A way of thinking by entrepreneurs business essay

Successful companies are driven by visionary people in an effective and efficient way, those people are called entrepreneurs. The Oxford Dictionary provides the entrepreneur concept as " a person who undertakes an enterprise or business with probability of gain or loss, a contractor who acts as an intermediary, a person who assumes effective control of a business venture. It comes from the French word Entreprende or undertake". Glancey and Mc Quaid (2000) define them as the protagonists of the process of entrepreneurship

The entrepreneur is a leader, who sees opportunities where others see nothing, or only see difficulties. The entrepreneur makes a commitment that leads him to develop an unknown practice to solve a variance in small or large scale, A Entrepreneur will achieve recognition by pleading responsible to solve the problem and meet people who have similar interests. One aspect that should be present in an entrepreneur is: Believe in their own abilities, knowledge and skills, evaluate them, and be consistent with them at all times, these aspects provide confidence in themselves and in what the entrepreneur exposes as business idea

These definitions are pointing to the entrepreneur as a person who seeks a reward assuming some risk (potential loss).

Basically, the entrepreneur senses a need and then meets of the manpower, materials and capital needed to meet that need. In essence, an entrepreneur creates an organization as a means to offer something new to customers, employees or other stakeholders. Some entrepreneurs use information available to everyone, to produce something new.

According to Timmons (1970) the creation and success of a company is not only necessary to administer and manage. The current business generation needs to be led, so organizations need to rethink their culture and practices. Direct them to seek dynamic processes, aimed at the opportunity, where there is the presence of a leader and business team: creative, careful and moderate resources, integrative and holistic vision, in order to establish a balance between all the driving forces

The entrepreneur is the main engine of capitalist economic development. According to Schumpeter the benefit of the employer is justified by being an innovative ability to create wealth. If the economic system is in equilibrium, all factors of production are paid according to their marginal productivity (Schumpeter, 1934)

Characteristics of an Entrepreneur

-Entrepreneurship.

-Vision and imagination creative and innovative.

-Need for achievement.

-Perseverance and dedication.

-Teamwork.

-Comprehensive view of market needs.

-leadership

For example we can mention a current entrepreneur who gained a great market space:

Andrew Mason, 29 years, is the creator of Groupon, the web coupons, which became successful with a simple innovative idea . One of the fastest growing companies in history, according to Forbes. After saying no to Google, which offered U. S. $6, 000millions, they now have a value of U. S. $950 million. Its creator explains why the success of the company very simply: “ We won a commission, customers pay less for the product and associated companies get a return on a large scale for their products and services.”(gruopon. com)

Effectuation – Tool of Entrepreneurs

The business world is permeated through and through this kind of rationality, based on what we see is happening today in the world, what are the trends? what will be the consequences? are forecasted the solutions in a business environment.

However, according to Sarasvathy, it is not how entrepreneurs think. The thought process is not “ causal” but “ effectual”. When a project is approached, the entrepreneur has three means skills: his own innate abilities, skills acquired ` through education and personal contacts. The entrepreneur is guided by a simple maxim: “ To what extent can we control the future, we do not need to predict it.” Here lies all the difference (Sarasvathy 1997). According to Sarasvathy, the successful entrepreneur does not try to predict what will be the most profitable markets, very opposite idea to Henry Mintzberg

In 1997 Sara Sarasvathy, professor of business and ethics at the University of Virginia but then a student of the prestigious Carnegie Mellon University, decided to interview thirty founders of companies with market capitalizations between $ 250 million and U. S. $ 6, 500 000, 000, in an attempt to determine empirically what the real characteristics of entrepreneurs is. The image that came off the analysis of the interviews was surprising, the process of creating business plans seemed sorted out and more or less anticipated results. Instead, they could feel more adaptive and transformative tactics, in which first evaluate the type of resources that are available and then the possible ideas. This reversal of the situation is what the name of this new form of business development explained: " effectuation" or effect ahead of the cause.

" A meek mission like cooking a banquet can be used to contrast the causal thinking effectual thinking," says Sarasvathy. " A chef who is given a specific menu and simply told to select the favourite recipe, and buy the elements and cook dinner in your own well equipped kitchen, is an example of causal reasoning. An example of effectual reasoning would be a chef who does not know the menu in advance, is escorted to a strange kitchen where you have to explore the cupboards with unknown ingredients and cook dinner using his own ideas. " (Sarasvathy 1997)

Both arguments were made by people with skills defined (in this case a chef) and knowledge that allow you to perform a task effectively, but in the case of the second chef there is also a requirement of imagination, spontaneity and the ability to take risks.

