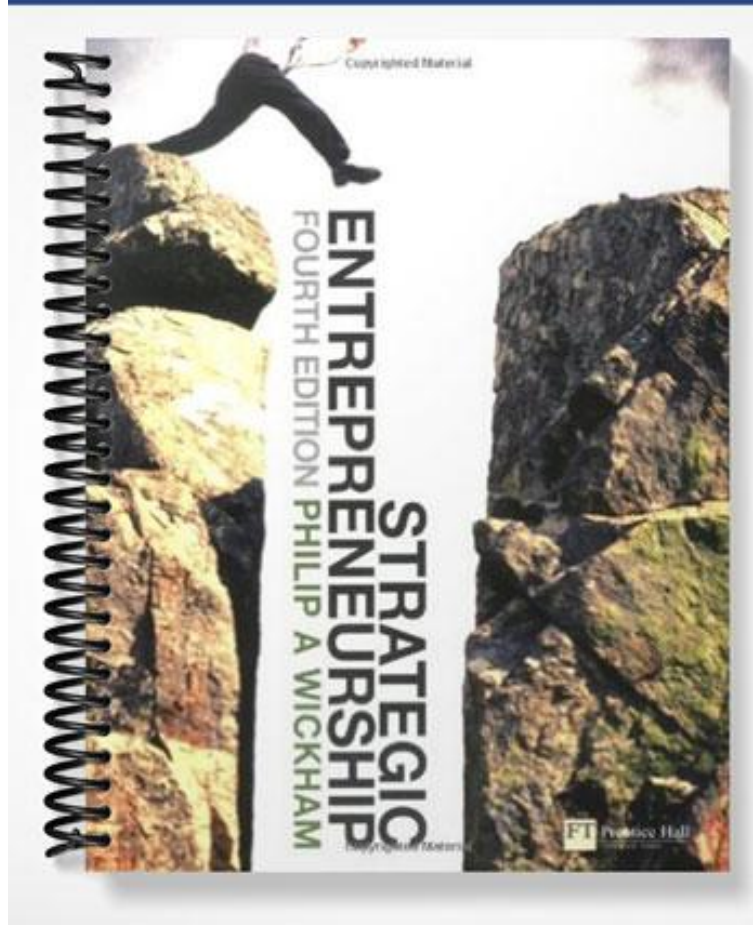


SOLUTIONS MANUAL



Instructor's Manual

Strategic Entrepreneurship

Fourth edition

Philip A. Wickham

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Introduction

Entrepreneurship is a fast-growing subject that is popular with students and an active research field. This guide aims to supplement the course text *Strategic Entrepreneurship* and assist the tutor in developing a one-semester course in entrepreneurship. It suggests a course structure based on the text with a positive and engaging course philosophy supporting relevant aims and learning outcomes. The guide provides a concise summary of the key points in the text for emphasis in lectures with suggestions for associated tutorial activity and independent reading. Up-to-date *Financial Times* articles are provided in addition to those in the text to provide a source of examples to complement points made in the lecture.

Suggested course aim

The aim is to provide an insight into the entrepreneurial approach to the management of new-value creation.

Course philosophy

The text takes a specific stance in relation to entrepreneurship. It suggests that, given the difficulties in defining the entrepreneur in economic terms, and the inability to specify an entrepreneurial type of personality, entrepreneurship should simply be regarded as a style of management. This style can be characterised as being concerned with driving change rather than maintaining the status quo and as being focused on the pursuance of opportunity rather than the maintenance of resources.

It further suggests that entrepreneurship is a form of strategic management; i.e., management concerned with the whole organisation and its relationship with its environment. The text draws upon strategic management ideas to explore the nature of the decisions the entrepreneur must undertake. An active learning approach is advocated by the application of ideas to the understanding of real-world examples provided in the *Financial Times* articles and by undertaking a project of developing a deep understanding of, or the design of, a venture of personal interest.

Suggested learning outcomes

The following are suggested as learning outcomes for a course based on the text.

