

## CHAPTER 3

### 3 THE ENTREPRENEURIAL PROCESS

#### 3.1 Introduction

According to Ulrich (1998:8) linear models of entrepreneurship decision-making are helpful in describing key stages in the entrepreneurial process and in documenting decisions after the fact. However, they are not particularly advantageous in understanding the process in real time. While linear models can describe what happened, they are less useful in explaining how it happened. Therefore, these linear models provide little guidance for managing the process. The entrepreneurship process deals with innovation and much of what is being accomplished is new and novel knowledge is required. Hence, this suggests that a significant portion of the entrepreneurship process is involved with learning.

This chapter is used to investigate the characteristics, elements and activities of the entrepreneurial process. In agreement with Venkataraman and Slover (1999:1) who propose that entrepreneurship is fundamentally concerned with understanding how, in the absence of current markets for future goods and services, these goods and services manage to come into existence, the activities that need to be executed will be identified as well as the entrepreneurial skills needed by the entrepreneur to complete these activities. Since the second chapter identified “opportunity exploitation” as a core concept in entrepreneurship, this chapter will focus on the combination of the concepts “creative” and “opportunity exploitation” in the entrepreneurial process.

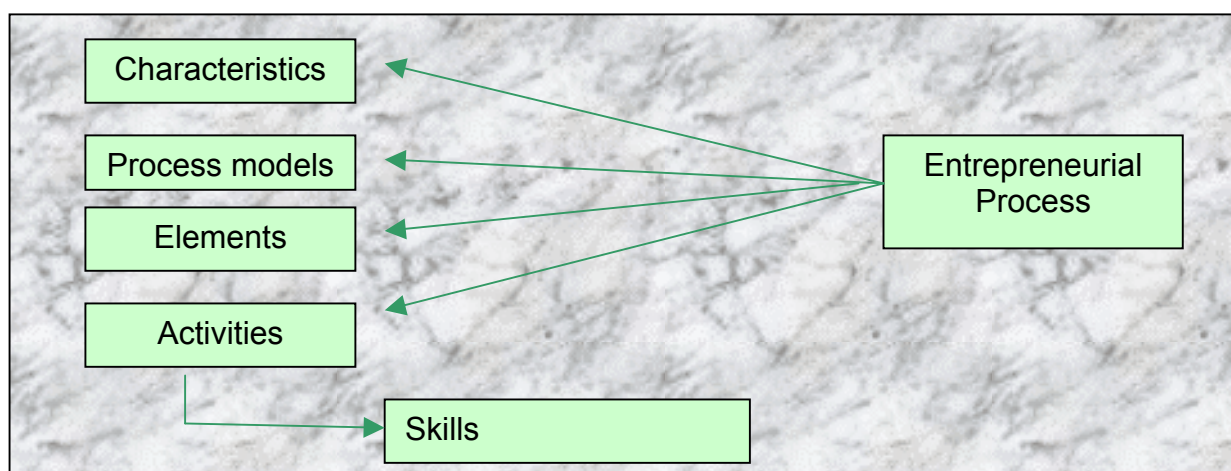


Figure 3.1: Layout of Chapter 3

### 3.2 Characteristics of the Entrepreneurial Process

From a theoretical point of view, Bygrave (in Kuratko *et al.* 1997:25) defined an entrepreneurial event as the creation of a new organisation to pursue an opportunity. Some of the characteristics that Bygrave used to describe the entrepreneurial event were: discontinuities, holistic, change, dynamic, unique, extremely sensitive to initial conditions, involving numerous antecedent variables, and initiated by an act of human volition (Kuratko *et al.* 1997:25).

Wickham (2001:23) proposed that the following characteristics of the entrepreneurial process which is supported by Bygrave's (1993:257) description are acknowledged:

- Initiated by a human decision
- Taking place on the level of an individual enterprise
- Discontinuous
- A holistic process
- A dynamic process
- A unique process
- Including various antecedents and variables, and
- Results which are very sensitive to initial nature of said variables.

It should also be mentioned that growth has been measured typically at the business level, yet intentions are an individual-level construct. Wiklund (2001:3) found that business managers' growth intentions are positively related to the actual growth of their businesses. It was furthermore hypothesised that the level of human capital will moderate the relationship between a manager's growth intentions and the level of growth achieved i.e., growth will increase with intention, but at a faster rate for those with (a) more education, and (b) more relevant experience. It was found however, that the relationship between intention and growth appeared to be more complex than stated. Wiklund (2001:4) was of the opinion that the dynamism of the environment in which the business operated also had an influence.

### 3.3 Entrepreneurial process models

Entrepreneurship is not typically characterised as being logical, systematic, or planned and the entrepreneurship process is often perceived as disorderly and unpredictable. A number of attempts have been made to construct theoretical models of the entrepreneurial process (Gartner; Greenberger & Sexton; Learned; Herron & Sapienza; Herron & Robinson; Naffziger, Hornsby, and Kuratko & Bhava as quoted by Kuratko, Hornsby & Naffziger 1997:26).

Brazeal and Herbert (1999:33) offer a model of the entrepreneurial process, integrating the fields of technology, psychology and business. The roles, played by “change”, “innovation” and “creativity” are highlighted, recognising that entrepreneurship is enabled by the following:

- The current or potential existence of something new (an innovation)
- Which may have been developed by new ways of looking at old problems (creativity)
- Or the lessened capability of prior processes or solutions to respond effectively to new problem parameters brought on by new or emerging external conditions (environmental change)
- Which can supplant or be complementary to existing processes or solutions (a change), and
- When championed by one or more invested individuals (the innovator).

Entrepreneurial activity stems from an imbalance between the potentiality of something new and its realisation, that is, the creating of an exploited opportunity where none existed previously, by one or more individuals (Brazeal & Herbert 1999:34).

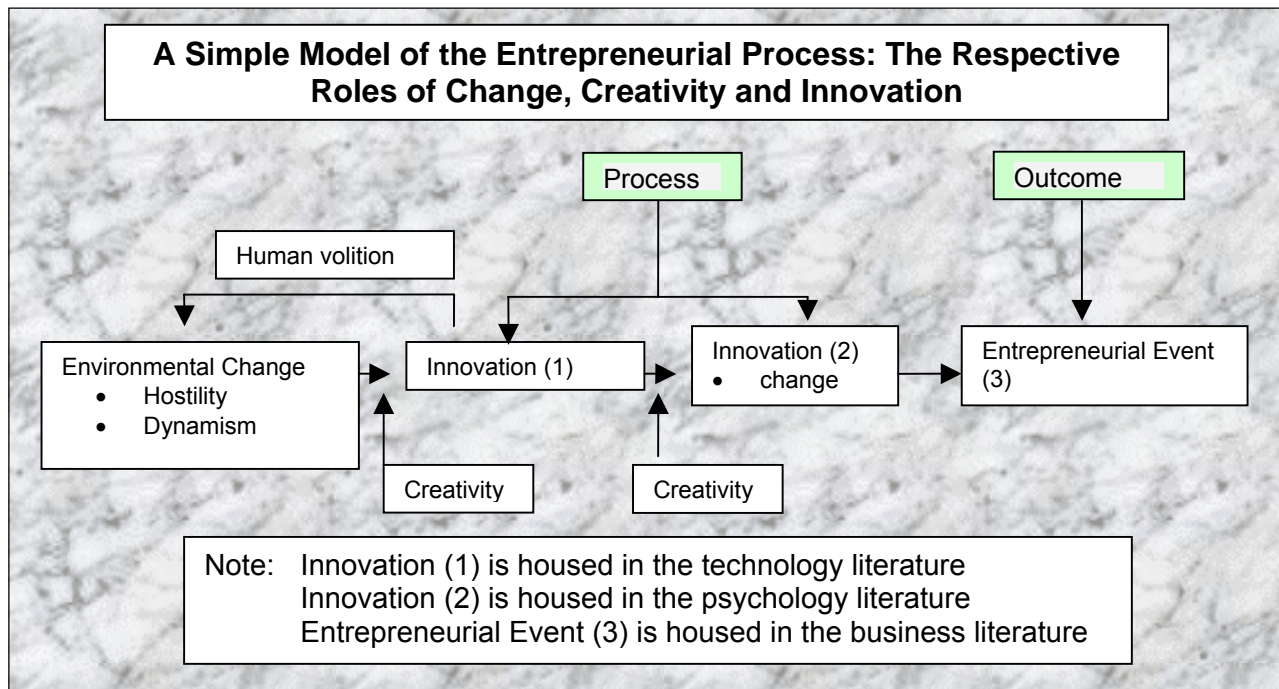


Figure 3.2: Model of the Entrepreneurial Process (Brazeal & Herbert 1999:34)

