

REPORT ON THREE CHAPTERS WHICH COVER THE ENTREPRENEURIAL MIND-SET BASED ON *ENTREPRENEURSHIP: THEORY, PROCESS, PRACTICE*

1.0 INTRODUCTION

This report contains the summary of three chapters into the entrepreneurial mind-set. The report is based on the chapters in the entrepreneurship book of Donald F. Kuratko, Richard M. Hodgetts. 2007, *Entrepreneurship: Theory, Process, Practice, Seventh Edition*. This report was requested by the lecturer of Entrepreneurship Business Strategy, Dr. Jalal, and it was prepared by a group of undergraduates, Yap Sing Keat, Wong Yat Sheng, and Regan Rajan. The report was submitted to a coordinator, Mr. Dipankar on 30th October 2009.

2.0 THE ENTREPRENEURIAL INDIVIDUAL

2.1 Entrepreneurial Mind-Set

Current younger generation is referred to as Generation X because they feel “X-ed” out of traditional opportunities. This generation of the twenty-first century may become Generation E because they are becoming the most entrepreneurial generation. As many as 5.6 million Americans younger than age 34 are actively trying to start their own business today.

According to the founder of Pizza Hut, Frank Carney, entrepreneurs are described as the cornerstone of the American enterprise system, the self-renewing agents for the economic-environment. Besides, entrepreneurs are uniquely optimistic, hard-driving, committed individuals who derive great satisfaction from being independent. Starting a new business requires more than just an idea; it requires a special person, an entrepreneur, who uses sound judgment and planning along with risk taking to ensure the success of his or her won business.

2.2 Major Sources of Entrepreneurial Information

It is important to recognize that a number of sources of information relating to the entrepreneurial mind-set exist. Three main sources are publications, direct observation, and presentations by or case studies of practicing entrepreneurs. In the aspect of publications, research-based sources consist of technical and professional journals, textbooks on entrepreneurship, books about entrepreneurship, biographies of entrepreneurs, compendiums about entrepreneurs, news periodicals, venture periodicals, newsletters, proceedings of conference, and government publications.

The second major source of information about the entrepreneurial mind-set is direct observation of practicing entrepreneurs. Through the use of interviews, surveys, and case studies, the experiences of individual entrepreneurs can be related. Besides, the final source of entrepreneurial information is speeches and presentations by practicing entrepreneurs. It provides an opportunity to learn about the entrepreneurial mind-set. Entrepreneur-in-residence programs at various universities illustrate the added value oral presentations may have in educating people about entrepreneurship.

2.3 Common Characteristics Associated with Successful Entrepreneurs

In attempting to explain the “entrepreneurial mind-set within individuals”, this chapter presented the most common characteristics exhibited by successful entrepreneurs. The top ten characteristics today’s entrepreneurs share include recognize and take advantage of opportunities, resourceful, creative, visionary, independent thinker, hard worker, optimistic, innovator, risk taker, and leader. Entrepreneurship has been characterized as the interaction of the following skills: inner control, planning and goal setting, risk taking, innovation, reality perception, use of feedback, decision making, human relations, and independence. Besides, successful entrepreneurs are individuals who are not afraid to fail.

2.4 “Dark Side” of Entrepreneurship

A researcher, Manfred Kets de Vries has acknowledged the existence of certain negative factors that may envelop entrepreneurs and dominate their behavior. The “dark side” includes the confrontation with risk, the problems of stress, and the particular traits that may permeate the entrepreneurial ego.

In the aspects of risk, starting or buying a new business involves risk. The higher the rewards, the greater the risk entrepreneurs face. This is why entrepreneurs tend to evaluate risk very carefully. Entrepreneurs face a number of different types of risk which can be grouped into basic areas which are financial, career/ job security, social (family and friends), and personal health or psychic.

In addition, stress can be viewed as a function of discrepancies between a person’s expectation, and ability to meet demands, as well as discrepancies between the individual’s expectations and personality. If an individual is unable to fulfill role demands, then stress occurs. Besides, researchers, David P. Boyd and David E. Gumpert have identified four causes of entrepreneurial stress: loneliness, immersion in business, people problems, and the need to achieve.

In addition to the challenges of risk and stress, certain characteristics that usually propel entrepreneurs into success can be exhibited to their extreme that may hold destructive implications for entrepreneurs. Entrepreneurs are driven by a strong desire to control both their venture and destiny. This internal focus of control spills over into a preoccupation with controlling everything.

The common entrepreneurial goals are independence, wealth, and work satisfaction. Research studies of entrepreneurs show that those who achieve these goals often pay a high price. A majority of entrepreneurs surveyed had back problems, ingestion, insomnia, or headaches. To achieve their goals, however, these entrepreneurs were willing to tolerate these effects of stress. The rewards justified the costs.

2.5 Ways of Handling Stress

There are six ways entrepreneurs can cope with stress, which are networking, getting away from it all, communicating with employees, finding satisfaction outside the company, delegating, and exercising rigorously.

Networking: One way to relieve the loneliness of running a business is to share experiences by networking with other business owners. The objectivity gained from hearing about the triumphs and errors of others is itself therapeutic.

Getting away from it all: The best way to immersion in business is a holiday. If vacation days or weeks are limited by valid business constraints, short breaks still may be possible.

Communicating with employees: Entrepreneurs are in close contact with employees and can readily assess the concerns of their staffs.

Finding satisfaction outside the company: Entrepreneurs need to get away from the business occasionally and become more passionate about life itself. Besides, they need to gain some new perspectives.

Delegating: Implementation of coping mechanisms requires implementation time. To gain this time, entrepreneurs have to delegate tasks. If time is to be gained for alleviation of stress, then appropriate delegates must be found and trained.

Exercising rigorously: Researchers Michael G. Goldsby, Donald F. Kuratko, and James W. Bishop examined the relationship between exercise and the attainment of personal and professional goals for entrepreneurs. The study demonstrates the value of exercise regimens on relieving the stress associated with entrepreneurs.

2.6 Entrepreneurial Motivation

The quest from new-venture creation and willingness to sustain that venture is directly related to an entrepreneur's motivation. One research study examined the importance of satisfaction to an entrepreneur's willingness to remain with the venture. Particular goals, attitudes, and backgrounds were all important determinants of an entrepreneur's eventual satisfaction.

According to the model of entrepreneurial motivation which is proposed by Douglas W. Naffziger, Jeffrey S. Hornby, and Donald F. Kuratko, the entrepreneur's expectations are finally compared with the actual or perceived firm outcomes. Future entrepreneurial behavior is based on the results of all of these comparisons. When outcomes meet or exceed expectations, the entrepreneurial behavior is positively reinforced, and the individual is motivated to continue to behave entrepreneurially. When outcomes fail to meet expectations, the entrepreneur's motivation will be lower and will have a corresponding impact on the decision to continue to act entrepreneurially.

In conclusions for entrepreneurial motivation, recognizing that the contribution of psychological factors to the process of entrepreneurship, the model of entrepreneurial motivation demonstrated the importance of entrepreneurs' perceived expectations and actual outcomes in their motivation to start and sustain a venture.

3.0 DEVELOPING INDIVIDUAL INNOVATION

3.1 The Role of Creativity

Creativity generates ideas that result in the improved efficiency or effectiveness of a system. Process and people are the two important aspects of creativity exist; the process is goal-oriented and the people are the resources that determine the solution. Creativity is not some mysterious and rare talent reserved for a select few. It is a distinct way of looking at things illogically.

3.2 The Nature of the Creative Process

The major components of creative process included: knowledge accumulation, incubation process, idea experience, evaluation, and implementation. The process requires courage, self-discipline, and perseverance. Some useful suggestions are: increase your energy level with proper exercise, diet and rest; educate yourself in the business-planning process; test your ideas with knowledgeable people; take notice of your intuitive hunches and feelings; educate yourself in the selling process; learn about organizational policies and practices; seek advice from others; and view the problems you encounter while implementing your ideas as challenges. Many inventions and innovations are a result of the inventor's seeing new and different relationships among objects, processes, materials, technologies, and people.

3.3 Developing Your Creativity

Successful creations are generally preceded by investigation and information gathering. This involved extensive reading, conversations with others working in the field, attendance at professional meetings and workshops, general absorption of information in both relate and unrelated fields. People practice creative search for background knowledge by: read in a variety of fields; join professional groups and associations; attend professional meetings and seminars; travel to new places; talk to anyone and everyone about your subject; scan magazines, newspapers, and journals for articles; develop a subject library for future reference; carry a small notebook and record useful information; and devote time to pursue natural curiosities.

Some steps to induce incubation follow: engage in routine, “mindless activities; exercise regularly; play (sports, games, puzzles); think about the problem before fall asleep; meditate or practice self-hypnosis; and sit back and relax on a regular basis. The ways to speed up idea experience are: daydream and fantastic about your project, practice your hobbies, work in a leisurely environment, put the problem on the back burner, keep a notebook at bedside to record late-night or early-morning ideas, and take breaks while working.