As a result of successfully completing the course the participant will do the following:

- be aware of the different approaches to defining and classifying the entrepreneur;
- understand the process of entrepreneurial new-value creation;
- appreciate the skills and approaches the entrepreneur brings to managing that process;
- understand the factors that encourage and inhibit the move to entrepreneurship;
- recognise the role of opportunity, resources and organisation in entrepreneurial success;

- understand the different aspects of entrepreneurial success and failure;
- appreciate the strategic window as a metaphor for the identification, evaluation and exploitation of new opportunities by entrepreneurs;
- understand the ways in which entrepreneurial vision might be generated and used as the basis for entrepreneurial leadership;
- recognise the nature and role of mission and strategy in the entrepreneurial venture;
- appreciate the ways in which business planning can be used as a developmental tool for the entrepreneurial venture;
- understand the different aspects of growth for the entrepreneurial venture;
- understand, evaluate and judge a variety of expansion strategies for the venture;
- appreciate how the entrepreneur's role in the venture changes as it grows and the issues in managing entrepreneurial succession.

Suggested lecture programme

The following suggests an effective structure and ordering of ideas for a one-semester (14-week) lecture programme. The postgraduate programme has more emphasis on theoretical aspects of entrepreneurship such as economic function, psychological perspectives and research concerns.

Undergraduate programme

No	Theme	Relevant chapters
1	Introduction: The nature of entrepreneurship	1/2
2	The entrepreneur as an individual and the entrepreneurial process	3/4/5/6/14
3	Entrepreneurship, success and business opportunity	9/10/13
4	Resources and organisation in entrepreneurship	11/12
5	Entrepreneurial vision and mission	16/17
6	Social entrepreneurship and entrepreneurship in economic development	7/8
7	Entrepreneurial strategy and the strategic window metaphor	18/21
8	Seeing the window: creative approaches to opportunity and innovation and entrepreneurial approaches to market research	22/23
9	Opening and closing the strategic window	24/25
10	The entrepreneur's business plan	19
11	Gaining financial support: answering investor's concerns	20
12	Growth and consolidation of the entrepreneurial venture	26

14	Venture consolidation and entrepreneurial succession	15/27
15	Overview and review	1–27

Chapter 5, Researching entrepreneurship, may be an option for final year undergraduates with an interest in undertaking a dissertation on entrepreneurship.

Postgraduate programme

No	Theme	Relevant chapters
1	Introduction: The nature of entrepreneurship	1/2
2	The economic function of the entrepreneur	6/7
3	The entrepreneur as an individual	3/4/5
4	Social and not-for-profit entrepreneurship	8/9
5	Entrepreneurship: business opportunity, resources and organisation	10/11/12/13
6	Entrepreneurial vision and mission	16/17
7	Entrepreneurial strategy and the strategic window metaphor	18/21
8	Creative approaches to opportunity and innovation and entrepreneurial approaches to market research	22/23
9	Opening and closing the strategic window	24/25
10	The entrepreneur's business plan and gaining financial support	19/20
11	Growth of the entrepreneurial venture	26
12	Venture consolidation, intrapreneurship and entrepreneurial succession	14/15/27
13	Researching entrepreneurship	28
14	Overview and review	1–28

Structure of the manual

Most chapters in this manual contain the following five sections.

Key points to emphasise

The key ideas and themes raised in each section in the text are summarised. These summaries can be used as the basis for bullet points in a lecture presentation.

Suggested tutorial activity

In the text, a series of *Financial Times* articles are given with suggested questions. These raise specific issues and make effective teaching material for tutorials. To add variety, other activities

are suggested here. These are more general in nature and have proved to make good, stimulating group exercises.

Preparatory readings

A detailed list of references is given at the end of each chapter. These provide a route into the primary literature for the student who wishes to explore further the issues raised in the chapter. One or two particular key papers are highlighted here. These are chosen because of their comprehensive nature, the value of the ideas they generate and their accessibility to an undergraduate audience. These will make good private preparatory reading for students and form the basis of tutorial discussions.

Additional articles

These up-to-date *Financial Times* articles complement the ones provided at the end of each chapter in the text and can be used for direct teaching or to provide real-world examples to flesh out the points being made in lectures.

Lecture overheads

These are copies of key diagrams in the book that may be used for lecture presentation to offer visual support for the key points being made.