Innovation can therefore be defined as the successful implementation of creative ideas (Brazeal & Herbert 1999:36). Innovation is the phase where new ideas are developed and involves the ability to change an idea into a money generating activity. Innovation is seldom a systematic, structured process in the case of the small business enterprise. Creativity is the point of origination for innovation. Ideas are generated on an ad hoc basis and the business plan is still rough and unfinished.

The innovation process may involve the refinement or modification of existing policies, procedures, product lines and services but there are no limitations to what may be innovated or to the magnitude of the advance represented. Innovation should thus be regarded rather as a process or an outcome in which certain skills are necessary.

Creativity is the process, through which invention occurs, that is creativity is the enabling process by which something new comes into existence (Amabile in Brazeal & Herbert 1999:39). The creative process can be seen as the starting point of innovation, which sets into motion a series of events culminating in the entrepreneurial event. Not all innovations are creative, for some innovations are incremental changes or were developed by others and adapted for use locally.

Brazeal and Herbert’s model, however, did not offer sufficient insight for the purposes of this study on the “how” of activities associated with the entrepreneurial process, creativity and innovation.

According to Moore and Bygrave in Carlock, (1994:27) the entrepreneurial process is built on a cycle of four activities:

- Innovation
- A triggering event
- Implementation, and
- Growth.

During the cycle, different variables interact with the environment to influence the entrepreneurial process. During the innovation phase, personal characteristics such as risk taking or experience, interact with environmental forces such as opportunities. The interaction between the environment and individual, organisational or sociological variables defines the possible path or outcome of each specific entrepreneurial event.

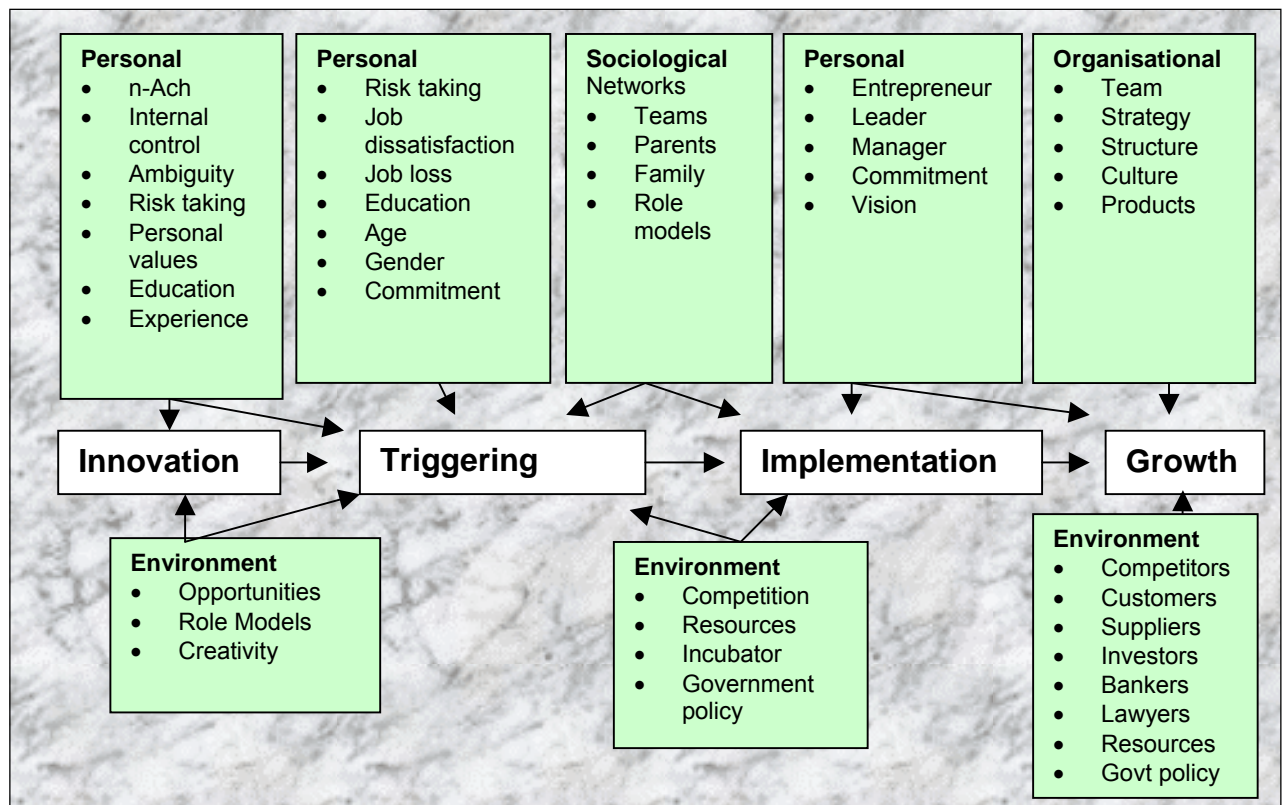


Figure 3.3: A model of the Entrepreneurial process (Bygrave in Carlock 1994:28)

This model provides a transition from the social scientific perspective on entrepreneurship to that of management. Whereas the major focus of the social scientific perspective is the entrepreneur and his or her traits or inputs into the entrepreneurial process, the management/organisational behaviour literature on entrepreneurship focuses on organisation creation and outcomes. Although this model offers a lot of insight into the entrepreneurial process, from an activities-based perspective, the “triggering event” could perhaps be replaced by “launch” or “start-up”. Similarly, as indicated earlier, it is possible that “growth” be regarded more as an outcome/result of the activity “opportunity exploitation”, for purposes of this research, than an activity.

De Klerk and Kruger (2003:7) came to the conclusion that the following entrepreneurial process could be derived from the definitions and key determinants:

- Innovation and creativity
- Taking risk
- Creating and growing a business
- Managing the business
- Sensitivity towards the physical environment
- Identifying an opportunity
- Gathering resources
- Distributing consistent value
- Being rewarded

Hisrich and Peters (2002:39) identified four distinct phases of activities in the entrepreneurial process, namely:

- Identification and evaluation of the opportunity
- Development of the business plan
- Determination of the required sources, and
- Management of the resulting enterprise, that concurs partially with those of Olsen in Ulrich (1998:4).

Each of the stages presents itself to the entrepreneur as a series of decisions. Developing the business means addressing those decisions.