Effectuation Principles

The process of entrepreneurs who follow effectual reasoning starts by asking what skills they already have and assess what knowledge or opportunities exist within his inner circle. From that base, begins a search for ideas that could be implemented within that environment. Sarasvathy also notes the existence of patterns of behavior that emerges from the study of his interviews, and groups on five principles:

Bird in the hand Principle: the entrepreneurs should start with their own opportunities and not wait for the perfect opportunity appears. Taking action based on what you have is better than delaying any release until all conditions are defined in a plan.

Affordable loss Principle: instead of elaborate calculations of risk and return on investment, entrepreneurs must evaluate how much you are willing to lose if the bet does not go well.

Lemonade Principle: lemonade can be transformed into sweet lemonade, the entrepreneur can take advantage of the contingencies and turn them into an opportunity. Shall surprises arising from uncertainty, and remain flexible rather than tied to existing targets.

The crazy-quilt Principle: partner with individuals and organizations willing to take a real commitment to jointly create a future product, service, or market. Do not bother with the study of competition or strategic planning.

The pilot on the plane: focus on activities that are within the scope of the entrepreneur, the more likely that the results are close to expectation. The idea is not to try to predict the future, but to create it.((Sarasvathy 1997)

Entrepreneurs using Effectuation

Effectual reasoning examples flourish in the history of building successful companies. Richard Branson, founder of Virgin conglomerate, began selling music through his school magazine until he saw the opportunity to create your record store and later (helped by a family loan) his own music label. His latest commercial venture is the creation of the first airline space flight(Virgin Media. com) There is also the famous Tiffany's New York store began as a bookstore and gradually became a jeweller, perhaps one of the most recognized in the world. But the most cited example is the U. S. company U-Haul, a network of rental moving vans that extends throughout the Americas, founded in 1945 by Leonard and partner Anna Shoen.

At the time they were married, Leonard and Anna spent many years moving from one friend's house to another. Once married, the couple decided to start some activity and managed to raise about $ 5, 000 from family members to use as capital. Shoen was bought and the vans created his first U-Haul. The $ 5, 000 will be finished soon, but Shoen had a brilliant idea: to sell the vans to his friends and family, who then granted the company rent. In one stroke the Shoen extended their capital, their partners and their network of customers, while collecting possible losses of the company.(U-Haul. com)

To expand its sales network the Shoen had another brilliant idea: to partner with the owners of gas stations across the country, which provided him with parking space fleet while they became partners. In ten years U-Haul created a fleet of 10, 000 rental vans(shoen biblio)

Effectuation vs. Causation

The reasoning is analytical or causal if selecting the right resources to achieve its objectives. This way of thinking starts with a goal and a given set of resources, and in that situation trying to identify the best alternative (faster, cheaper, more efficient, etc.) to reach its target.

Meanwhile, effectual reasoning or creative is to imagine possible alternative endings that can be achieved using a given set of resources. In this case, the starting point is not a specific objective but a set of resources that allows the objectives defined contingently over time based on the aspirations of the entrepreneur and the network of relationships around them.

Under this reasoning, the entrepreneur, according to their characteristics (tastes, skills, etc.), knowlegde (education, training, experience, etc.) And the set of people related (network of social and professional contacts), is able to take the initiative to take a chance.

In balancing both types of reasoning is found that causal reasoning focuses on the return or the expected reward, while effectual reasoning stresses assumable losses. It also uses the causal thought for competitive analysis, while thinking about strategic alliances. Similarly, causal reasoning use prediction to exploits existing knowledge, while effectual thinking emphasizes the use of contingencies.

As it can be seen, the logic behind each of these ways of thinking is radically different. While causal reasoning assumes that “ as long as you can predict the future, we can control it,” effectual reasoning considers that “ to the extent that it can control the future, it is not necessary to predict it.”

CONCLUSION

In short, causal thinking or analytical uses inductive or deductive logic, mathematical tools and other analytical methods. It is the way to address problems that are taught in schools, is widely used in the field of business and is a powerful tool that works perfectly if the future can be predicted by extrapolation of the past.

In contrast it could be concluded that entrepreneurs believe that the future is not written and can be shaped by human action. So what sense does it make abstract models to predict? They do not predict, they forge their own destiny. With this statement the research confirm the theory of Sarasvathy which analyses the reasoning of entrepreneurs by using effectuation thinking rather than the causation reasoning.

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Summative Assignment

Reconstructing Market Boundaries

Market Limits

A market presents different types of limits, of which knowledge to properly design the business strategy. These limits indicate the field of action in the marketing world, but it is not always easy to identify, and in any case are immovable, and can therefore be extended. The limits set, in turn, divided or criteria for classifying the market. In particular, the limits can be classified into:

Physical: territorial or geographical. This division results in local, regional, national and foreign.