Part 1

The entrepreneur as an individual

1 The nature of entrepreneurship

The fundamental aim of this chapter is to provide insights into what, exactly, we mean when we talk about entrepreneurs and entrepreneurship. This will conceptually root an overarching and integrated perspective of the subject matter and provide a foundation on which a course can be built.

1.1 *What is entrepreneurship?*

Key points to emphasise

Quite naturally, when approaching a new subject matter, students often ask for definitions. However, the definitions of entrepreneur are many and varied. No one seems to capture its full essence and distinguish the entrepreneur fully from other economic agents. It is suggested that a simple definition of the entrepreneur be resisted. Rather the variety of approaches to definition should be revealed and integrated to create a broad perspective. If a ‘working’ definition is offered, then its limitations should be made explicit.

- The role of definitions in learning: provision of a conceptual location; the limitations they sometimes impose; the difference between knowing a definition and understanding what it aims to define; the importance of a broad, but integrated, perspective.
- The three ‘meta-definitions’ of the entrepreneur:
 - as a performer of managerial tasks;
 - as an agent of economic change, and;
 - as an individual with a particular personality. (Note, however, that the idea that entrepreneurs are all of a single personality type is challenged later).
- These three meta-definitions complement rather than exclude each other.

1.2 *The entrepreneur’s tasks*

Key points to emphasise

- Specifying entrepreneurs by means of the tasks they undertake is based on the managerial function they fulfil.
- Key entrepreneurial projects are as follows:
 - owning the organisation (note the principal–agent distinction between ownership and management);
 - founding new organisations (note entrepreneurs who have not actually founded their organisations; also note the distinction between owning an organisation and creating major change with and within it);
 - bringing innovations to market (question how this actually makes entrepreneurs distinct in the modern business world; also note the importance of a broad conceptualisation of what innovation means);

- spotting opportunities (again, question how this makes the entrepreneur distinct; emphasise the importance of exploiting opportunities, not just spotting them);
- provision of leadership (ask in what respects entrepreneurs are unique in their leadership style).
- Conclude by observing that the entrepreneur is a manager, a particularly effective manager, but that no one thing distinguishes the entrepreneur from his or her more conventional counterpart. Hence, entrepreneurship can be learnt like any other aspect of management.

1.3 The role of the entrepreneur

Key points to emphasise

- Specifying entrepreneurs on the basis of their role is based on an understanding of their economic functions.
- Key entrepreneurial roles are as follows:
 - A combiner of economic factors (note that factors include capital, material and labour resources; question whether the entrepreneur can be unique in this respect).
 - A provider of economic efficiency (note the role of entrepreneurs in providing competitive pressures on established players in a market). Attention may be drawn to Porter's five-force model and the role of entrepreneurs as a threat of new entrants.
 - Accepting risk (distinguish between risk and uncertainty; distinguish between personal risk and economic risk; emphasise the role of the investor as the carrier of risk, not the entrepreneur *per se*; owner-entrepreneurs actually fulfil two roles at once; the challenge of managing in risky situations).
 - Maximising investors' returns (this seems a universal objective for all businesses, not just the entrepreneurial; difficulty of achieving it in practice; broader objectives entrepreneurs set themselves; importance of stakeholders other than investors).
 - Processing of market information (i.e. spotting new opportunities: question if entrepreneurs are substantively unique in doing this; ask if entrepreneurs are unique in the degree to which they do this or the way in which they do it).
- Conclude by observing that entrepreneurs have a significant economic impact and that they are responsible for ensuring the effective working of a free-market economy but that no one aspect of their economic role makes them unique and distinct from 'conventional' managers.

1.4 The entrepreneur as a person

Key points to emphasise

- Personality as a psychological concept; personality as 'externally' revealed through action and reaction in response to stimuli; personality as innate qualities;
- Personality perspectives on the entrepreneur are as follows:
 - great person (biographical but of little analytical or predictive value);

- social misfit (contrary to above but with same limitations);
 - personality type (*categories* of personality, *e.g.* introvert/extrovert; poor correlation between types and entrepreneurial performance; limited predictive value);
 - personality trait (*features* of personality, *e.g.* aggressive/passive, dominant/submissive; importance of McClelland's work: entrepreneur's need for achievement; question causality of traits and entrepreneurial performance);
 - social development (the interaction of innate and experiential factors; as an agenda for understanding and use in predicting entrepreneurship).
- Conclude by suggesting that the study of personality has provided many insights, but no one should dismiss (or be dismissed in relation to) the entrepreneurial option on the basis of supposed personality – all types of personality can be successful entrepreneurs.