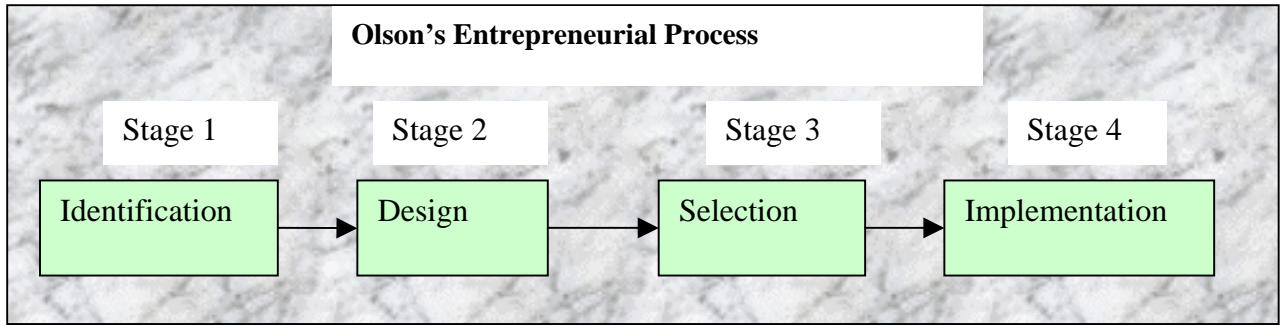


Figure 3.4: Olson's entrepreneurial process (Ulrich 1998:4)

Morris and Kuratko (2002:30) provided a more integrated picture of the entrepreneurial process, as shown in Figure 3.5.

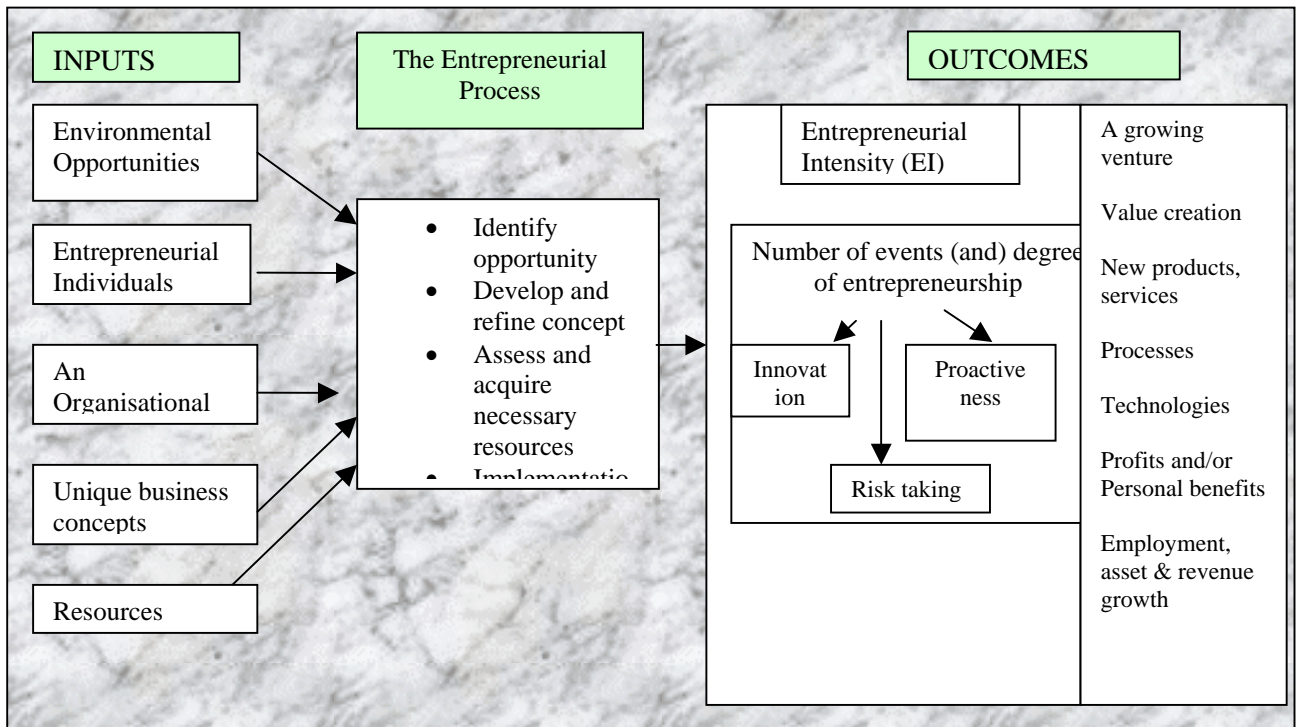


Figure 3.5: An Input-Output perspective of the Entrepreneurial Process (Morris & Kuratko 2002:30)

From this model, the following activities based model can be derived, illustrating that the entrepreneurial process is a continuous process wherein entrepreneurs need to do certain tasks creatively in order to ensure success:

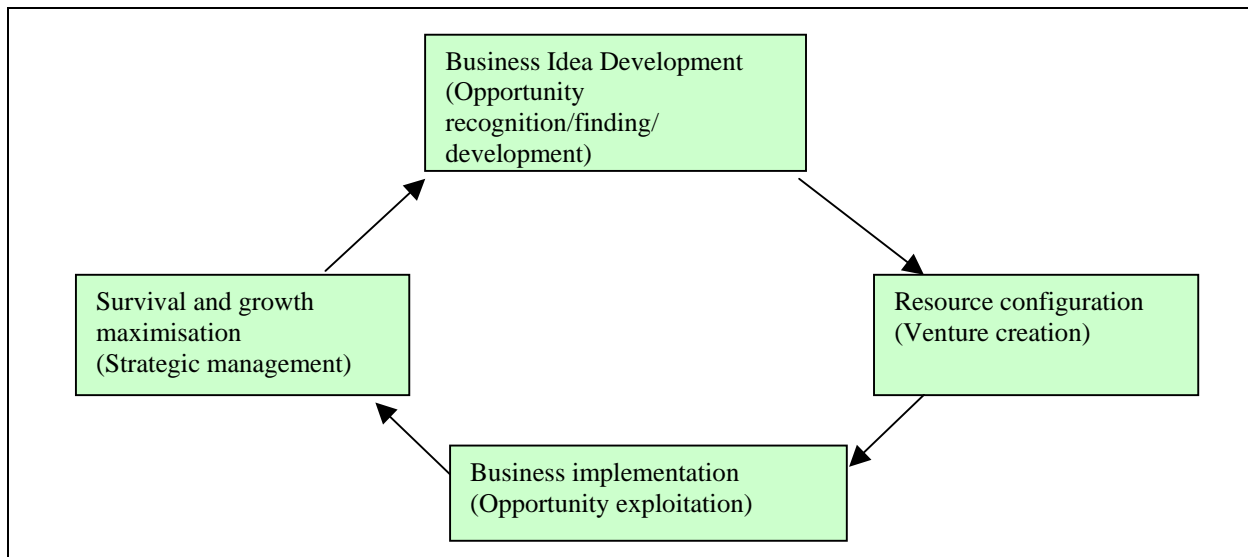


Figure 3.6: *Compilation of activity-based entrepreneurial process as deduced from literature study*

Although the above models indicate various activities in the entrepreneurial process, the unique intersection with creative behaviour still remains elusive.

### 3.4 Elements of the entrepreneurial process

Bull *et al.* (1995:165) identified the following components of entrepreneurship:

- Creating (recognising) and developing an opportunity
- Evaluating the opportunity's desirability:
  - its economic potential
  - the financial risks involved
  - the personal risks involved
- Marshalling the resources to exploit it:
  - Financial
  - Managerial
  - Technical
  - Physical
- Possessing the will or tenacity to "do it"
- Managing the launch including:
  - Competitive and co-operative relationships
  - Networks
- Managing the downstream opportunity capture and realisation:
  - Creation of value for the entrepreneur and society
  - Realisation of value for the entrepreneur and his/her family.

