Topic 1.5 Entrepreneurs and Leaders

The Role of an Entrepreneur

- A person who takes a risk in setting up their own business.
- What entrepreneurs do:
  - Organise – they pull together resources such as capital, people, and technology to set up a firm.
  - Make decisions – entrepreneurs are decisive and make decisions
  - Take risks – entrepreneurs are often willing to risk their career and financial security to make their idea work.
  - Innovate and invent – they create new ideas, products, and services.
- An entrepreneur may decide to set up their own firm for a number of reasons:
  - Personal experience – a business may be based on a hobby or interest.
  - Spotting a gap – some people see an opportunity in everyday life and decide that they can meet this need.
  - Skills – some people set up a firm based on their interpersonal, artistic, or technical abilities.
  - Lifestyle choice – some people may set a firm in order to be their own boss and work on their own terms.
  - Business experience – some start a new firm using the experience of their current job or profession.

Characteristics and Skills of Entrepreneurs

CHARACTERISTICS	SKILLS
Self-confidence – entrepreneurs believe that they can succeed.	Organisation – there is lots to coordinate when setting up a firm alone.
Self-determination – they have the drive to keep going when they come up against problems.	Financial management – cash flow management can be challenging for small firms.
Self-starter – they are willing to work independently and make decisions.	Managing and communicating with people
Initiative – they are proactive and adapt to change.	Negotiating – negotiating deals and contracts with suppliers and customers.
Commitment – entrepreneurs commit to the project and put in time to make it work, often working night and day	

Incentives for Setting up a Business

FINANCIAL MOTIVES	NON-FINANCIAL MOTIVES
Profit maximisation – to generate as much wealth as possible.	Ethical stance – running a firm to support their ethical principles, e.g. climate change.
Profit satisfying – to generate enough income to live a comfortable lifestyle.	Social enterprise – running a firm for a social or environmental cause – not-for-profit.
	Independence and home working – entrepreneurs often want the control and flexibility of running their firms

Business Objectives

Businesses set objectives to:

- Provide quantifiable steps to achieve aims
- Clarify direction of the business
- Measure success against targets
- Motivate employees to achieve
- Reward employees.

FINANCIAL OBJECTIVES	NON-FINANCIAL OBJECTIVES
Survival	Personal satisfaction
Profitability	Brand recognition
Growth	Sustainability
Market share	Customer satisfaction
Shareholder value	Employee welfare
Sales Maximisation	Social objectives

Forms of Business

- SOLE TRADER – owned by self-employed individuals
  - Easy to start up – no registration is needed.
  - Requires a wide range of skills and flexibility.
  - The owners can be their own boss but the hours are likely to be long.
  - The owners keeps all profits.
  - Unlimited liability.
- PARTNERSHIP – a business owned by two or more individuals
  - Joint ownership of running a business.
  - A contract of relationship will be set up through a deed of partnership.
  - These are common in professions such as solicitors.
  - Similar issues as faced by sole traders but with greater shared responsibility, risk, and reward.
- PRIVATE LIMITED COMPANY – owned by shareholders separate legal entity
  - Must go through the process of incorporation.
  - Limited liability
  - Has a higher status than a sole trader.
  - Will have wider access to capital.
- PUBLIC LIMITED COMPANY – large publicly owned companies.
  - Can raise capital through selling shares to the public.
  - Size is measured by market capitalisation.
  - Has the ability to take over other businesses.
  - Can lose control of the business.
- FRANCHISE – a limited company that licenses the right for individuals or groups to set up an identical operation in a new region
- Allows a business to expand without the owners taking responsibility.
- Franchisor gets setup free and royalty payments.
- Franchisees are provided with training and support from franchisor.
- LIFESTYLE BUSINESSES – a firm run in order to sustain a particular lifestyle for its owners. Often run by a single person and linked to an interest, skill, or enthusiasm.

The Functions of an Entrepreneur

There are a wide range of functions that entrepreneurs must coordinate to run, expand, and develop their businesses.

- Administration – insurance, legal setup, tax, and business records.
- Marketing – research, promotion, and branding.
- Production – production of goods, storage, quality management and delivery.
- Managing people – recruitment, training, motivation, and leading people.
- Purchasing – liaising with suppliers, deliveries, logistics.
- Financial management – raising capital, managing costs, profitability, and cash flow.

Entrepreneur to Leader

- As an entrepreneur's firm grows there will be increasing pressure for them to change their approach and become an effective leader of the organisation. This growth and move towards leadership may demand certain characteristics and approaches:
  - Greater responsibility towards others.
  - The needs to motivate and inspire others.
  - The need for strategic vision.
- Entrepreneurs will face a number of challenges when taking on the role of a leader for the first time.
  - Sharing ownership and control of their business.
  - Stress – larger businesses bring with them more responsibility.
  - Leaders need qualities such as confidence, compassion, and interpersonal skills.
  - Seeing themselves as a leader – entrepreneurs must accept the responsibility and adjust their mindset.
- Entrepreneurs may adopt the following approaches to overcome the challenges of becoming a leader:
  - Stress management – use approaches to reduce stress levels and find time to relax.
  - Education – complete leadership development courses and qualifications.
  - Mentor – gain advice and support from an experienced mentor.
  - Delegate and trust – utilise qualified employees to lighten their load and take responsibility for aspects of running the business.

Key Words

Entrepreneur	Intrapreneur	Profit Maximisation
Profit Satisficing	Sole Trader	Partnership
Private Limited Company	Public Limited Company	Trade Off
Revenue	Market Share	Unlimited Liability
Limited Liability	Stock Market Flotation	Franchise
Incorporated	Unincorporated	