1.5 *Entrepreneurship: a style of management*

Key points to emphasise

- Entrepreneurship is, fundamentally, a style of management. Entrepreneurs are characterised by the way in which they do things, not what they do or who they are.
- Three characteristics distinguish entrepreneurial management from 'ordinary' management. They are as follows:
 - Focus on change – entrepreneurs make a significant difference; conventional managers are more likely to be interested in incremental change.
 - A focus on opportunity – entrepreneurs are interested in pursuing and exploiting significant opportunities. They will expose (investor's) resources to risk in order to do this. Conventional managers are more likely to be interested in conserving resources and limiting the risk they are exposed to.
 - Organisation-wide management – entrepreneurs are concerned with managing their venture as an integrated whole. Though they have an interest in functional areas of management, they may not explicitly distinguish different functional areas. Conventional managers (up to the level of the CEO) will have an interest in a particular functional area.

1.6 *The human dimension: power leadership and motivation*

Key points to emphasise

- The concepts of leadership, motivation and power are distinct, but intertwined. All must be brought into play if the entrepreneur is to control, focus and direct the venture he or she is creating.
- The definition of all these concepts is subject to much debate. In practice, the definition of any one may call upon the others.
- Leadership is easy to recognise, but hard to pin down in terms of definitions or models.

- A working definition of leadership is that it is 'the power to focus and direct the venture'.
- Understanding of leadership has evolved considerably over the past fifty years.
- Important milestones in this evolution have been (somewhat in a chronological order):
 - the 'great person' (personality) view;
 - influence (motivation and sanction behaviour) theories;
 - contingency (personality, situation, behaviour and culture) theory;
 - transactional (leader–follower relationship) theory;
 - culture-based (organisational rules and modes of behaviour) theories;
 - transformational (leader–follower inter-conversion) theories.
- There are eight aspects to the leadership strategy adopted by the entrepreneur. These are as follows:
 - personal vision, its articulation and communication;
 - effective and influential communication to stakeholders;
 - the culture the entrepreneur creates in his or her organisation;
 - the specialist knowledge and skills the entrepreneur possesses;
 - the entrepreneur's desire and motivation to lead others;
 - the credibility the entrepreneur has built up;
 - the performance of the venture and the entrepreneur's history of success;
 - the leadership role expected of entrepreneurs and which they create for themselves within the venture.
- These eight factors may be used as the basis for analysing and planning the entrepreneur's leadership strategy.
- Power might be defined as the 'ability to control the course of actions within the venture'.
- There are two broad theories of power:
 - That it is an ability of an individual to assert dominance in relation to the acquisition of resources;
 - That it is a structural phenomenon that arises from institutional arrangements in organisations.
- These two views are not necessarily incompatible with each other.
- Entrepreneurs may desire power for its own ends, but they use it to control their ventures.
- The entrepreneur will use his or her power to control the following:
 - resources
 - people

- information
- uncertainty
- systems
- symbols
- vision
- Power is iterative; in properly using their power to control these things, entrepreneurs may accumulate yet more power.
- Motivation may be defined as 'the process of encouraging an individual to pursue a particular course of action'.
- As with leadership, understanding of the concept of motivation has undergone a considerable evaluation recently.
- The concept of motivation is of great interest to psychologists. Psychologists have been at the forefront in developing theories of motivation.
- Some important theoretical approaches to motivation include the following:
 - Freud's psychoanalytic theory;
 - Hull's experiential drive theory;
 - Lewin's tension theory;
 - Maslow's goal-hierarchy theory;
 - McClelland's goal-orientation theory;
 - Vroom's expectancy theory.
- It is now widely accepted that the nature of the task is influential in motivation: too easy a task fails to generate motivation. Too difficult a task may also reduce motivation. Entrepreneurs (and those who support them) are best motivated by tasks that stretch, but are within the bounds of capabilities.
- Individuals are not just motivated by economic needs, but also by the potential to fulfil social and self-development possibilities.
- Entrepreneurs must motivate themselves as well as those around them.
- Entrepreneurs can only communicate their vision with conviction and be effective leaders if they are motivated themselves.
- Important aspects of self-motivation include the following:
 - a clear vision;
 - an understanding of what might be achieved personally as a result of success;
 - an ability to respond positively to and to learn from mistakes;
 - taking time to reflect positively on successes;

