

2C11

Business economics and entrepreneurship

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Lecture 7: Entrepreneurship issues (07/05/2014)

European Erasmus Mundus Master Course

Sustainable Constructions

under Natural Hazards and Catastrophic Events

520121-1-2011-1-CZ-ERA MUNDUS-EMMC

LIST OF LECTURES

Lectures

- L1 Trends and challenges for the construction industry
- L2 Business strategies and business development in construction companies
- L3 Financial management in construction companies
- L4 Project management – generalities
- L5 Project management – support activities
- L6 Project management systems applied in constructions
- L7 Entrepreneurship issues
- L8 Standard contracts in civil engineering
- L9 Risk management in construction company
- L10 Summary and discussion of the exam questions

Applications

- A1 General presentation of the case study (WTP – Hunedoara)
- A2 Financial analysis and management in construction company (WTP – Hunedoara)
- A3 Cash flow analysis (WTP – Hunedoara)
- A4 Visit – WTP Hunedoara
- A5 Project's presentation

OBJECTIVES

- **Student is familiar with the two opposite view: entrepreneurs are born or made**
- **Student understands how products and services are developed**
- **Student knows the main entrepreneurship facilitators**
- **Student understands the link between entrepreneurship and innovation**

L7 ENTREPRENEURSHIP ISSUES

TOPICS

I. ENTREPRENEURSHIP: GENERALITIES

- Definition
- Entrepreneurs: born or made?
- Entrepreneurship in construction
- Developmental Entrepreneurship
- Entrepreneurial marketing
- Entrepreneurial finance

II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

- Product concept development
- Facilitators of entrepreneurship
- FDI and entrepreneurship

III. ENTREPRENEURSHIP AND INNOVATION

- Determinants of innovation
- Forming the mindset of futures entrepreneurs

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I. ENTREPRENEURSHIP: GENERALITIES

Definition

- **Entrepreneurship** is the art of creating value through making the world a better place for both yourself and those who get in touch with your business activities.
- The **entrepreneur** is a person who exercises initiative by organizing a venture to take benefit of an opportunity and, as the decision maker, decides what, how, and how much of a good or service will be produced.
- The entrepreneur:
 - bears the risks and the uncertainty of a **new venture**
 - a person who **sets up a business** or businesses
 - a person who **organizes and manages** any enterprise, especially a business
 - **risk-taking** is an essential feature of entrepreneurs

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I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurs: born or made?

(1/2)

!!! Many still believe that education and training are not necessary for starting businesses

- **Two different approaches:**
 - the first is that entrepreneurship is something that **can be learned** and anyone can become an entrepreneur if they really want to (MADE);
 - the second is that a successful entrepreneur has **internal capabilities** that are independent of training or experience and are restricted just to some special persons (BORN).
- **Public policies in order to support entrepreneurship**
 - **Solutions:** entrepreneurship training as part of a school's curriculum, apprenticeships for students to work with experienced entrepreneurs, more entrepreneurial training in universities, more MBA programmes
 - **Reasons:** (i) reduce market failure; (ii) increasing competition; (iii) major engines of economic growth.

I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurs: born or made?

(2/2) - Blenker et al. (2006)

Creating an “entrepreneurial culture” in universities – 10 solutions/recommendations

1. Increasing university's responsibility for creating a “culture of entrepreneurship”
2. Pointing out career paths and paving the way to putting them into practice
3. How and where all these are supposed to happen
4. All universities set up a “center for entrepreneurship”
5. The university teaching processes concerned of entrepreneurial culture should focus on “action-oriented” learning
6. The teaching and learning processes should offer the students opportunities to develop their entrepreneurial drive, ability, personality and professional skills to enable them to carry out various stages in the entrepreneurial process
7. Duty of the university to disseminate factual knowledge and encourage critical reflection – and to let that be the foundation of ideas generation and development
8. Business role models are very important for students to take as examples and to learn from them
9. A high degree of flexibility will be required from both teachers and university administration
10. It is important to recruit the best students, and in particular the most enthusiastic and highly motivated ones.

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I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurship in construction

- A **construction entrepreneur** may develop new architectural methods and construction practices, seek interested clients, and gather funds to hire workers and purchase materials.
- A **green construction entrepreneur** is a construction professional who focuses on creating environmentally friendly structures. These buildings are often constructed on sites that are considered to be better for the environment because they may not interfere with natural life systems and may contribute less pollution.
- **Construction entrepreneurs:**
 - normally begin with an idea for a product or service.
 - determine which methods to use, how much funding is needed, and where demand for a service is highest.
 - write a business plan.

!!! Building a construction company takes more skill than constructing a building

See http://www.unleashingideas.org/global-entrepreneurship-library/sites/grl/files/building_a_construction_company_takes_more_skill_than_constructing_a_building.pdf

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I. ENTREPRENEURSHIP: GENERALITIES

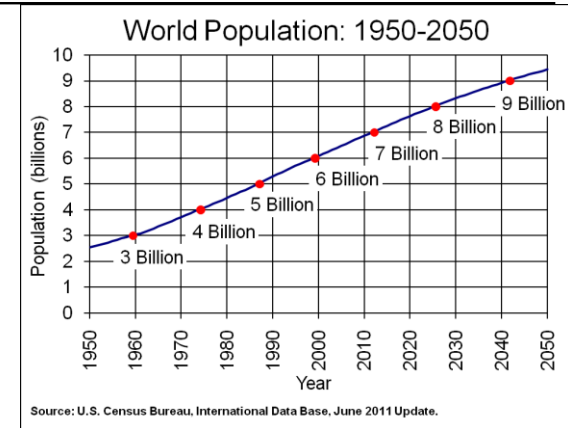
Developmental Entrepreneurship

- Increasing population
- Challenges

| | | |
|------------------------|-----------------------------|-----------------|
| Basic Needs | Farming | Transportation |
| Health | Culture | Education |
| Catastrophe Mitigation | Information & Communication | Business Models |
| Shelter | Distributed Power | Finance |

- Possible Solutions

| | | |
|-------------------------|---------------------|---------------------------|
| Low power refrigeration | Locomotion | Local & Distributed power |
| Solar stoves | Medical incubator | Clean combustion |
| Water filtration | Low Cost Eyeglasses | Clean Water |



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I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial marketing

Question

How can I be successful? R: Find something I can do best but others cannot easily replicate

Realities

- Entrepreneurs do not have sufficient information when they start their businesses.
- They need to be able to update plans over time.
- They need to gather missing information.

Challenges

- Timing is all about
- Find a foothold to survive
- Find a foothold to avoid competition with giant firms
- Build a strong brand from nothing
- Build or expand its own market/customer base

I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial marketing

How to Define the Market Structure?

- Market structure information or decision will **determine the entrepreneur's competitive marketing strategies.**
- A market is defined by a series of **submarkets**, if, when a product is deleted from a submarket, its former consumers are more **likely to buy again** in that submarket than would be predicted by market share.
- Two approaches:
 - **Firm-oriented**
 - **Customer-oriented**
 - (i) Forced switching: observe the product a customer most prefers; place him/her in a choice situation in which his/her preferred product has been removed from the choice set; observe the product a customer most prefer among remaining products
 - (ii) Preference rank - ask customers to rank order the products in terms of their preference

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Entrepreneurial marketing

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I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial marketing

Positioning (1/2)

- What means “positioning”?
 - Consumers generally use a small number of evaluation dimensions (two to four) when they think about a particular product or product class
 - Placing a product in consumer’s minds (relative to competing products)
- Why Is Positioning Important?
 - Learning about novel products is a very difficult and complex problem for customers.
 - Knowledge about a new product category is initially minimal and customers are exposed to products sequentially-first the pioneers and subsequently later entrants.
 - As a result, customer preferences are likely to evolve over time.

I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial marketing

Positioning (2/2)

- **Physical** positioning?
 - A simple comparison of only the physical dimensions of alternative offerings usually does not provide a complete picture of relative positions because positioning ultimately takes place in customer's minds.
 - Customers may attach less importance to some of physical attributes
- Why is **perceptual** positioning better than physical positioning?
 - Customers know *very little about the essential physical attributes* of many products. Even if they did, they would not understand them well enough to use them as a basis for choosing between competitive offerings.
 - Most customers are not buying physical properties but rather the benefits they provide.
 - The evaluation of many products is subjective because it is influenced by factors other than physical properties.

I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial marketing

Market segmentation

- **Combining?**
 - **Pros:** (i) try to increase the size of the target markets by combining several segments; (ii) may help achieve economies of scale; (iii) may also require less investment because a marketing mix is developed for all combined segments.
 - **Cons:** (i) as the target market is enlarged by combining several segments, it becomes less homogeneous and then it is very hard to develop a marketing mix for all customers in the market; (ii) competitors can easily draw customers by offering marketing mix to more homogeneous sub-segments of the market.
- **Dividing?**
 - **Pros:** (i) try to satisfy each segment very well; (ii) may help achieve competitive advantage easily; (iii) may minimize competition; (iv) can also generate bigger sales by concentrating on a homogeneous segment.
 - **Cons:** (i) The chosen target market, a subset of all segments, may not be big enough.

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I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial finance

Venture Capital Contracts (1/2)

- What Do **Entrepreneurs Care About** ?
 - Build a successful business
 - Raise enough money to fund the venture
 - Maintain as much value and control of the company as possible
 - Get expertise and contacts to grow the company
 - Share some of the risks with investors
 - Financial returns from the venture

- What Do **Venture Capitalists Care About**?
 - Maximize financial returns
 - Ensure that portfolio firms make sound investment/management decisions
 - Participation in later financing rounds if the venture is a success
 - Eventually achieve liquidity, i.e. sell the firm in IPO or merger
 - Build own reputation

I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial finance

Venture Capital Contracts (2/2)

- **Both** Care About:
 - The success of the new venture
 - The split of financial returns
 - The allocation of control rights
 - Eventually liquidating some or all of their stake in the company

Potential conflicts of interest???

Logic behind the Contracts

- **Financial returns** are divided to:
 - Reward investors for their investments in the firm
 - Provide high-powered incentives to entrepreneurs to maximize value and to stay with the firm
 - Provide VCs with incentives to add value
- Dynamic allocation of **control**:
 - Gives more control to entrepreneur if things turn out well
 - Gives more control to VC if things do not turn out well
- Provide incentives to **achieve a liquidity event**

I. ENTREPRENEURSHIP: GENERALITIES

Entrepreneurial finance

New Venture Valuation

- What is Different About Valuing New Ventures?:
 - Higher risks and higher uncertainty
 - Potential rewards higher?
 - Exit and liquidity more important
 - Not just a go-no/go decision; the actual valuations matter
- Valuation Approaches?:
 - Higher Discounted Cash Flow/ Adjusted Present Value
 - The Venture Capital Method
 - Real Options

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- FDI and entrepreneurship

III. ENTREPRENEURSHIP AND INNOVATION

- Determinants of innovation
- Forming the mindset of futures entrepreneurs
- Transfer of knowledge



II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

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II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

Product concept development

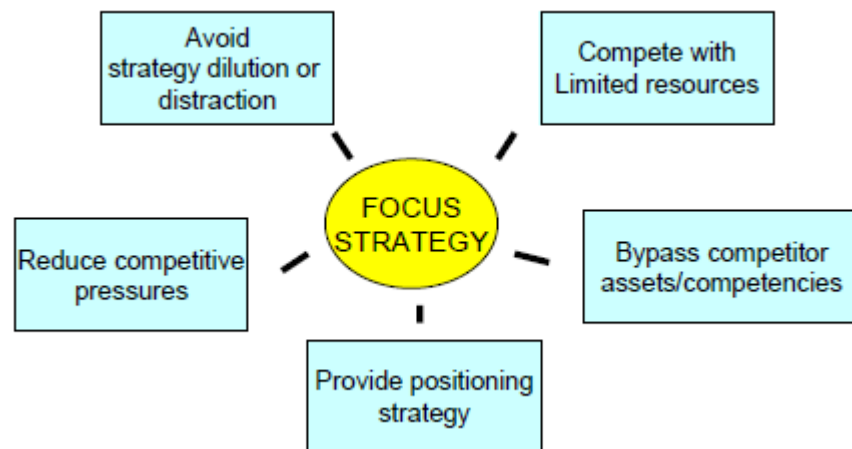
Focus vs Diversification Strategy (1/2)

- Focus Strategy

- Although the payoff of a small niche may be less than that of a large growing market, the competition may often also be less intense.
- However, a focus strategy naturally limits the potential business. Therefore, profitable sales may be missed.
- It is crucial whether a focus strategy involves meaningful Sustainable Competitive Advantages.

- Variations Focus Strategy

- Focusing the product line
- Targeting a niche
- Focusing limited geographic area



II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

Product concept development

Focus vs Diversification Strategy (2/2)

- Diversification Strategy

- Approach new markets with new products
- Two types
 - Related diversification - the new business area has meaningful commonalities with the core business.
 - Unrelated diversification: (i) Unrelated diversification lacks enough commonalities; (ii) The objectives are therefore mainly financial, to generate profit streams that are either larger, less uncertain, or more stable than they would be otherwise.

- Motivations for Diversification

| Related Diversification | Unrelated Diversification |
|--|---|
| <ul style="list-style-type: none"> • Exchange or share assets or competencies by exploiting <ul style="list-style-type: none"> - Strong brand name - Strong marketing skills - Strong distribution capacity - Manufacturing skills - R&D capability | <ul style="list-style-type: none"> • Manage and allocate cash flow • Enter business areas with high ROI prospects • Refocus a firm • Reduce risk by operating in multiple product markets • Vertical integration |



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II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

Facilitators of entrepreneurship

Social skills

- Emotional intelligence

- **Self-awareness** – the ability to read one's emotions and recognize their impact while using positive intuition to guide decisions;
- **Self-management** – involves controlling one's emotions and impulses and adapting to changing circumstances;
- **Social awareness** – the ability to sense, understand, and react to others' emotions while comprehending social networks;
- **Relationship management** – the ability to inspire, influence, and develop others while managing conflict.

- Effective Interpersonal Communication

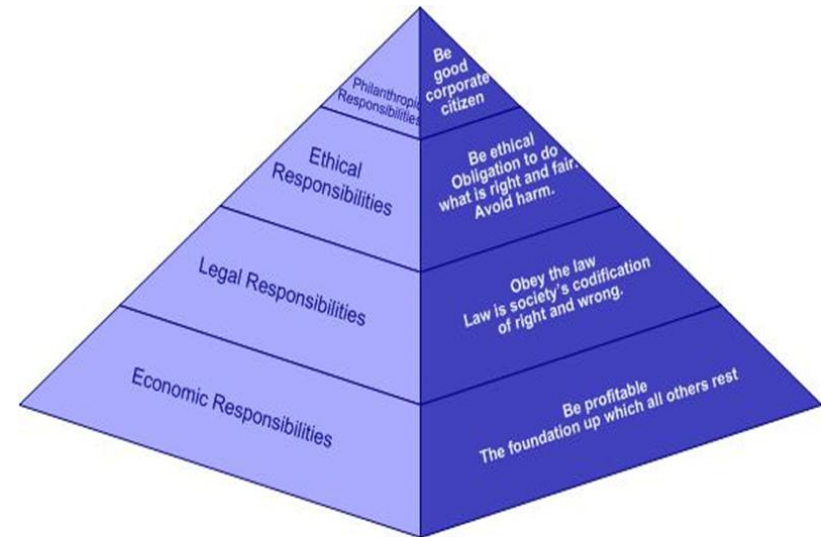
| | |
|--|--|
| Treat each other with respect | Speak but not too often or for a too long time |
| Do not interrupt and be an active listener | Challenge the behavior and not the person |
| We have the right to pass over some events | Respect confidentiality |
| Speak only for ourselves | If make mistakes but recognize them |

II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

Facilitators of entrepreneurship

Corporate social responsibility (CSR)

- Corporate Social Responsibility is related to:
 - Business decision -making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment;
 - Operating a business in a manner that meets or exceeds ethical, legal commercial and public expectations that society has of business.
- **CSR** is a philosophy of conduct and a **concept of doing business** applied by the business community, companies and individual businessmen for sustainable development and preservation of resources for future generations



Carroll's CSR Pyramid

II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

Facilitators of entrepreneurship

Networking

- Networking and finding a partnership is the key to success
 - Exchange ideas
 - Form common vision
 - Create a critical mass of supporters
 - Create a critical mass of interested partners/companies
- Diversity Management
 - Connect to different opinion and views
 - Look at problems / solutions from different sides
- Impact without borders through cross national networking
 - Access to exploitation unlimited by borders

II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

Facilitators of entrepreneurship

European facilitators

- Lifelong Learning Program 2007-2013

| Area concerned | Name of EU programme | Aims |
|------------------------------|----------------------|---|
| School education | Comenius | 5% of schoolchildren in the European Union will participate in joint educational activities. |
| Higher education | Erasmus | Three million students will be able to study at universities abroad. |
| Vocational training | Leonardo da Vinci | Every year 80 000 people will be able to do traineeships in companies and training centres in another European country. |
| Adult education | Grundtvig | 7 000 people every year will be able to carry out educational activities abroad. |
| European integration studies | Jean Monnet | Support for academic research and teaching in European integration. |

- Supporting services for SMEs - **European Small Business Portal**



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II. SUCCESS FACTORS FOR ENTREPRENEURSHIP

FDI and entrepreneurship

Foreign direct investment represents the productive investment made by a foreign company in a specific country.

- Inwards FDI
- Outwards FDI

Does the FDI process enhance the entrepreneurial activity? ...Two theories...

- **Positive effects**

- domestic firms are expected to benefit from the know-how that multinational enterprises transfer, but also from the demand creation
- new products lead to the creation of new markets and entrepreneurial opportunities
- learn from the failed attempts of foreign-owned firms to satisfy customers through the introduction of more appealing alternatives

- **Negative effects**

- increased competition and of technological barriers to entry
- spur additional upstream and downstream demand along the supply chain

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III. ENTREPRENEURSHIP AND INNOVATION

Determinants of innovation

General factors

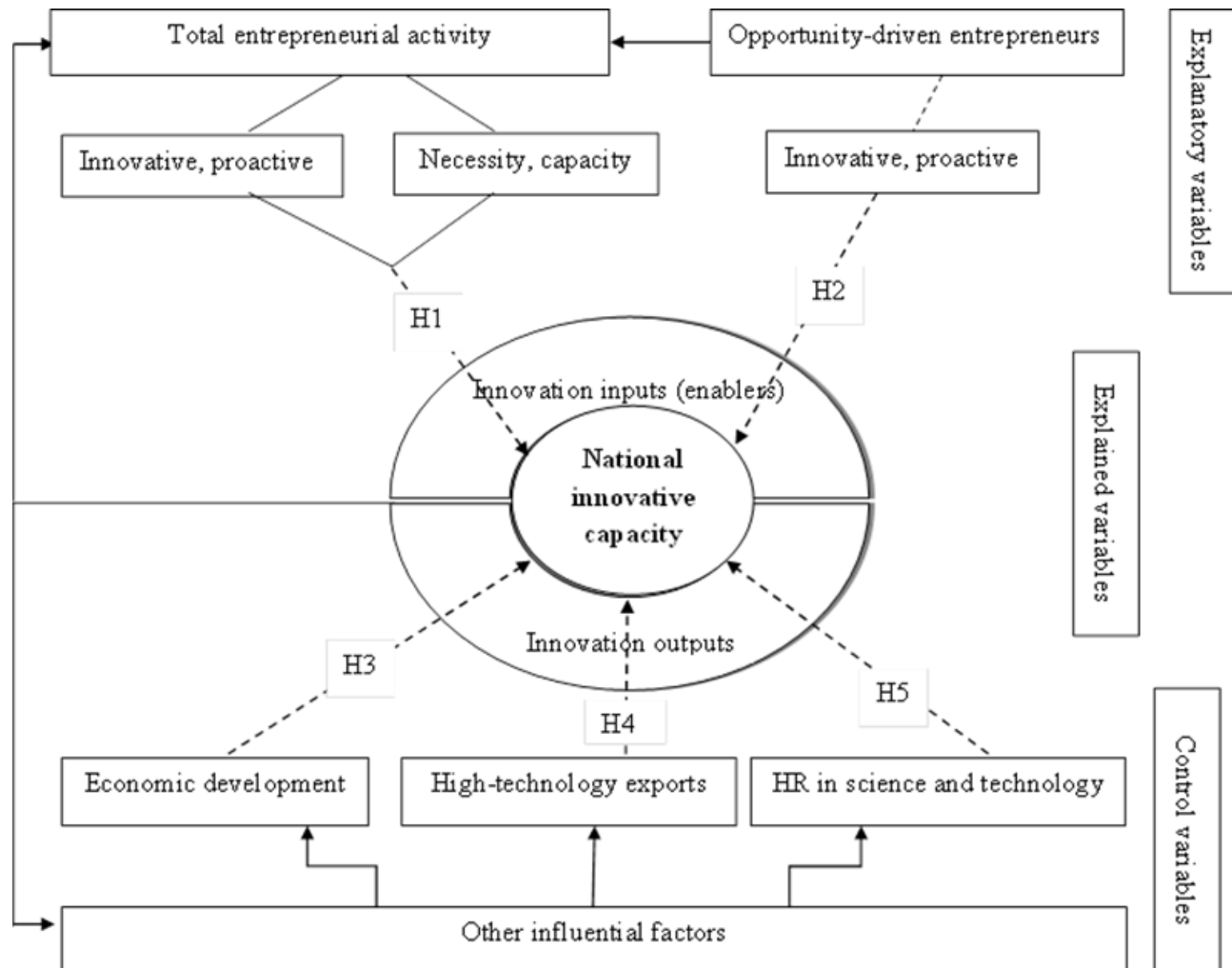
Firms' innovativeness represents the willingness to introduce newness and novelty through experimentation and creative processes aimed at developing new products and services.

- Determinants of the **national innovation systems**
 - governments' policies conceived to support innovation process (i.e. R&D expenditures)
 - quality of the national framework of institutions
 - ways in which firms address the customers' needs
 - the role of supply factors (i.e. FDI)
 - quality of the human capital
 - Entrepreneurship?
- The role of entrepreneurship
 - difficult to anticipate (depends on the type of entrepreneurs)

III. ENTREPRENEURSHIP AND INNOVATION

Determinants of innovation

The role of entrepreneurship



III. ENTREPRENEURSHIP AND INNOVATION

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III. ENTREPRENEURSHIP AND INNOVATION

Forming the mindset of futures entrepreneurs

Stylized facts

- The **product innovation** is generally related to technology transfer
- The **consumers** are often **passive** in front of the **technological objects** that they currently use
- The **design** of a product is often done by **imitation**
- The futures entrepreneurs may **lost the concept of creativity...**

Solutions?

- Be **curious** with respect to technologies
- **Imagine new applications** starting from a technology transfer for product or system design
- Think first of all about the **real functionalities the product**
- Imagine the various **physical principles** allowing to answer the requested functionalities.

III. ENTREPRENEURSHIP AND INNOVATION

Forming the mindset of futures entrepreneurs

Function-Structure Decomposition

- Focus on a functionality
- Choice of physical principles
- Evaluation of admissible solutions
- Choice of one or more solutions or solution variants
- Determination of induced new functions
- Determination of functional surfaces

!!! Mainly involved stakeholders are the technologists

Principles of Innovation

- Inversion: to inverse the used action to solve the problem
- Periodical action: to replace a permanent action by a periodical or pulsed one



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