Wickham (2001:37) focused on a model of the process by which entrepreneurs create new wealth. The process consists of four elements, namely the entrepreneur,



the opportunity, resources and organisation. These will be discussed in what follows.

### 3.4.1 The Entrepreneur

The entrepreneur is significant because the entrepreneur is the dynamic force that disturbs the economic equilibrium through innovation (what he achieves) by creating an entrepreneurial process (what he does) (Trevisan, Grundling & De Jager 2002:128).

The entrepreneur lies at the heart of the entrepreneurial process. Zietsma (1999:3) proposed that entrepreneurs and non-entrepreneurs differ in both their cognitive structures (schema), and their cognitive processes (the use of heuristics and biases), and that entrepreneurs may invoke schemas that are more predisposed towards entrepreneurial events, allowing them to make sense out of uncertainty.

Wickham (2001:41) sees the main impetus for entrepreneurs to be their desire to create change and to make a difference. Entrepreneurs as innovators, are people who create new combinations of these factors and then present them to the market for assessment by consumers. The value added cannot always be measured in purely financial terms. The entrepreneur exists in a state of tension between actual and possible. The tension is manifested in three dimensions, i.e., the financial, the personal and the social.

The entrepreneur as key person in the process seeks suitable business opportunities and develops a framework for the commercialisation of the product or service. Dollinger (1995:50) mentions four factors that serve as impetus for entrepreneurship:

- Negative displacement (the marginalisation of individuals/groups from the core of society)
- Being between things (e.g. between student life and a career)
- Positive push (e.g. a career path that offers entrepreneurial opportunities or an education that gives the individual the appropriate knowledge and opportunity), and
- Positive pull (e.g. mentors and partners encouraging the individual).

Two forces are said to work driving the manager from the conventional labour pool to the entrepreneurial: pull factors and push factors (Wickham 2001:63). Pull factors are those, which encourage managers to become entrepreneurs by virtue of the attractiveness of the entrepreneurial option. Some important pull factors include:

- The financial rewards of entrepreneurship
- The freedom to work for oneself
- The sense of achievement to be gained from running one's own venture
- The freedom to pursue a personal innovation, and
- A desire to gain the social standing achieved by entrepreneurs.

Push factors, are those, which encourage entrepreneurship by making the conventional option less attractive. Push factors include:

- The limitations of financial rewards from conventional jobs
- Being unemployed in the established economy
- Job insecurity
- Career limitations and setbacks in a conventional job
- The inability to pursue a personal innovation in a conventional job, and
- Being a 'misfit' in an established organisation.

Inhibitors are things that prevent the potential entrepreneur from following an entrepreneurial route, no matter how attractive an option it might appear. Some important inhibitors include:

- Inability to get hold of start-up capital
- The high cost of start-up capital
- The business environment presents high risks
- Legal restrictions on business activity
- A lack of training for entrepreneurs
- A lack of self-efficacy,
- A feeling that the role of entrepreneur has a poor image
- A lack of suitable human resources, and
- Potential inertia.

Once the inclination for entrepreneurship has been activated, situational characteristics help determine if the new venture will take place, namely perceptions of desirability and perceptions of feasibility. Zietsma (1999:4) included commitment as a business start-up activity in his theoretical study of entrepreneurial processes. Un-

derlying this commitment are personal and financial risks that entrepreneurs will have to take (Nieman & Bennett 2002:58).

#### **3.4.1.1 Entrepreneurial skills/capacity**

The total capital that a person possesses, or can acquire, is made up of economic, human, social and cultural inputs. Depending on the nature of the business, the people involved, and the contextual circumstances, components of a person's total capital will have entrepreneurial value – that is they are of some worth in relation to the entrepreneurial process and enterprise (Firkin 2001:3). Taken together, these components form a person's entrepreneurial capital that can be employed in the creation, development and maintenance of that enterprise.

Increasingly there is evidence that the key to effective entrepreneurial behaviour is the development of strategic awareness and orientation (Gibb 1998:16). In this quest, the manager must define a suitable strategy for his/her enterprise and develop the capabilities to achieve that strategy (Atac 2000:2). Strategic behaviour is part of the day-to-day practice of entrepreneurship. Stripping the concept of the academic jargon it means the ability to do the following:

- Constantly ask “what if” in respect of new and exciting business development
- Be aware at all times of the position of the business and its changing strengths and weaknesses, particularly as seen through the eyes of key stakeholders
- Effectively monitor the environment and take a position on future change
- Be acutely aware of feedback from the customer, and an ability
- To bring forward the needs of customers and key stakeholders (including own staff).

The construct “entrepreneurial skills” (E/S) includes various skills that differentiate the entrepreneur from the manager. The choice of concepts included in such a construct is based on those skills that differentiate an entrepreneurial career from other careers in terms of what the person would need to be successful in such a career. According to Sexton and Kasarda (cited by Van Vuuren & Nieman 1999:3) virtually every career in business involve some combination of knowledge, technique and people skills but few involve the integration in combination of all functional knowledge and skills to the extent that entrepreneurial activity does. While the entrepre-

neur may borrow ideas from other people he/she first needs to implement these ideas before they can become entrepreneurial acts (Van Vuuren & Nieman 1999:3).

Van Vuuren and Nieman (1999:6) further propose that entrepreneurs need the following entrepreneurial skills:

- *Creativity and innovation* – Entrepreneurs are able to blend imaginative and creative thinking with systematic, logical process ability (Kuratko & Hodgetts 1989:36).
- *Risk taking* – Generally, people are either risk takers or risk avoiders. In other words, risk taking is seen as a level of the propensity on the side of the individual. It is, however, proven that this propensity to take risks can be developed especially if risk can be fully understood by the entrepreneur (Van Vuuren & Nieman 1999:4). Sexton and Kasarda in Van Vuuren and Nieman (1999:4) pointed out that while risk taking is mentioned in approximately all definitions of entrepreneurship, and although the risk taking propensity has been shown to be a distinguishing characteristic of entrepreneurs there are no causal relationships that have as yet been empirically proven. If risk taking is seen as a level of propensity on the side of an individual, it seems that risk taking is not necessarily a “skill” but rather an attitude.
- *Identification of Opportunities* – While opportunity recognition is often considered to be a critical step in the entrepreneurial process, limited empirical research has been conducted about this process (Ucbasaran, Westhead & Wright 2001:60). The prospective entrepreneur must distinguish between an idea and an opportunity. Opportunities are attractive, lasting and timely and relate to a product/service that creates, or adds value, for its buyer or/and user.
- *Ability to have a vision for growth* – A vision for growth also goes hand in hand with situation specific motivation. Baum, Locke and Smith (2001:301) found that higher levels of entrepreneurial motivation did indeed shape organisation structure, processes and even work.
- *Ability to interpret successful role models* – Most successful entrepreneurs follow a pattern of apprenticeship, preparing to become entrepreneurs by gaining the relevant experience from role models (Timmons 1999:46).

Douglas and Shepherd (1999:235) discuss differential entrepreneurial abilities and argue that people with greater levels of such abilities will tend to self-select as entrepreneurs. The term “entrepreneurial ability” indicates all the skills possessed by a person which contribute to his/her productivity on the job, and include opportunity recognition and screening, business planning, creative problem solving, strategic marketing, financial management, human resource management, and leadership and persuasive skills.

In some literature there is confusion between entrepreneurial abilities and entrepreneurial attitudes (Douglas & Shepherd 1999:235). It is important to distinguish between abilities and attitudes since abilities can be improved through skills training – attitudes can be seen as products of abilities.

Entrepreneurial skills are seen by Gibb (1998:3) as being variously synonymous with the following:

- Basic interpersonal skills, core skills or transferable skills, such as communication, planning and presentation as well as those skills associated with personal 'enterprising' behaviours which may be exhibited in a range of contexts, not purely business
- Setting up and running an independent owner-managed business
- Managing dynamic growing businesses, businesses with high risk of failure, or
- Exhibiting high rates of innovation
- Business skills development in the broad management sense of being 'qualified', for example, in marketing, financial management, production management and human resource management, and
- Attaining greater insight into the world of work.

Erikson (2002:27) used Ulrich's model of intellectual capital as a multiplicative function of competence and commitment (motivation) in the following equation: Entrepreneurial capital = Entrepreneurial competence x Entrepreneurial Commitment. Erikson then identifies the following entrepreneurial competence components:

- Perceived feasibility was found to be one of the main components determining entrepreneurial intentions which is the main determinant of behaviour

Entrepreneurial creativity where the entire mindset of an individual is focused on developing new business organisations, products or services

- Entrepreneurial competence is the ability to recognise and envision taking advantage of opportunity
- Ability to enterprise refers to the sum of technical and business capabilities to start and manage a business, including business planning, product development, marketing, personnel management, general management, accounting and finance capacities
- Perceived behavioural control includes notions of “feasibility” and “control” and measures people’s sense of personal efficacy
- Entrepreneurial self-efficacy refers to belief in one’s (cap)ability. It mobilises the motivation, cognitive resources and courses of action needed to meet given situational demands
- Conviction overlaps with ‘self-efficacy” and “feasibility”. The concept refers to the perceived ease of starting a new business and the perceived feasibility of such a choice, and
- Resource acquisition self-efficacy reflects the perceived (cap)ability to acquire requisite resources.

Lumpkin and Dess (1998:432) distinguished between entrepreneurship and entrepreneurial orientation by suggesting that the latter represents the key entrepreneurial processes that answer the question of how new ventures are undertaken. Whereas the term entrepreneurship refers to the content of entrepreneurial decisions by addressing what is undertaken. The model for entrepreneurship they developed suggests that the concept consists of five dimensions, namely autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. They found that proactiveness as a strategy mode was positively related to performance in dynamic environments but competitive aggressiveness tended to be poorly associated with performance, whilst in hostile environments, where competition was intense and resources constrained, competitively aggressive firms had stronger performance.

#### **3.4.1.2 Business skills**

Entrepreneurial performance results from a combination of industry knowledge, general management skills, people skills and personal motivation (Wickham 2001:55). Part of succeeding is to know how to do things right and also choosing the right things to do (Atac 2000:1).

Generally, business skills are seen as the following:

- General Management skills
- Financial skills
- Marketing skills
- Legal skills
- Operational skills
- Human Resource Management skills
- Communication skills, and
- Business planning.

#### **3.4.1.3 Possessing the will or tenacity to "do it" (Motivation)**

Like Olson, Ulrich (1998:2) considers action to be the difference between creative people and entrepreneurs. The entrepreneurship process is classified into two distinct dimensions: creativity and initiative/action. Ulrich (1998:3) defines these dimensions as follows:

- Creativity is the envisioning of a new combination of resources and market realities often through the questioning of conventional wisdom, the discovery of new knowledge regarding market needs, technology, or the availability of vital resources, and/or finding new applications for pre-existing knowledge.
- Initiative/action on the other hand, is needed to carry out the vision to commit to the pursuit of the opportunity, to marshal the necessary approvals to do so, and to manage the effective implementation of the strategy. Vision without action is of little value.

Within the creativity dimension Ulrich (1998:3) mentions two stages: vision of the opportunity and strategy to exploit the opportunity.

Sanzotta in Antonites (2003:44) defines motivation per se as a threefold construct namely:

*Motivation towards competitiveness*

Apart from the fact that humans are socially interdependent beings, competition originates as a form of social interaction. This behavioural pattern develops as a comparative measure wherein, for instance, a situation develops where the best possible achievement is sought after. Within this framework motivation is regarded as core to the origin of competition. Motivation can further act as a comparative measure for achievement and failure on the basis of the feedback function, created as a result of this in a competitive framework.

#### *Innate incentive*

Motivation can further be described as a basic explorative incentive, derived from the inquisitive nature of man. Explorative behaviour is motivated by the search for new experience and the flexibility of man that enables him/her to adjust to these so called new circumstances. This indicates an individual who, due to his inquisitive nature, demands to go through a certain learning curve in order to gain the required knowledge to adjust to the “new”. This process is driven by motivation.

#### *Acquired behaviour*

It is generally accepted that motivation influences the learning process and learning per se therefore it can be deduced that the individual doesn't learn effectively if the motivation does not exist. In addition, those individuals who do not learn effectively, possibly are not motivated because they have never learnt how to be motivated. Motivation can therefore be a positive influence on learning as well as in the learning process: “The more you learned how to be motivated in the past, the more easily you transfer that motivation either to new learning, or more importantly, to new levels of incentives”. This links to the concept of self-efficacy which arises from the gradual acquisition of skills through experience (Jung, Ehrlich, de Noble & Baik 2001:42).

In the watershed work of McClelland published in 1961 entitled *The Achieving Society*, he stated the hypothesis that achievement motivation is partly responsible for economic growth. His basic hypothesis was that there is a strong correlation between economic growth and the need to achieve. The relevance of the work of McClelland in relation to recent findings is deduced from the psychological characteristics that need to be present within the entrepreneur in order to be successful.



These entrepreneurial characteristics are identified in the development of the achievement phenomenon. He specifies the following three universal characteristics deduced from the achievement motivation theory as present in the entrepreneur:

- **Problem solving** that forms an integrative part of an individual's responsibility. This includes the formulation of goals and the implementation and achievement of them through personal exertion.

- **Calculated propensity towards risk** that has to be described as an integrated function of ability and should not be calculated from a mere chance situation.
- The entrepreneur has to have the **knowledge of the results** reached as well as make an **evaluation of tasks** that were completed.

Naffziger *et al.* (1994:31) state that too little research has been done into the motivation of entrepreneurs. Owing to this fact, the authors developed an integrated model aimed at the total entrepreneurial process. They argue in favour of the model that entrepreneurship could exist within existing ventures (corporate entrepreneurship) as well as the well-known venture creator (entrepreneur). The basis of the theory, or model, is the premise that entrepreneurs are motivated to achieve certain goals. Entrepreneurs define their experience as being successful in as much as the goals were reached. The model is illustrated as follows:

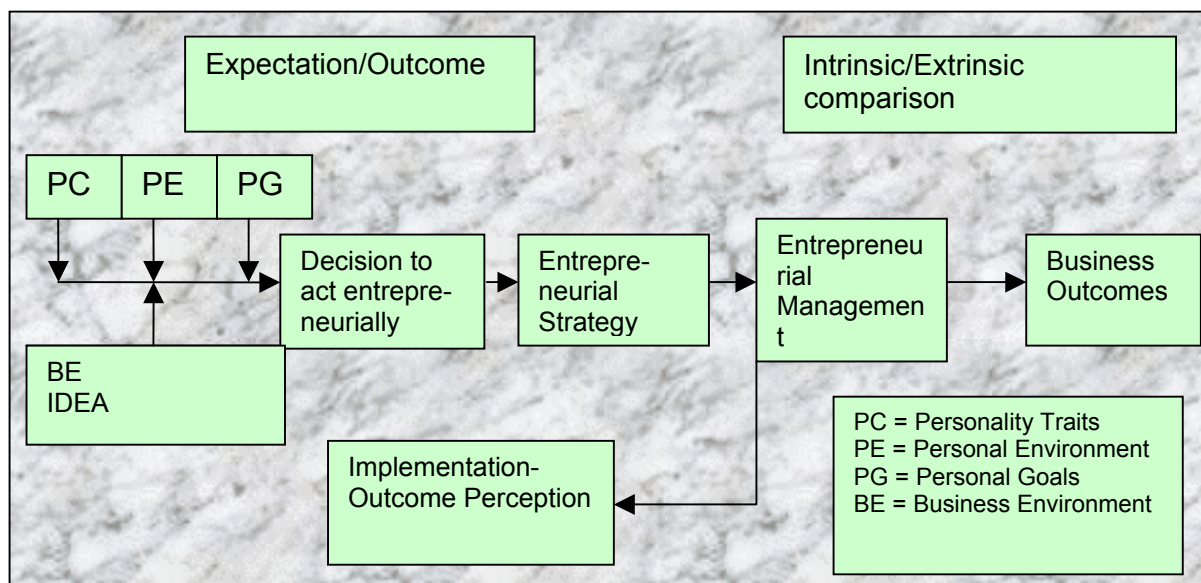


Figure 3.7: A model for entrepreneurial motivation, as adapted from Naffziger *et al.* (1994:33)

Newly formed ventures call for both strategic and operational management. Integrated in the process is the entrepreneur who becomes a manager and evaluates his/her set goals that are being met (for instance business growth) according to their importance. These evaluations form the motivational level of the entrepreneur and develop the need to act more entrepreneurially (for instance the implementation of an expansion strategy). According to the above-mentioned authors it has a more holistic nature than the other models that are regarded as more simplistic. The pri-

mary motivational characteristic of this framework is that the entrepreneur is motivated to act more entrepreneurially as long as it is known that this type of behaviour is instrumental in the achievement of goals.

### 3.4.2 The Opportunity

Entrepreneurship is the pursuit of opportunity (Shaw 1996:48). An opportunity is the gap left in the market by those who currently serve it. It presents the potential to serve customers better than they are being served at present. Timmons (1999:85) indicates that an opportunity has the qualities of being attractive, durable and timely and is anchored in a product or service which creates or adds value for its buyer or end user.

Opportunity recognition is acknowledged to be a topic that may be unique to the study of entrepreneurship and new business development (Hills & Lumpkin 1997:1). Timmons (1999:80) identifies three criteria for an idea to be an opportunity:

- Attractiveness to the market
- Timeous/timely
- Durability/sustainability

According to Wickham (2001:40) the following comprises a business opportunity:

- Needs
  - What are the customers' fundamental needs in relation to a specific product category?
  - What benefits does the product offer and what problems do customers solve with the product?
  - How does the market currently serve those needs i.e., what products are offered and what features do they have?
  - In what ways does the market fail to serve those needs i.e., why are customers left dissatisfied and how often are they left dissatisfied?
  - How customer needs could be served better, or how can the product on offer be improved?
- Organisations exist to co-ordinate tasks that allow people to specialise their activities and to collaborate in the production of a wide variety of goods. Goods have a utility because they satisfy human needs. An organisation is an arrangement of relationships in that it exists in the spaces between people. Organisations exist to address human needs. Whatever the organisational arrangement is at the moment, there is probably a better way of doing things.

Opportunity may be market inspired or product driven but the point is that entrepreneurship starts with ideas. Opportunities do not have to be “pure”. It is often the case that a particular opportunity comprises a mixture of the following elements (Wickham 2001:214):

- A new product may demand an additional support service if customers are to find it attractive. Getting the product to them may demand that relationships are formed. The entrepreneur must have an open mind and a creative approach to the way in which opportunities may be exploited.
- The new product offers the customer a physical device which provides a new means to satisfy a need or to solve a problem. A new product may be based on existing technology or it might exploit new technological possibilities. It might also represent a chance to add value to an existing product by using an appropriate branding strategy.
- The new service offers the customer an act, or a series of acts, which satisfy a particular need or solve a problem. Many new offerings have both “product” and service dimensions.
- A new means of producing an existing product is not an opportunity in itself. It will offer an opportunity if it can be used to deliver additional value to the customer. This means the product must be produced at a lower cost or in a way which allows greater flexibility in the way it is delivered to the customer.
- A new way of getting the product to the customer means that the customer finds it easier, more convenient, or less time consuming to obtain the product or service.
- This is an opportunity to enhance the value of a product to the customer by offering an additional service element with it. This service often involves maintaining the product in some way but it can also be based on supporting the customer in using the product or offering them training in its use.
- Relationships are built on trust, and trust adds value by reducing cost needed to monitor contracts. Trust can provide a source of competitive advantage. It can be used to build networks which competitors find hard to enter. A new opportunity presents itself if relationships which will be mutually beneficial to the entrepreneur and the customer can be built.

Opportunity identification is the process by which an entrepreneur comes up with the opportunity for a new venture (Hisrich & Peters 2002:39). Established businesses sometimes fail to see new opportunities - opportunities do not present themselves, they have to be actively sought out (Wickham 2001:205). Organisational inertia i.e., resistance to change in response to changing circumstances, is a well-documented phenomenon (Wickham 2001:207). An established organisation can become complacent and adopt a particular perspective of “dominant logic”. This, results in established businesses leaving gaps – these gaps represent windows of opportunity through which the entrepreneur can move. It is through the window that the entrepreneur can see the “whole new world” he or she wishes to create.

The first stage of the “window of opportunity” metaphor is to picture a solid wall. This represents the competitive environment into which the entrepreneur seeks to enter. The wall is solid because of competition from established businesses. They are active in delivering products and services to customers in an effective way. The entrepreneur can do nothing new or better and so new value cannot be created.

Having spotted a “window of opportunity” the entrepreneur must measure it. The entrepreneur must be sure that the window – the opportunity – is big enough to justify the investment needed to open it.

Hills and Lumpkin (1997:4) concluded that in the entrepreneurial business, opportunity recognition is an ongoing process, consisting of, either, a) perceiving a possibility to create new businesses or, b) significantly improving the position of an existing business, in both cases resulting in new profit potential. The way in which a business scans the business environment for new opportunities is linked to the systems and processes that make up that organisation.

### **3.4.3 Resources**

One of the key functions of the entrepreneur is to attract investment (money, knowledge, physical assets, brand names and goodwill) to the venture and to use it to build up a set of assets, which allow the venture to supply its innovation competitively and profitably. Although resources are crucial to the performance of a venture, resources alone are not sufficient to achieve a sustainable competitive advantage.

People are key players in the venture and the skills and experience they will contribute to the business will influence its success. The entrepreneur must ensure the correct mix of talents and commitment in his management team. It follows that entrepreneurs must develop skills and select competitive strategies to make better use of the resources that are accessible to them.

Based on the resource-based theory of the firm, Chandler and Hanks, as quoted by Ucbasaran *et al.* (2001:69), suggested that businesses should select their strategies to generate rents based upon resource capabilities. The argument put forward is that when there is a fit between the available resources and the venture's competitive strategies, firm performance should be enhanced.

#### **3.4.4 Organisation**

In order to supply the market, the activities of a number of different people must be co-ordinated. This is the function of the organisation the entrepreneur creates. This involves structuring the business so that it can serve the requirements of a particular market segment better than existing competitors.

The organisation can take many different forms depending on a number of factors. Positioning the venture means locating it in relation to a market gap such that it can exploit that gap in a profitable way. This involves developing an understanding of where the window of opportunity is located. It demands an understanding both of the positioning of the new offering in the marketplace relative to existing products and services and of how the venture can position itself in the marketplace relative to existing players to take best advantage of the opportunity presented.

Organisations with typical entrepreneurial characteristics engage in activities of exploration of ideas to renew strategies, work methods, processes and even products, in the renewal phase.

Current thinking is not to define the entrepreneurial organisation too strongly but rather to see it as a network of relationships between individuals. In the network view the organisation is a fluid thing defined by a nexus of relationships. The idea of

a network provides a powerful insight into how entrepreneurial ventures establish themselves.

### **3.4.5 Conclusion: models focusing on elements**

Although the above-mentioned two models offered insight into the elements of the entrepreneurial process, information on the exact linking of creative and innovative activity with the entrepreneurial process was not addressed sufficiently.

## **3.5 Activities of the Entrepreneurial Process**

In order to explore this further the model in figure 3.6 (on page 45), of the entrepreneurial process will be investigated in the following section by looking at the various entrepreneurial tasks.

### **3.5.1 Business idea development**

According to Morris and Kuratko (2002:104) creativity is the soul of entrepreneurship because it is required to spot the patterns and trends that define an opportunity. An opportunity is the chance to do something in a way which is both different from, and better than the way it is done at the moment. The business idea, namely how to exploit the identified opportunity, is refined in the business plan and executed through the processes of innovation and management.

Opportunity identification occurs when the entrepreneur becomes aware of a market opportunity due to an unfulfilled need within the market place. The first task of the entrepreneur is to scan the environment and find out where the gaps, or windows, are. This involves scanning the solid wall presented by existing players to find the windows and spot the gaps in what they offer to the market. The process demands an active approach to identifying new opportunities and innovating in response to them (Wickham 2001:210).

Although every opportunity is different in details, there are some common patterns in which opportunities take shape. Hills and Lumpkin (1997:9) found that the majority

of opportunities are recognised in connection with a specific problem or need that has been identified among customers. Opportunities that are so central to the entrepreneurial process can be identified by maintaining a market orientation.

Kao (1991:18) sees that basic to the entrepreneurial role is the ability to recognise and exploit opportunities. Implicit in this definition of the entrepreneur's role as the perception and pursuit of opportunity are a number of psychological tasks:

- The ability to see opportunities where others do not, using intuition effectively
- The ability to implement and attend to details – responsiveness to objective knowledge derived from the environment.

Two frequently described entrepreneurial approaches to identify market opportunities are referred to as:

- The market-pull approach, and
- The technology-push approach.

In the former, a consumer need is identified and then the entrepreneur develops a solution to satisfy that need. The latter approach involves the entrepreneur either developing or learning of a new technology and then searching for a market need to apply this new technology (Olson in Ulrich 1998:11).

If a firm is truly entrepreneurial it must gather information and analyse it in order to develop and maintain successful innovation strategies (Kemelgor 2002:67). Considerable research indicates that successful idea creation and product development depends on an in-depth understanding of the marketplace (Koen 1998:1).

Not all opportunities are equally valuable. The key decisions in screening and selecting opportunities relate to the size of the opportunity, the investment necessary to exploit it, rewards that will be gained and the risks likely to be encountered (Wickham 2001:220). Opportunities only have meaning in relation to each other. The entrepreneur must select opportunities not in absolute terms but after comparing them with each other.



The design phase of the entrepreneurship process requires evaluating the market opportunity to determine its potential for success. This involves separating the market opportunity into its component parts, investigating the possible causes or the nature of the opportunity, and generating and examining solutions that can be used to satisfy the unfulfilled market need (Olson in Ulrich 1998:2).

According to Atac (2000:80), this business development phase has a number of tasks, inter alia,

- Conducting market potential studies
- Evaluating markets
- Undertaking basic research
- Preparing feasibility studies
- Determining capital requirements
- Forecasting sales
- Communicating through internal publications
- Appraising attitudes, and
- Developing new products and improving existing products.

The above indicates the complexity of the factors impacting on the success of a business. The entrepreneurial tasks will now be investigated to ensure an integrated understanding of creativity and innovation on the multifaceted aspects of entrepreneurship.

### **3.5.2 Resource configuration**

The classic idea of entrepreneurship is that of a raw start up company, driven by an innovative idea that results in a high growth company. Success implies the ingenuity to find and control resources, often owned by others, to pursue the opportunity. It also means making sure the upstart venture does not run out of money when it needs it the most (Timmons 1999:28).

Not all individuals have the potential to form a business venture. Of those who do, not all will attempt a start-up. Of those who attempt it, not all will succeed in founding a business. Venture creation can be equated with planned behaviour. Various exogenous factors such as skills, experience, role models, knowledge, and personality traits affect the intention to create a venture (Chrisman 1999:45).

Organisational skills and management techniques are essential for successful venture creation. Many believe this stage of the entrepreneurial process, is the most difficult one and during it the full potential of products and services are not exploited because it is an establishing phase. Zietsma (1999:2) claims that entrepreneurial sense-making is important to venture initiation: “acting as if” the venture is unequivocal allows entrepreneurs to proceed where others might be paralysed by uncertainty.

Furthermore the entrepreneur is faced with a number of interpersonal tasks:

- The ability to marshal needed resources
- The ability to pursue creative tasks.

Tasks or activities identified during this phase are, inter alia:

- Locating and evaluating a plant site
- Performing the production tasks
- Designing the plant and
- Designing the organisation (product service departments) (Atac 2000:83).

### **3.5.3 Implementation through Business establishment**

The implementation phase is characterised by the transformation of the idea to reality. Opening the window represents the start-up phase of the venture. Moving through the window means developing the business and delivering new value to customers. Selecting a well-defined customer segment enables the business to focus limited resources to concentrate its efforts and to defend it against competitors (Wickham 2001:210).

All the required tasks necessary to make the selected innovation a reality need to be undertaken. Entrepreneurs must learn to understand the needs of their customers, to rationalise them and to distinguish them from each other. Satisfying a need represents an end and there are a number of means by which to achieve the end. Having decided which particular needs of the customer they will satisfy, the entrepreneur must decide the means, or technology that they will adopt in order to do so (Wickham 2001:220).

Using resources that are rare, valuable, imperfectly imitable and non-substitutable in favourable industry conditions provides sustainable competitive advantage (Dollinger 1995:9). Selection involves making a choice, a decision, or a commitment to some course of action (Ulrich 1998:2). Selection further requires bringing the new technology, product, or service to a communicable state. The solution to the market opportunity needs to be analysed and refined to the point where others can understand what is envisioned (Ulrich 1998:3).

Critical for survival is recognising the impending demise of markets, products, sources of raw material, production methods and changing course in due time – also called creative destruction.

Atac (2000:8) links this to the entrepreneur's skills to decide strategically what his business must produce/what services it must provide and for whom. He proposes that the following tasks be undertaken to design strategy:

- Diversifying markets
- Developing new products and improving existing products
- Developing new and improving existing product services, and
- Diversifying products.

On the other hand, Zietsma (1999:6) concluded that it seems as if the actual recognition is not the core of entrepreneurship because some people recognise opportunities but fail to start businesses. She also found that a substantial number of entrepreneurs in her study started businesses before they identified opportunities.

Specific activities to be undertaken in this phase include, inter alia, production, marketing, building/establishing and organisation, and responding to the environment. Entrepreneurs must have knowledge and experience if they are to be successful in the industries in which they operate. Some important elements of this include knowledge of:

- The technology behind the product or service supplied
- How the product or service is produced
- Customers' needs and the buying behaviour they adopt
- Distributors and distribution channels
- The human skills utilised within the industry

- How the product or service might be promoted to the customer
- Competitors – who they are, the way they act and react.

While it is relatively easy to produce an original idea, it is substantially more difficult to develop that idea into a marketable product or service, focus on plans, budgets, estimated returns, and to carry out all of the other requirements needed for implementation. Hence, individuals who identify new ideas but do not participate in their implementation are indeed creative people, they are, however, not entrepreneurs.