- appropriate self-rewarding from the fruits of success.
- Effective motivators do seem to have a common core of behavioural skills. These are based on the following:
 - an understanding of the personal drives of individuals;
 - the setting of appropriate goals that stretch, but are achievable;
 - offering real support for the achievement of those goals;
 - an effective use of rewards;
 - a positive approach to sanctioning.
- Together, these motivational skills form part of the entrepreneur's leadership style.

Suggested tutorial activity

Before engaging in a full class discussion, get the students to list what they feel are the most important characteristics and features of the entrepreneur and what distinguishes them from other people. This works well as a small group (around five) brainstorming exercise with the students producing a one-slide presentation on their findings. The ideas the students propose can then be rationalised in terms of the framework above.

Suggested tutorial activity

Lead a discussion on the theme: 'The entrepreneur's leadership responsibilities extend beyond the boundaries of his or her organisation'. Complement this with themes from Section 1.6.

Suggestions for further reading

Barton-Cunningham, J. and Lischeron, J. (1991) 'Defining entrepreneurship', *Journal of Small Business Management*, pp. 45–61.

Boyce, M.E. (1996) 'Organisational story-telling: a critical review', *Journal of Organisational Change Management*, Vol. 9, No. 5, pp. 5–26.

Chell, E. (1985) 'The entrepreneurial personality: a few ghosts laid to rest', *International Small Business Journal*, Vol. 3, No. 3, pp. 43–54.

Gartner, W.B. (1990) 'What are we talking about when we talk about entrepreneurship?' *Journal of Business Venturing*, Vol. 5, pp. 15–28.

Seters, D.A. Van (1990) 'The evolution of leadership theory', *Journal of Organisational Change Management*, Vol. 3, No. 3, pp. 29–45.

Additional article

Small-scale private enterprise starts to lift Kosovo's economy from the ruins of war

FT

Milazim Abduli, an unemployed Kosovo farm worker turned freelance petrol salesman, draws on his cigarette and allows the smouldering ash to fall on a plastic fuel canister.

'There's always danger with petrol. But I have to work and I have to smoke', he says. Together with four cousins he operates from the back of a van outside Kosovo's main city of Pristina.

The cousins are among thousands of Kosovars who have launched new businesses or restarted old ones since the war ended last summer. Many are also simultaneously rebuilding burnt-out homes and replanting fields at a rate, which has astonished United Nations (UN) officials running the province. 'Private enterprise has restarted very well', says Bernard Kouchner, UN mission chief.

All this activity has its dark side, with increasing reports of business crime – including corruption, extortion and drug smuggling – some of it allegedly involving fighters of the former Kosovo Liberation Army (KLA), who were forced to disband but mostly hung on to their Kalashnikovs.

As with everything else in Kosovo, the UN faces a formidable challenge. It must promote development while establishing the basic rules of a market economy, reviving essential services such as power and telecommunications, fighting crime and Albanian–Serb ethnic violence.

Across Kosovo, there are scores of new petrol stands, shops, restaurants, carwashes and repair garages. According to a survey of 6,000 small businesses carried out by Riinvest, a Kosovo research group, about 70 per cent of pre-war enterprises have also re-opened.

Meanwhile, 15,600 houses were reconstructed in the second half of last year, compared with 7,000 housing starts in a normal year. For 2000, UNHCR, the UN refugee aid agency, forecasts 75,000. The materials are mostly aid-funded but home-owners supply their own labour.

Nor are farmers slacking in a province where about 40 per cent of output comes from agriculture. About 30 per cent of the land was sown last year, despite the war, and the figure for 2000 could be over 60 per cent.

Joly Dixon, UN deputy special representative responsible for the economy, says the province of about 2m is much wealthier than was assumed, in part helped by the remittances from expatriate Kosovars working abroad, who often finance the rebuilding of homes and businesses. Also, thousands of English-speaking Kosovars have been hired by the UN, Kfor or any of 360 overseas non-government organisations, and can put money into family enterprises.

How much crime accompanies legitimate activity is unrecordable in a country with few commercial laws. Murder rates have dropped dramatically since last summer to about five weekly, the level of big European cities. However, the International Crisis Group (ICG), a research organisation active in the Balkans, warns that war-torn Kosovo offers great opportunities to criminal gangs, including smugglers taking drugs from the Middle East to western Europe.

Violence infiltrates normal business life. Gerard Fischer, a senior UN mission economic official, says: 'Extortion is a big problem'. Ex-KLA elements may be involved, he says, though not in an organised way. The ICG adds that political rivalries between ex-KLA leaders may be spilling out into economic life, citing the example of a big Pristina shopping mall, controlled by a former KLA commander, that burnt down in mysterious circumstances last month.

Not everyone is an entrepreneur or a criminal. Many do very little, with the estimated unemployment rate over 50 per cent. Except for public services, few former big enterprises have restarted. Formerly part of the Yugoslav command economy they now have no capital and no markets and need restructuring. The Trepca mining and metals complex, which once employed 24,000, now has a few hundred workers. UN officials doubt that restarting makes financial sense, but are under pressure to do so from Kosovars, who see the complex as a national treasure wrested from Serbs.

The UN is trying to bring order to the chaos. Since last summer it has established a budget, introduced the D-Mark as official currency, set up a banking and payments authority (a rudimentary central bank), introduced customs duties and hotel and restaurant taxes and started work on reconstruction for which €1bn (\$970m, £610m) is ear-marked for this year alone. The first bank has opened its doors – the Micro Enterprise Bank, backed by the European Bank for Reconstruction and Development – and several more could be licensed by the summer. There is even a chamber of commerce.

Foreign investment is trickling in – Alcatel is injecting DM35m (€17.9m, \$17.4m, £11m) into the mobile phone network and Holderbank, the Swiss cement group, is taking a 12-year lease on Kosovo's biggest cement works with a pledge to invest about DM20m.

The UN is careful to avoid giving the impression of creating a new country. Former Yugoslav state assets cannot be privatised so they are 'commercialised', as with the leased cement works. However, most Kosovar entrepreneurs see things differently. As Mr Fischer says: 'You feel the economic revival is linked to a feeling that they're building independence'.

Source: Financial Times, 31 March 2000. Reprinted with permission.

2 Type of entrepreneurs

The classification of entrepreneurs is useful as a prelude to researching their activities, considering their effects and developing policies to support them. This chapter considers several ways in which they may be classified.

2.1 *Classifying entrepreneurs*

Key points to emphasise

- The value of classification as a means to understanding.
- General approaches to classifying entrepreneurs:
 - ‘classical’ approach (craftsmen; opportunist–independence/growth orientated);
 - Webster’s approach (Cantillon; industry maker; administrative (intrapreneur); small business owner);
 - Landau’s approach (gambler; consolidator; dreamer; ‘true’ entrepreneur).
- Sector and regionally specific classification (by way of examples):
 - Jones-Evans’ classification of technical entrepreneurs (research; producer; user; opportunist);
 - Wai-Sum Sui’s classification of Chinese entrepreneurs (senior citizen; workaholic; swingers; idealists; high flyers).
- Conclude by emphasising classification as a tool to aid understanding, not as rigid categories that entrepreneurs must be shoehorned into.

2.2 *Serial and portfolio entrepreneurship*

Key points to emphasise

- Singular entrepreneurs: involved in only one venture:
 - Nascent – considering start, but not yet made it
 - Novice – in early stages of start
- Two types of serial: sequential (one business after another); portfolio (a collection of businesses at the same time).
- Types of sequential entrepreneur (defensive; opportunist; group creating – organic/deal making).
- Serial entrepreneurship and entrepreneurial motivation (the job rather than just the rewards).
- Conclude by emphasising what serial entrepreneurship suggests about entrepreneurial motivation.