievement, and change—motivates and energizes the people and organizations that improve our lives. We need entrepreneurship to reach this future.

Each of the innovations listed will result from entrepreneurship, but even more, each creates opportunities. The changes in the way we work and play, travel and eat, start families and raise our children all create opportunities for other entrepreneurs to build businesses and organizations that exploit the new technology and trends. You might say that entrepreneurship is a self-perpetuating phenomenon. If a society has it, it is likely to get more. For societies without it, the barriers seem to be insurmountable.

A second best-seller, *Workplace 2000*, argues that entrepreneurship not only affects our lives through innovation but represents the working future for many of us.<sup>2</sup> As large corporations continue to lay off middle managers to realize their goals of flatter, more responsive organizations, these middle managers must “go”—and the place that they will go is into business for themselves. What will they do? They will fill the niches and markets of servicing their former employers—providing consulting, aftermarket service,

and other support functions. These former middle managers will operate small entrepreneurial firms that provide high quality and value to their customers in a way that working inside the bureaucracy of a large corporation made impossible.

There are other entrepreneurial alternatives as well. In a business environment where large corporations try to stay flat, lean, and responsive, there will be a burst of growth in “microbusiness” firms—firms with four or fewer employees. Some of these will be started by former middle managers and executives who have been let go. Some will be started by current managers trying to beat the clock to the next wave of layoffs. Many will be started by people who have never and will never work for Fortune 1000 companies.

In addition to microbusinesses, there will be more corporate-backed ventures: spin-offs, joint ventures, intrapreneurial units, and partnering arrangements. Although these organizations originate in larger corporations, they are being formed specifically to stay small and entrepreneurial, to avoid bureaucracy, and to maintain their innovative edge.

As the authors of *Workplace 2000* see it, entrepreneurship and new venture creation will be the key to being a successful employee:

Throughout the 1990s, companies will be looking for business opportunities. Many companies will provide financial backing for innovative employees who are willing to take a risk and develop an idea for a new product or service ... [people with] the greatest chance of developing an idea that can turn into a growth business will be those who get wide exposure ... [and this exposure] will greatly increase the chance that they will identify an emerging trend or market niche that can be filled with a start-up business.<sup>3</sup>

You really do not need to be a futurist, however, to see that entrepreneurship will play a large and increasing role in the future of our nation’s and our individual working lives. The nature of organizations, work, and employment is changing, and individuals who recognize these changes and prepare for them will be best able to succeed in the new environment. So, most people will encounter entrepreneurship through the marketplace, in new products, services, or technologies, or through their own employment. The better they understand the marketplace, the better they will be able to survive and thrive in the new entrepreneurial environment.

## ENTREPRENEURSHIP IN HISTORY

Entrepreneurship is not a new phenomenon. Entrepreneurs have existed throughout history. But the entrepreneurship of the past was different from the new venture creation and industrial development of today. The rules of the game were different in ancient societies and empires. They possessed different values for guiding behavior and different incentives for rewarding behavior than we have now. Entrepreneurs of earlier times primarily pursued nonindustrial modes of wealth creation. For example, being rich was a highly prized objective for a citizen of ancient Rome “as long as it did not involve participation in industry or commerce.”<sup>4</sup> In ancient Rome the three acceptable ways to gain wealth and power were landholding, usury, and political payment (official corruption). This was the value system of the ruling elite. The only commercial and business entrepreneurship as we know it was carried out by ex-slaves. These freed persons provided the patricians of Rome with important goods and personal services, and many became wealthy. But they could never rise to citizenship no matter how wealthy they became.

Similarly, entrepreneurship was different in ancient China. Since all possessions belonged to the monarch, wealth was often hidden to prevent confiscation. This meant



that there was no real savings or investment. True prestige and power came through the mandarin (the bureaucracy of the government). The mandarins had to pass extremely hard examinations to gain their positions. The amount of study necessary represented major commitments of time and money for tutors. To procure a return on their investment, the select few who passed the exams each year would engage in corrupt and rent-seeking schemes. It is therefore not surprising that although the Chinese were technologically well advanced, their technology (such as paper and printing, clocks, and gunpowder) helped the mandarins gain and retain power and did not benefit the public in general.

In the early Middle Ages wealth was obtained through military success. Military innovations led to victory on the battlefield, with its booty and treasure. The conquest of England by William the Conqueror (1066) is a prime example of medieval entrepreneurial activity. The objective was to gain land and power. The innovation was the use of the Norman stirrup, which enabled William's warriors to launch spears from horseback, making them more lethal. In addition,

the invasion itself was an impressive act of organization, with William having to convince his untrusting allies that they had more to gain by joining him in England than by staying behind to profit from his absence by trying to grab away his lands as they had tried to do many times before.<sup>5</sup>

By the later Middle Ages, the rules of the game had once again changed. This epoch saw the rise of nation states and the peace and stability imposed by the Catholic church. This led to a number of activities that were neither military nor landholding that could be called entrepreneurial. Some of these included major construction projects. For example, the building of cathedrals, castles, palaces, and bridges earned high returns for the small group of architects and engineers who designed them. Also, some monastic orders developed talents for entrepreneurship. For example, the Cistercians, in what has been suggested was a means to reduce manual labor and thereby increase the time available for worship, were great entrepreneurs. They erected water mills, accumulated vast tracts of land and large flocks, and earned high returns on their investments. These Catholic monks may even have been an early manifestation of the "Protestant work ethic," since they lived in great simplicity while vigorously pursuing wealth.<sup>6</sup>

A number of conclusions can be drawn from this brief history. First, there is more than one way to study entrepreneurship. Second, entrepreneurs, whoever they are, play by the rules of their society, and as the rules change, so do the activities entrepreneurs pursue. Finally, entrepreneurship can be productive or destructive for society as a whole. For example, some argue that in the United States today, the rules of the game favor using the legal system and litigation to gain wealth by suing, or threatening to sue, or by seeking government protection for private advantage (e.g., subsidies, tax breaks, tariffs). By changing the rules, much of this destructive and unproductive rent seeking could be channeled into more productive uses.<sup>7</sup>

## DEFINING ENTREPRENEURSHIP

There have been as many definitions of entrepreneurship as there have been writers on the subject. It has been suggested that trying to define entrepreneurship may be fruitless because the term is too vague and imprecise to be useful.<sup>8</sup> Table 1-1 provides a short selection of definitions that have been offered.

If we examine the common elements in these definitions, we might find the following characteristics: