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Addis Ababa Institute of Technology

Addis Ababa University
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School of Civil and Environmental Engineering

Entrepreneurship for Engineers

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Chapter 2

Entrepreneurial Decisions and Process

Entrepreneurship

- The process of starting and running one's own business



Entrepreneur

- An entrepreneur is an individual who undertakes the risk associated with creating, organizing, and owning a business



Entrepreneurship Decisions.....

- Many individuals have difficulty in bringing their ideas to the market and the creation of a new venture.
- Yet, entrepreneurship and the actual entrepreneurial decision have resulted in several million new businesses throughout the world.
- The decision to start an entrepreneurial venture consists of several sequential sub decisions:

Change from present life-style

- The decision **to leave a present career and life-style** is not an easy one. It takes a great deal of energy to change and create something new.
- The two most important incentives to leave a present life-style and start a business are **work environment and disruption**.

Cont'

- Work environment
- disruption

Form new enterprise

Desirable: Culture, Subculture, Family, Teachers, and Peers, and so on.

Possible: Government, Background, Marketing, Finance, Role models

Work environment

- while individuals tend to start businesses in familiar areas, work environments tend to be particularly good in spawning new enterprises; research and development and marketing.
- Working in technology (research and development), individuals develop new product ideas or processes and often leave to form new companies when the present employers do not accept the new ideas.
- Similarly, individuals in marketing become familiar with the market and unfilled customers' wants and needs and frequently start new enterprises to fill in these needs.

Disruptions:

- perhaps even more incentive to leave a present life-style and overcome the inertia by creating something new comes from a **negative force-disruption**.
- A significant number of companies are formed by people who have **retired**, who are **relocated**, or who have been **fired**. There is no greater force than personal dislocation to galvanize a person in to action.
- Another cause of disruption and resulting company formation is the **completion of an education degree**.

Cont'

- Yet what causes this change due to personal disruption to result in a new company being formed instead of something else?
- The decision to start a new company occurs when an individual perceives that it is both **desirable and possible.**

Cont'

1. Desirable

- The perception that starting a new company has desirable results from an individual's culture, subculture, family, teachers, and peers.

i. Culture:

- A culture that values an individual who successfully creates a new business will spawn more company formations than one that does not.
- For example, the American culture places a high value on **being your own boss, having individual opportunity**, being a success, and **making money**-all aspects of entrepreneurship.
- Therefore, it is not surprising to find a high rate of company formation in the United States. On the other hand, in **some countries [Ethiopia included]** successfully establishing a new business and making money is not as highly valued and failure may be a disgrace.

ii. Subculture

- However, even an entire culture is not totally for or against entrepreneurship. Many different subcultures that shape value systems are operant within a cultural framework.
- There are pockets of entrepreneurial subcultures in every culture. More individuals actively plan to form new enterprises in these supportive environments.

iii. Family

- Family traits play an important role in entrepreneurship. Studies of companies in a variety of industries in many countries indicate that large percent of founders of companies had fathers and/or mothers who valued their independence.
- The independence achieved by being company owners, professionals, artists, or farmers permeates the entire family life, giving encouragement and value to the company formation activity.

iv. Teachers

- **Teachers:** - encouragement to form a company is further gained from teachers, who can significantly influence individuals regarding not only business careers but entrepreneurship as one possible career path.
- Schools with exciting courses in entrepreneurship and innovation tend to spawn.

v. Peers

- **Peers:** - finally, peers are very important in the decision to form a company.
- An area with an entrepreneurial pool and meeting places where entrepreneurs and potential entrepreneurs meet and discuss ideas, problems, and solutions spawns more new companies than an area where this does not occur.

2. Possible

- **Possible:** While the desire generated from the individual's culture, subculture, family, teachers, and peers must be present before any action is taken, the second part of the equation centers on the question:
- what makes it possible to form a new company? Several factors-government, background, marketing, role models, and finances-contribute to the creation of a new venture.

i. Government

- **Government:** - the government contributes by providing the infrastructure to support a new venture.
- Counties having a repressive tax rate, particularly on individuals, can suppress company formation since a significant monetary gain cannot be achieved even though the social, psychological, and financial risks are present.

ii. Background

- **Background:** - the entrepreneur also must have the background needed to make the company formation possible.
- Knowledge acquired from formal education and previous business experience makes a potential entrepreneur feel capable of forming and managing a new enterprise.
- While educational systems are important in providing the needed knowledge of business, individuals still tend to start successful businesses in fields in which they have worked. In fact, in many cases the idea for the new company occurs while the individual is working in a particular business position. Indeed entrepreneurs are not born they develop.

iii. Marketing

- **Marketing:** - marketing also plays a critical role in forming a new company.
- Not only must a market of sufficient size be present but also the marketing know-how to put together the best total package of product, price, distribution, and promotion needed for successful product launching.
- A company is more easily formed in an area where there is market demand, not technology push.

iv. Finance

- **Finance:** While most of the start-up money for any new company comes from personal savings, credit, friends, and relatives, there is still often a need for seed (start-up) capital.
- Each venture has a common trait-the need for seed and other types of risk capital.
- Risk capital investors play an essential role in the development and growth of entrepreneurial activity. More new companies form when seed capital is readily available.

V. Role Models

- **Role models:** - role models are perhaps one of the most powerful influences making company must be readily available.



Entrepreneurial Process

Entrepreneurial Processes

- Perhaps the decision on whether to start your own business is best considered in light of an understanding of the entrepreneurial process.
- The entrepreneurial process involves more than just problem solving in a typical management position.
- An entrepreneur must find, evaluate, and develop opportunities by overcoming the strong forces that resist the creation of something new. The actual process itself has five distinct phases:

Steps in the Entrepreneurial Process



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1. **Discovery:** The stage in which the entrepreneur **generates ideas, recognizes opportunities,** and **studies** the market

Innovation



Opportunity

Discovery



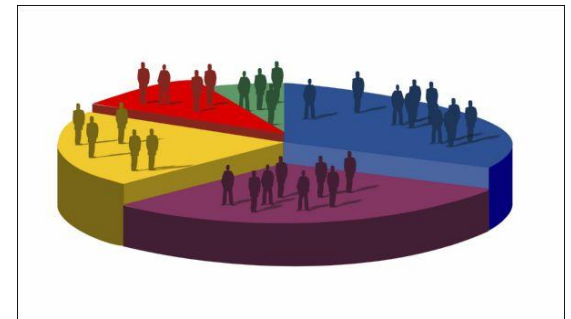
Consider your hobbies or skills



Consider consumer needs and wants



Conduct Surveys and questionnaires – test the market



Study demographics

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2. **Concept Development:**

- Develop a *business plan*: a detailed proposal describing the business idea



Cont'd

- Choose business location
- Will a patent or trademark be required?



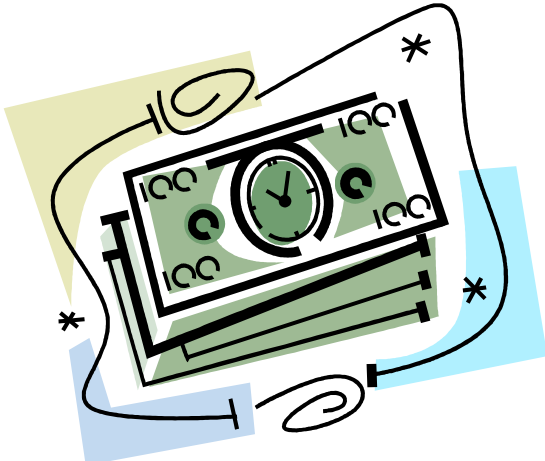
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- 3. Resourcing:** The stage in which the entrepreneur identifies and acquires the financial, human, and capital resources needed for the venture startup, etc



Start-up resources

Resourcing



Identify potential investors



Apply for loans, grants and assistance



Hire employees



Cont'd

- 4. Actualization:** The stage in which the entrepreneur operates the business and utilizes resources to achieve its goals/objectives.

\$\$ Grand Opening \$\$



Day-to-Day Operations

Cont'd

5. **Harvesting:** The stage in which the entrepreneur decides on venture's future **growth, development, or demise**

What is your 5-year or 10-year plan?

Consider adding locations or providing different products/services

.....END.....



Thank You !!!