According to the characteristics of consumers: demographic, socioeconomic, ethnic and cultural.

According to product use, these are the most related boundaries and that can be changed more easily. The market may be extended for new product applications. For example, the computer can process not only data, but also text and play music and videos, connect to the Internet, send and receive email, shopping, and thus become a valuable aid to people not initially considered potential users.(apps. business. ualberta. ca)

Competitive Strategy

Competitive strategy is what a company is doing to try and disarm rival companies and gain competitive advantage. The strategy of a company can be primarily offensive or defensive, changing from one position to another depending on market conditions. Companies in the world have tried to follow all conceivable approaches to beat their rivals and gain a market advantage.

The three generic types of competitive strategies are:

Strive to be the leading producer in the industry costs (the effort to be low cost producer)

Search product differentiation offered compared to the rivals (differentiation strategy)

Focusing on a limited portion of the market rather than a full market (specialization strategies and approaches). (business. ulster. ac. uk)

Competitive Advantage

A company has a competitive advantage when you have some characteristic that differentiates it from its competitors, giving it the ability to achieve higher yields to them, in a sustainable manner over time.

The competitive advantage is one or more characteristics of the company, which can manifest in many different ways. A competitive advantage can be derived both a good image, an additional provision of a product or a privileged location just a lower price than rivals.

This feature must be differential, must be unique. The competitive advantage gives the company a monopoly partial in the sense that it must be the only company that has this property. In addition, the property which constitutes the basis of competitive advantage should be appreciated by consumers or business customers. It is not only to be different, but to be better in an area where customers play the role of judge.

There are many sources of competitive advantage: making the product with the highest quality, providing superior service to customers will, achieve lower-cost rivals have a better location, design a product that has a better performance than marks competition.(Michael Porter-valuebasedmanagement. net)

Innovation- Key for Competitive Advantage

The concept of innovation has evolved over time and was considered by many authors in a comprehensive manner.

Etymologically the word comes from the Latin innovare, which means change or alter things by introducing new features. “ Innovation is the specific tool of innovative entrepreneurs, the means by which exploit change as an opportunity for a different business. It is the action of providing resources with a new capacity to create wealth. Innovation creates a “ resource”. There is no such thing until the man is the application of natural and then gives it economic value (Peter Drucker, 1985). It can be seen that in both these definitions as in others that can be found, the match is on the idea of change, for something new, and that innovation is that when you enter the market successfully. The point of difference is over what changes.

Joseph Schumpeter (1935) defined innovation in a general sense and considered different cases of change to be considered as an innovation. These basic principles are:

1. Market introduction of a new good or service, which consumers are not yet familiar.

2. Introduction of a new production method or organizational method.

3. Creating a new source of supply of raw materials or semi-finished products

4. Opening of a new market in a country.

5. Implementation of a new market structure. This theory of change as we include product innovation, process innovation, innovation in a new market structure or new markets, as well as new ways of treating commercially existing processes.

There are several techniques aimed at stimulating creativity and can be applied in sectors or areas completely dissimilar financial, productive, commercial, administrative and techniques can be very structured and analytics that follow a linear thought, as intuitive techniques that are less structured and can be very useful in situations or indefinite problems. The application of these techniques in organizations either customer-oriented areas, products, processes, or the development of strategies, not necessarily come from senior leaders or businessmen but can also come from employees of those organizations whose creative ideas will relate to their function and generating economic value for them. Freeman (1974) states that, almost all the studies on innovation agree that success is more about those who are concerned with determining the future needs of its customers. It is observed that almost all failures are related to a disregard for the requirements of the market, or by a poor understanding of customer demands.

Innovative Companies

Ikea. _This is a Swedish multinational, furniture and products sold unassembled. For example, computer furniture that come in parts, and assembled at home with an instruction. At the time that Ikea was founded (1943) the idea was absurd. Who wanted to buy furniture and have it be assembled at home? However, through affordable, attractive designs and easy logistics (from driving off in the car, armed to the cabinet), it was like now, this store is found throughout the world, with 470 million visitors a year(ref)

Ebay. _ This company started in 1995, when the Internet was in its infancy. Remembering that time, the latest at the time was having an email (which practically nobody knew it was), a telephone connection of 56 kb / s (now handle up to 5MB / s), and fixed html pages (now we flash, movies, online courses, music, etc.) Developing ebay was a kind of innovation. The founder Pierre Omidyar, at 28 years old, was developing a personal site. Subusta was this idea online, which attracted many visitors, and created a new business model profitable.(ref)

Microsoft. _ Bill Gates developed an idea that seemed unthinkable at the time: the operating system. At this time, computers were mechanical rooms, punch card needed to make computations. Being young (Gates and Paul Allen) without capital, without completing their education, Gates and Allen developed their own version of an operating system, which was the MS-DOS. This system revolutionized the way we use computers, and later would become the standard computers.