#### **3.5.4 Survival and growth**

The final stage is closing the window. The window must be closed because if it is not, competitors will be able to move in after the entrepreneur and exploit the opportunity themselves. Closing the window refers to building in competitive advantage, in short ensuring that the venture's customers keep coming back, so that competitors are locked out (Wickham 2001:210).

Closing the window means creating a long-term sustainable competitive advantage for the business as a basis on which the entrepreneur can build the security and stability of the business and use it to earn long-term rewards. During this stage a continuous exploitation must take place of opportunities as they arise. The entrepreneurs must decide what type of competitive advantage they aim to pursue,

- e.g.:
- Offering the customer at a lower price, that is better value for money, differentiating the offering through its features or performance
  - Differentiating the offering through service
  - Differentiating the offering through branding
  - Differentiating the offering through brand imagery i.e., building in associations that address social and self-developmental needs as well as functional needs
  - Differentiating through access and distribution, that is by giving the customer easier, more convenient access to the offering (Wickham 2001:267).

The business now moves to the growth stage that is characterised by pressure. The product or service is explored in order to unfold the business to its full potential. An important concept during the growth phase is change which is critical for growth,

success and stabilisation. There are a number of growth strategies that can be followed (Nieman & Bennett 2002:66), inter alia,

- Generic growth i.e., growing the business through an increase in the market share, developing new products and/or entering new markets
- Vertical integration i.e., acquiring firms that are either above or below your own business in the supply chain in a quest for control of supply or marketing
- Horizontal integration i.e., integrating businesses on the same level, in essence competitors, and
- Lateral integration i.e., when the integrated business is neither supplier nor customer or competitor, and the business wishes to diversify to reduce risk or seasonality.

Entrepreneurs will need a distinctive set of problem and opportunity-solving competencies during the growth phase. Not only will the “know-how” need to be very broad but there will be a need to “bring forward the future” in terms of familiarity with problems and opportunities that are likely to occur (Gibb 1998:14).

Various behaviours are called for to realise continual exploitation of opportunities, inter alia, improvisation, quick, agile thinking, resourcefulness and inventiveness.

Pressures that pull a business towards the entrepreneurial end include:

- Action orientation
- Short decision windows
- Risk management, and
- Limited decision constituencies.

Van Vuuren and Nieman (1999:4) stated that the abovementioned entrepreneurial skills are not the only skills that may be included in this paradigm of entrepreneurship education. However, it provides at least a basis, which can be departed from and could be augmented by those mentioned by Gibb (1998:3). The identification of opportunities should subsequently rather be regarded as an activity of the entrepreneurial process wherein the skill of creativity should be applied.

### **3.5.5 A summary of activities and tasks in the entrepreneurial process**

The following skills (Gibb 1998:21) are associated with personal enterprise:

- Intuitive decision taking/making

- Creative problem solving
- Managing interdependency on a “know who” basis – social skills associated with building trust and friendship, with key stakeholders and contacts
- Ability to conclude deals – skill in bringing together different perspectives on a problem or deal in order to achieve a firm conclusion (social skills)
- Strategic thinking – an ability to “think” on his/her feet, about the longer term implications of activities without resort to more formal planning of “scenarios”
- Project management – ability to manage and see through specific new developments (which build the business internally and its reputation externally)
- Time management – ability to cope with flexible hours and multiple demands from internal and external stakeholders and family (project management)
- Persuasion – skill in persuading stakeholders to undertake courses of action which are judged desirable (social skills)
- Selling – skill in setting out the benefits to stakeholders of dealing with a company as a business (social skills)
- Negotiating – skill in bringing together different perspectives on a deal to reach a conclusion of advantage to the business (social skills)
- Motivating people by example – ability to lead by example (social skills).

The abovementioned skills can be linked to key tasks in the entrepreneurial process as in the table 3.1.

### **3.5 Chapter Conclusion**

The entrepreneurial process was described from an element and activity perspective. For purposes of identifying skills, the activities perspective was found helpful. Entrepreneurs identify opportunities, create ideas and decide on their actions on the basis of a mixture of creativity, rational analysis and intuition. Creativity is a key issue and so is rational analysis. Creativity underlies innovation and leads to innovation, which then brings about change in the enterprise. Individual creativity is a precursor of the initiation of innovation in enterprises (Glynn 1996:1098).

The skills underlying the activities of the entrepreneurial process can be divided into:

- Business/management skills

- Project management
  - Time management

Table 3.1: Tasks in the entrepreneurial process linked to creative skills adapted from Gibb 1998:22)

Entrepreneurial Activity	Key Tasks	Skills needed
Business idea Development	<ul style="list-style-type: none"> <li>• Scan the environment</li> <li>• Find an idea</li> <li>• Generate an idea</li> </ul>	<ul style="list-style-type: none"> <li>• Visualisation skills</li> <li>• Problem definition skills</li> <li>• Idea generation skills</li> <li>• Creative problem solving skills</li> </ul>
Resource Configuration	<ul style="list-style-type: none"> <li>• Clarify idea</li> <li>• Evaluate opportunities for possible success</li> <li>• Innovation</li> <li>• intuitive decision taking/making</li> <li>• Marshal resources</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic thinking skills</li> <li>• Creative problem solving skills</li> <li>• Overcoming mental barriers</li> <li>• Creative evaluation skills</li> </ul>
Implementation	<ul style="list-style-type: none"> <li>• Negotiate with stakeholders – get necessary resources</li> <li>• Learn from competition</li> </ul>	<ul style="list-style-type: none"> <li>• Social skills</li> <li>• Strategic thinking skills</li> <li>• Critical thinking skills</li> <li>• Judgment skills</li> <li>• Solution implementation skills</li> </ul>
Survival & Growth Maximisation	<ul style="list-style-type: none"> <li>• Meet legal and statutory requirements</li> <li>• Production/Selling /Create organisation/Manage</li> <li>• Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Project management</li> <li>• Social skills</li> <li>• Strategic thinking skills</li> <li>• Creative problem solving skills</li> </ul>

- Technical skills
- Social skills
- Decision-making/taking
- Strategic thinking
- Entrepreneurial skills
  - Opportunity identification
    - Creative problem solving skills
  - Opportunity exploitation
    - Thinking skills

“The conviction that one can successfully execute the behaviour required” (Bandura, 1978:193) has been shown to have a positive effect on performance (e.g., Wood & Bandura 1989:211).

Erikson (2002:27) mentioned entrepreneurial self-efficacy as a factor in “entrepreneurial capital”. The efficacy-performance relationship however, is a positive, cyclic one (Lindsley, Brass & Thomas 1995:645). That is, performance affects self-efficacy, which in turn affects performance, and so on. Because of the reciprocal causation, these iterative loops often become "deviation-amplifying" (Henshel 1976; Masuch 1985; Weick 1979 as quoted by Lindsley *et al.* 1995:646). For example, in a deviation-amplifying loop, a deviation in one variable (decrease in self-efficacy) leads to a similar deviation in another variable (lower performance), which, in turn, continues to amplify. Thus, the cyclic nature of the self-efficacy-performance relationship can result in a downward (decreasing self-efficacy and performance) or upward (increasing self-efficacy and performance) spiral.

The nature and impact of the entrepreneurial process on economic and business success is difficult to research as there are many intervening variables to consider. However, it can be concluded that at its core the entrepreneurial process is opportunity-driven, creative, resource-efficient and driven by a lead entrepreneur or entrepreneurial team (Kodithuwaku & Rosa 2002:432).

Having identified the core entrepreneurial skills as opportunity identification and subsequent opportunity exploitation, one needs to ask how these skills are applied  
crea



tively versus non-creatively. The literature had very little if any empirical evidence about the activities that an entrepreneur performs, whilst identifying and exploiting opportunities or the difference between doing so creatively or non-creatively.