People need to visualize themselves in complementary relationships to the things and people of the world, look at how they complement each other in nonconventional ways and from a different perspective. Experts on creativity, innovation, and self-development have emphasized the importance of developing the skills associated with both hemispheres of the brain. The right brain hemisphere helps an individual understand analogies, imagine things, and synthesize information. The left brain hemisphere helps an individual to analyze verbalize, and use rational approaches to problem solving. The creative process involves logical and analytical thinking in the knowledge accumulation, evaluation, and implementation stages. It is important to develop both right and left brain to become more creative.

3.4 Arenas in Which People Are Creative

Creative researcher William Miller argues that people often do not recognize when they are being creative, and they frequently overlook opportunities to be creative. People can channel their creativity into seven different arenas: idea creativity, material creativity, organization creativity, relationship creativity, event creativity, inner creativity, and spontaneous creativity.

3.5 The Creative Climate

To establish nature of creative climate, some of the important characteristics are: a trustful management that does not overcontrol the personnel, open channels of communication among all business members, considerable contact and communication with outsiders, a large variety of personality types, a willingness to accept change, an enjoyment in experimenting with new ideas, little fear of negative consequences for making a mistake, the selection and promotion of

employees on the basis of merit, the use of techniques that encourage ideas including suggesting systems and brainstorming, sufficient financial, managerial, human, and time resources for accomplishing goals.

3.6 Types and Sources of Innovation

Four basic types of innovation are invention (totally new product, service, or process), extension (new use or different application of an already existing product, service, or process), duplication (creative replication of an existing concept) and synthesis (combination of existing concepts and factors into a new formulation or use).

The sources of innovation are: unexpected occurrences, incongruities, process needs, industry and market changes, demographic changes, perceptual changes, and knowledge-based concepts.

3.7 Principles of Innovation

The major motivation principles are to be action oriented, make the product, process, or service simple, understandable and customer-based, start small, aim high, try/test/revise, follow a milestone schedule, reward heroic activity, work-work-work and learn from failure.

4.0 ETHICS AND ENTREPRENEURSHIP

4.1 Ethics

In the broadest sense, ethics provide the basic rules or parameters for conducting any activity in an acceptable manner. More specifically, ethics represent a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong. Continual conflict over the ethical nature of decision is quite prevalent. This conflict arises for a number of reasons.

First, business enterprises are confronted by many interests both inside and outside the organization such as stockholders, customers, managers, the community, the government, employees, private interest group, unions, peers, and so on. Second, society is undergoing dramatic change. Values, mores, and societal norms have gone through a drastic evolution in the past few decades. A definition of ethics in such a rapidly changing environment must be based more on a process than on a static code.

4.2 Ethics and Laws

For entrepreneur the dilemma of legal versus ethical is a vital one. Survival of the venture is a strong motivation for entrepreneurs, and although the law provides the boundaries for what is illegal, it does not supply answer for ethical considerations.

Legal behavior represents one of four rationalizations manager use for justifying questionable conduct. The four rationalizations are believing that the activity is not 'really' illegal or immoral; that it is in the individual's or corporation's best interest; that it will never be found out; and that because it helps the company, the company will condone it. These rationalizations appear realistic, given the behavior of many business enterprises today.

However, the legal aspect can be the most dubious. This is because the business world relies heavily on the law to qualify the actions of various situations. The law interprets the situation

within the prescribed framework. Unfortunately this framework does not always include ethical or moral behavior. This is left up to the individual, which is the precise reason for the dilemma.

In any examination of the realm of managerial rationalizations, the idea of morally questionable acts becomes a major concern for understanding ethical conduct. Morally questionable act are either against the firm or on behalf of the firm. In addition, the managerial role differs for various acts.

Nonrole acts are those person takes outside of his or her role as manager, yet they go against the firm. Role failure acts are also against the firm, but they involve a person failing to perform his or her managerial role, including superficial performance appraisals and confronting someone who is cheating on expense accounts.

Role distortion acts and role assertion acts are rationalized as being for the firm. These acts involve managers or entrepreneurs who rationalize that the long-run interests of the firm are foremost. Role distortion is the behavior of individuals thinking they are acting in the best interest of the firm, so their roles are distorted. Role assertion is the behavior of individuals asserting their roles beyond what they should be, thinking that they are expanding their personal roles to help the firm.

4.3 Establishing A Strategy for Ethical Responsibility

A code of conduct is a statement of ethical practices or guidelines to which an enterprise adheres. Many such codes exist, some related to industry at large and other related directly to corporate conduct. These codes cover multitude of subjects, ranging from misuse of corporate assets, conflict of interest, and use of inside information to equal employment practices, falsification of books or records, and antitrust violations.

Codes of conduct are becoming more prevalent in industry. Management is not just giving lip service to ethics and moral behavior; it is putting its idea into writing and distributing these guidelines for everyone in the organization to read and follow. Thus, in contrast to earlier codes,

the recent ones are providing to be more meaningful in terms of external legal and social development, more comprehensive in terms of their coverage, and easier to implement in terms of administrative procedures used to enforce them.

One author suggested a holistic management approach that encompasses ethics in its perspective. This dual focused approach includes ‘knowing how’ and ‘knowing that.’ To apply a holistic approach, entrepreneurs can develop specific principles that assist them in taking the right external steps as their ventures develop. There are four principles for ethical management.

First principle - hire the right people. Employees who are inclined to be ethical are the best insurance you can have. Look for people with principles. Let them know that those principles are important part of their qualification for the job.

Second principle - set standards more than rules. You can’t write a code of conduct airtight enough to cover every eventuality. A person inclined to fraud or misconduct isn’t going to blink at signing your code anyway. So don’t waste your time on heavy regulations. Instead, be clear about standards. Let people know the level of performance you expect – and that ethics is not negotiable.

Third principle – don’t let yourself get isolated. You know manager can lose track of market and competitors by moving into the ivory tower. But they also can lose sight of what’s going on in their operations. The only problem is you are responsible for whatever happens in your office or department or corporation, whether or not you know about it.

Fourth principle – the most important principle is to let your ethical example at all times be absolutely impeccable. This isn’t just a matter of how you act in matters of accounting, competition, or interpersonal relationships. Be aware also of the signals you send to those around you. Steady harping on the importance of quarterly gains in earnings, for example, rather easily leads people to believe you don’t care much about how the results are achieved.

It must be kept in mind that establishing a strategy for ethical responsibility is not an easy task for entrepreneurs. No single ideal approach to organizational ethics exists. Entrepreneur need to analyze the ethical consciousness of their organization, the process and structure devised to enhance ethical activity, and, finally, their own commitment to institutionalize ethical objectives in the company. Strategy should encompass three major elements: ethical consciousness, ethical process and structure, and institutionalization.

Ethical consciousness – is the responsibility of the entrepreneur because his or her vision created the venture. The key figure to set the tone for ethical decision making and behavior is the entrepreneur. An open exchange of issues and processes within the venture, established codes of ethics for the company and the setting of examples by the entrepreneur are all illustrations of how this is done.

Ethical process and structure – refers to the procedures, position statement (codes), and announced ethical goals designed to avoid ambiguity. Having all key personnel read the venture’s specific ethical goals and sign affidavits affirming their willingness to follow those policies is a good practice for ventures.

Institutionalization – is a deliberate step to incorporate the entrepreneur’s ethical objectives with the economic objectives of the venture. At times an entrepreneur may have to modify policies or operations that become too intense and infringe on the ethics of the situation. This is where the entrepreneur’s commitment to ethics and values is tested. Constant review of procedures and feedback in operations are vital to institutionalizing ethical responsibility.

4.4 Ethics and Business Decisions

The business decisions of entrepreneurs are highly complex for five reasons. First, ethical decisions have extended consequences. They often have ripple in that the consequences are felt by others outside the venture. Second, business decisions involving ethical questions have multiple alternatives. It is not always “do” or “don’t do”. Many decisions have a wide range of alternative that may allow a mixture of less important decisions. Third, ethical business decision

often have mixed outcomes. Social benefits as well as cost are involved with every major business decision, as are financial revenues and expenses. Fourth, most business decisions have uncertain ethical consequences. It is never absolutely certain what actual consequences a decision will have even when it appears logical; in other word, a decision is never without ethical risk.

Finally, most ethical business decisions have personal implication. It is difficult for an entrepreneur to divorce himself or herself from a decision and its potential outcome. Venture success, financial opportunity, and new-product development are all areas that may be affected by decisions having ethical consequences. The entrepreneur often will find it impossible to make a purely impersonal decision. These five statements about business decision need to be considered when an entrepreneur is developing a new venture. They indicate the need to grasp as much information as possible about each major decision.

4.5 The Social Responsibility Challenge

Over the past three decades, social responsibility has emerged as a major issue. Although it takes different forms for different industries and companies, the basic challenge exists for all. An examination of stages or levels of social responsibility behavior that corporations exhibit reveals that distinct differences exist in the way corporations respond. S. Prakesh Sethi, a researcher in social responsibility, has established a framework that classifies the social actions of corporation into three distinct categories: social obligation, social responsibility, and social responsiveness.

Stage one, social obligation – maintain low public profile, but if attacked, uses public relation methods to upgrade its public image; denies any deficiencies; blames public dissatisfaction on ignorance or failure to understand corporate functions; discloses information only where legally required. Contributes only when direct benefit to it clearly shown; otherwise, views contributions as responsibility of individual employees.

Stage two, social responsibility – accepts responsibility for solving current problems; will admit deficiencies in former practices and attempt to persuade public that its current practices meet

social norms; attitude toward critics conciliatory; freer information disclosures than stage one. Contributes to non-controversial and established causes; matches employee contributions.

Stage three, social responsiveness – willingly discusses activities with outside groups; makes information freely available to the public; accepts formal and informal inputs from outside groups in decision making; is willing to be publicly evaluated for its various activities. Activities of stage two, plus support and contribute to new controversial groups whose need it sees as unfulfilled and increasingly important.

4.6 Ethical Considerations in Corporate Entrepreneurship

Corporate entrepreneurs – described in the academic literature as those managers or employees who do not follow the status quo of their co-workers - depicted as visionaries who dream of taking the company in new directions. As a result, though in overcoming internal obstacles to reaching their professional goals they often walk a fine line between clever resourcefulness and outright rule breaking.

Researchers Donald F. Kuratko and Michael G. Goldsby examined the barriers that middle managers face in trying to be entrepreneurial in less supportive environments, the unethical consequences that can result, and a suggested assessment and training program for averting such dilemmas.

The barriers include the organizational obstacles under two major categories: internal network issues and leadership issue. The specific barriers to innovative actions include systems, structures, policies and procedures, culture, strategic direction, and people. Based on these barriers and the managerial dilemmas that can be caused, the researchers advise companies that embrace corporate, entrepreneurship to; establish the needed flexibility, innovation, and support of employee initiatives and risk taking; remove the barriers that the entrepreneurial middle manager may face to more closely align personal and organizational initiatives and reduce the need to behave unethically; and include an ethical component to corporate training that will

provide guidelines for instituting compliance and values components into state-of-the-art corporate entrepreneurship programs.

However, even if corporate entrepreneurship is supported, some managers may still pose ethical risks to the company. Unfortunately rarely will everyone in an organization do the right thing. For this reason, it would be wise to include an ethical component in corporate training programs to insure everyone is aware of the expectations and visions of senior management. It is believed that a more complete training program and approach to corporate entrepreneurship will make for a better future for both the organization and its members and prevent future ethical crises.

4.7 Ethical Leadership by Entrepreneurs

Even though ethics and social responsibility present complex challenges for entrepreneurs, the value system of an owner-entrepreneur is the key to establishing an ethical organization. An owner has the unique opportunity to display honesty, integrity, and ethics in all key decisions. The owner's action serves as a model for all other employees to follow.

In small businesses the ethical influence of the owner is more powerful than in larger corporations because his or her leadership is not diffused through layers of management. Owners are easily identified, and usually employees constantly observe them in a small business. Therefore entrepreneurs possess a strong potential to establish high ethical standards in all business decisions.

Small-business owners may also need to specifically address administrative decisions-making processes. In addition, they may need to spend some time developing benchmarks or guidelines concerning ethical behaviors of employees. While these guidelines cannot be expected to cover every possible scenario, they will nevertheless help address the business development or profit motive dimension. Finally, if entrepreneurs can carefully establish explicit rewards and punishment that are based upon ethical behaviors, then concerns of crime and theft can begin to be addressed.

Overall, entrepreneurs must realize that their personal integrity and ethical example will be the key to their employees' ethical performance. Their values can permeate and characterize the organization. This unique advantage creates a position of ethical leadership for entrepreneurs.

5.0 CONCLUSIONS

According to the three chapters, “The Entrepreneurial Individual”, “Developing Individual Innovation” and “Ethics and Entrepreneurship”, entrepreneurial mind-set is addressed that having within individuals. These three chapters explore creativity for individuals and the concept of innovation. It also emphasizes on the ethical perspective that entrepreneurs need to take in developing a more socially conscious approach to business.

6.0 REFERENCE

Donald F. Kuratko, Richard M. Hodgetts. 2007, *Entrepreneurship: Theory, Process, Practice, Seventh Edition*, Thomson South-Western, USA.

Appendix