Blue Ocean Strategy- A Way of Innovation

Some years ago, Chan Kim and Renee Mauborgne argue in Blue Ocean Strategy (2005) that companies should seek to operate in markets where competition is less and hence greater profitability in the most competitive markets. These new spaces are called “ blue oceans” as opposed to “ red oceans”, represented by the traditional sectors, in which the actors are firmly established and competition is more intense.

In blue oceans, demand is created rather than fought; here the competition is irrelevant because the rules of the game are established.

The Blue Ocean is based on value and innovation; it is generated the minute a firm attains value innovation that crafts value at once added to the customer and the firm. Innovation in the product or service raise and create value for the market, while reducing or eliminating certain features that are less valued by the current or future market (Chan Kim, W and Mauborgne, 2005)

The red ocean metaphor is used to describe all existing industries of today, the market is known, here the boundaries of firms are defined and the rules of the game are known to all, companies try to outdo competition trying to grab a greater share of demand for the product or service.

As more competitors are gaining the benefits and growth opportunities contract, products are standardized to the maximum and turn white or niches besides that competition becomes increasingly stronger and unfair.

It is then to compete without competition, creating markets or expanding the frontiers of the same, at least until others are attracted to these extraordinary profits

Currently companies must remain competitive, and this should make adapting strategies and organizational structure to the dynamic environment of today’s economy. On this depends the success of a company on its ability to achieve new competitive advantages in this case we speak of innovation with the objective of growth and diversification.

This strategy, which makes the competition an irrelevant factor and provides principles and tools for any company to create blue oceans; completely flips our traditional strategic thinking as future managers, marking a new and different way to be more competitive and succeed in the future.

The first principle to develop a blue ocean strategy suggests expanding the limits of the current market, for which you can use different complementary routes, such as studying the factors that influence the decision of consumers between adjacent industries, market segments considered not served by the company, target marketing efforts to a group having a different role in the purchase decision, study the products or services related to the time of purchase or consumption of a product and target those feelings and consumer emotions.

Another important principle of this strategic approach is to go beyond existing demand, for which the authors propose to concentrate on non-customers, in order to expand the size of the blue ocean. This pathway differs from the traditional approach, which is segmented according to understand the needs of consumers and consolidate a market position.

According to Kim and Mauborgne, there are two ways to create blue oceans. The first is to venture into a whole new industry, as it did in the eBay auction market online. The other way is to alter the boundaries of a sector, as did the Cirque du Soleil, which created a new kind of show that combines elements of traditional circus aspects of theatre.

Companies using Blue Ocean Strategy

1. _ Starbucks, who found his blue ocean with the sale of a cup of coffee at a price two to four times higher than the competition, but selling it in a comfortable, relaxed and attractive: its stores have furniture and sofas

where taking coffee, with free access to wireless Internet and where each customer can stay as long as you like.

2. _ Zara, Spanish clothing company, which has managed to become one of the industry leaders in the manufacture of fashion garments in customized form, without massively production to give the customer a sense of exclusivity. All this while the Spanish textile industry continues to plummet

3. _ Apple, with the launch of the iPod and iPhone found clear blue oceans. With iPhone, Apple managed to sell a mobile device at a price much higher than the industry standard, offering the added value of device integration and ease of use, which managed to transform the industry by removing power to the carriers and give power to mobile equipment manufacturers had not previously

4. _ Nintendo, whose new game console Wii found a new blue ocean. A few years ago in Gaming Nintendo found a blue ocean, which was the leader. But eventually the ocean turned red with the arrival of Sony (with its console PS) and Microsoft (with its Xbox console). So Nintendo again found a new blue ocean in their non-customers: I ask the grandparents, housewives (their non-customers) why not buy their products and found these Nintendo console considered difficult to understand and manage. Hence was born the new Nintendo Wii console, with which the company plans to reach customers never intended.

CONCLUSION

As the markets have become difficult to penetrate into, companies need to look for different strategies to reconstruct the market boundaries, For instance we have companies as stated above that have changed their tactics in order to gain new market spaces by analysing new opportunities and take them into action even if risk factors have to be faced. That is not a guarantee of success but if carry on correctly it can be highly beneficial for the companies that undertake this new strategies. It is possible to reconstruct the market boundaries if a company play effectively and efficiently with their resources and most important their attitude towards creating a new market space by innovating.