
Leadership - Role of an entrepreneur - Entrepreneurial motives and characteristics

Chapter 18, 19, and 20 – December, 2016

LEADERSHIP

MANAGEMENT VS. LEADERSHIP

- ▶ *Leaders* may perform the same functions as *managers*:
 - ▶ **visionary**: *understand* place of the organisation today, and *see* how organisation has to adapt to survive
 - ▶ have an overview of the entire **process of change**:
understand each step of this process
 - ▶ **motivating** people around
- ▶ leaders *develop* **strategies** while managers *implement* them

LEADERSHIP

CHARACTERISTICS OF LEADERS

- ▶ confidence: positive self-image & very able
- ▶ managers often get lost in *details & short-term activity* - leaders shouldn't!
- ▶ leaders should identify the *core* of the problem and suggest *radical solutions*
- ▶ leaders are *experts* in particular fields and *well-read*
- ▶ leaders are *creative & innovative*: propose new solutions to problems
- ▶ leaders have ability to *sense change* and respond to it

LEADERSHIP

LEADERSHIP STYLES

- ▶ **autocratic** leadership: manager sets *objectives*, allocates *tasks*, insists on *obedience*.
 - ▶ downside: dissatisfied employees, little cohesion, low motivation, high supervision
 - ▶ useful in: armed forces, where orders have to be obeyed instantly
- ▶ **paternalistic** leadership: same as *autocratic* but leader puts importance on *welfare of employees*
- ▶ **democratic** leadership: encourages participation in decision making
 - ▶ **persuasive**: leader has made a decision but tries to persuade others
 - ▶ **consultative**: leader consults others before making the decision
- ▶ **laissez-faire** leadership: provides others with the proper tools and lets them do (what are the downsides?)

ROLE OF AN ENTREPRENEUR

CREATING & SETTING UP A BUSINESS

- ▶ Role of an *entrepreneur* in business:
 - ▶ contribute to **innovation**: spotting a gap in the market and attempt to fill it
 - ▶ **organising** factors of production: buy/hire labour and equipment to produce
 - ▶ make **key decisions**: raise finance, design product, pricing, recruitment, wages
 - ▶ entrepreneurs are **risk-takers**: risk losing investment if business fails
- ▶ Risks and rewards for entrepreneurs:
 - ▶ business failure
 - ▶ debts need to be paid off
 - ▶ getting back to previous job

ROLE OF AN ENTREPRENEUR

CREATING & SETTING UP A BUSINESS

- ▶ How do entrepreneurs find their business ideas:
 - ▶ *Business experience*: idea comes from their existing job
 - ▶ *Personal experience*: personal experience outside of work (i.e., turn hobby into a job)
 - ▶ *Skills*: use their broad skills base (i.e., plumber gets training to become an electrician)
 - ▶ *Lifestyle choices*: business attracts people who want to make a lifestyle change (i.e., move to another country and open a B & B)

ROLE OF AN ENTREPRENEUR

CREATING & SETTING UP A BUSINESS

- ▶ What are the stages in setting up a business: success of business depends on careful planning!
 - ▶ *Idea*:
 - ▶ *Research*: viable business idea has to be researched (i.e., market research, meetings with bankers, ...)
 - ▶ *Planning*: business planning
 - ▶ *Financing*: auto-finance or external finance to set up and run the business
 - ▶ *Location*: location will depend on the nature of the business (i.e., factories, websites, local shops, ...). May require extra permits.
 - ▶ *Resources*: resources needed to set up and run business (i.e., furniture, computer, uniform, ...)
 - ▶ *Launch*: business starts trading

Some entrepreneurs may bypass many of these stages and run the business in an *instinctive* and *responsive* way.

ROLE OF AN ENTREPRENEUR

RUNNING/EXPANDING/DEVELOPING A BUSINESS

- ▶ Running a business requires to execute other tasks besides the main activity:
 - ▶ *Financial management*: finding funds to run business, produce cash-flow forecasts, finding loans, making payments, chasing debts, ...
 - ▶ *Administration*: accurate record keeping, keep stock records, process wage slips, deal with tax authorities, comply with legislation
 - ▶ *Marketing*: develop website, distribute leaflets, place advertisements, do market research, find new distribution channels
 - ▶ *Purchasing*: buy resources, buy commercial services (i.e., cleaning, printing, accountancy)
 - ▶ *Managing people*: spend time in recruitment, selection and training of staff. Entrepreneurs may need to train their own *managment skills*.
 - ▶ *Production*: monitor product quality and consistency

ROLE OF AN ENTREPRENEUR

INTRAPRENEURSHIP

- ▶ *Intrapreneurs*: employees (in large businesses) who use entrepreneurial skills to find and develop initiatives
- ▶ intrapreneurs carry no *financial risk* (employer carries all the risk)
- ▶ entrepreneurial spirit helps a company to grow and evolve instead of stagnating
- ▶ intrapreneurs are usually employed in *product development*
- ▶ **Advantages:**
 - ▶ *drive innovation* and uncover new commercial opportunities (gain competitive edge)
 - ▶ satisfies the *self-actualisation* needs of employees (highest level in Maslow's hierarchy of needs)
 - ▶ awards can be won by business (is good for the image of the business)
 - ▶ individuals can *experiment* and *be creative* without having to face costs

ROLE OF AN ENTREPRENEUR

BARRIERS TO ENTREPRENEURSHIP

Barriers that discourage future entrepreneurs from starting

- ▶ *Lack of finance*: inability to get finance (i.e., banks may be reluctant to lend to entrepreneurs)
- ▶ *Lack of entrepreneurial capacity*: lack of entrepreneurial skills and characteristics
- ▶ *Becoming an employer*: burden of responsibilities that entrepreneurs have towards their employees (i.e., pay regular wage, sick pay, ...)
- ▶ *Legal barriers*: bureaucracy may discourage potential entrepreneurs (i.e., legislation, health & safety, ...)
- ▶ *Lack of ideas*: no original idea, saturated markets
- ▶ *Fear of failure*: failure not well seen in some societies
- ▶ *Aversion to risk*: not interested in taking activities with uncertain outcome
- ▶ *Corrupt and unsupportive environment*: political instability, corruption, bribery

ROLE OF AN ENTREPRENEUR

ANTICIPATING RISK & UNCERTAINTY

Entrepreneurs have *some* control over *risk* (they can decide how much risky investment they will do), but they have *no* control over *uncertainty*.

- ▶ *Anticipating risk*: use quantitative techniques to deal with risk (i.e., decision trees). Quantitative techniques help to quantify the possible outcomes of actions.
- ▶ *Anticipating uncertainty*: use risk assessment and scenario planning to reduce uncertainty.

ENTREPRENEURIAL MOTIVES & CHARACTERISTICS

CHARACTERISTICS OF AN ENTREPRENEUR

- ▶ *Business Link* (= government agency that encourages business start-ups) identified 7 characteristics:
 1. **Self-confidence:** believe that they are going to succeed, they have a *winning formula*, they know how to *persuade* others (i.e., help finance business)
 2. **Self-determination:** take control and influence *events*
 3. **Being a self-starter:** able to work *independently*, have *own ideas* and be able to develop them
 4. **Judgement:** able to *collect information*, listen to advice, and *judgements and decisions*
 5. **Commitment:** work long hours, be exposed to stress (because of the risks)
 6. **Perseverance:** be able to go through *bad times* and setbacks
 7. **Initiative:** events will not *overwhelm* them, they are *proactive*

ENTREPRENEURIAL MOTIVES & CHARACTERISTICS

SKILLS REQUIRED BY ENTREPRENEURS

- ▶ Entrepreneurs need a wide range of different skills
- ▶ Important entrepreneurial skills are:
 - ▶ **Organising:** *project management, planning, scheduling, prioritising, ...*
 - ▶ **Financial management:** *budgeting, cash-flow forecasting, chasing debts, arranging loans and overdrafts, analysing financial information*
 - ▶ **Communication:** *interaction with different stakeholders (i.e., customers, employees, suppliers, local community, authorities), need face-to-face communication skills, writing skills (i.e., reports, letters), and presentation skills*
 - ▶ **Managing people:** *need to recruit and manage staff*
 - ▶ **Decision making:** *low-level decisions, and strategic decisions*
 - ▶ **Negotiating:** *terms of contract, prices, wages*
 - ▶ **IT skills:** *use spreadsheets (for cash-flow forecasts), social media and website for advertising, specialist software for designing*

ENTREPRENEURIAL MOTIVES & CHARACTERISTICS

REASONS WHY PEOPLE SET UP BUSINESSES

- ▶ *Financial* motives:
 - ▶ **Profit maximisation:** relationship between *risk* and *reward*
 - ▶ **Profit satisficing:** make enough profit to maintain interest in business (i.e., life-style businesses)
- ▶ *Non-financial* motives:
 - ▶ **Ethical stance:** set up business to support a *moral belief* (i.e., vegetarian restaurant, animal-friendly)
 - ▶ **Social enterprise:** trade in order to improve human and environmental well-being
 - ▶ **Independence:** being your own boss
 - ▶ **Home working:** setting up a business at home

RESOURCES FOR STARTING A BUSINESS

LITERATURE

- ▶ if you have access to the *Financial Times*, visit [▶ Link](#)
- ▶ every year the FT updates a guide on how to set up a business

