

**COLLEGE  
OF  
HOTEL AND CATERING**

**BUSINESS ECONOMICS**

**STUDENT WORKBOOK**

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# 1. WHAT IS BUSINESS?

What is business? – some definitions:

A business is the organised effort of individuals to produce and provide goods and services to meet the needs of society. We view business as a broad concept incorporating profit-making concerns such as manufacturing firms and banks, and non-profit-making concerns such as schools and hospitals. (Needle, 1994)

Business is concerned with meeting the wants and needs of people and groups in society through organised activity. (Needham & Dransfield, 1997)

These two definitions of business are very similar and emphasize the fact that we should view business in the broadest possible sense- to include non-profit-making organisations.

Businesses are complex and dynamic – they are subject to continual change both from internal and external factors. Non-profit-making organisations are no exception to this. The management of hospitals in the UK has changed dramatically in the last 10 years. Charities such as Oxfam have to compete for funds and run their high street shops efficiently and competitively.

Needle's (1996) **Business in Context Model** provides a useful means of visualizing business and the factors that direct influence it.

It is important to view each level of this model as both constantly changing and also interacting with the other levels. Changes at the activities level, in say innovation or operations, have a direct impact on the strategic level as the company changes its business plans. At the organisational level, changes in the size or ownership of the company have a direct impact on both the strategic and activities level. This change at the internal levels is set within a continually changing external environment<sup>1</sup>. Changes in government policy, social changes etc. can have an impact on all the other levels.

Business strategy

*Business strategy* is concerned with developing a clear picture of the direction an organisation needs to go in, coupled with a well thought out plan of how to steer the organisation in the chosen direction. (Needham & Dransfield, 1997)

Mission, goals and objectives:

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<sup>1</sup> Needle (1996) points out that the external environment "includes all those elements which exist outside the organisation and interact with it". These can be categorised as Political, Economic, Social and Technological (a PEST analysis)

The basis for the company's strategy is its *mission statement* (or vision); defined as "an expression of what it is for, why it exists and what role it seeks in the world" (Naylor, 1999).

Example of a mission statement:

*DHL will become the acknowledged global leader in the express delivery of documents and packages. Leadership will be achieved by establishing the industry standards of excellence for quality of service and by maintaining the lowest cost position relative to our service commitment in all markets of the world.*

DHL World-wide Express

We can see that the mission statement provides DHL with a "clear sense of overall direction or purpose".

The overall mission of the company can then be broken down into goals and objectives as part of the strategic planning process.

Naylor (1999) pp 278 – 282 gives an excellent overview of this subject, making clear the important distinction between goals and objectives:

Goals are a general statement of a desirable aim. (In student terms – "I want to be a good student")

Objectives are more specific targets, with a time scale. (In student terms "I will achieve an average of over 65% in my first year").

Objectives are quantifiable – they can be checked to see if they have been achieved within a certain time scale.

### Stakeholders

So far we have dealt with business from an organisational view but, of course, organisations are made up of people and the groups with which the organisation interacts are also made up of people. These groups of people all have different interests and objectives. The stakeholder concept helps us to view business in terms of the interests of these groups and the impact that they can have on the business, both from an internal and external perspective.

Stakeholders are defined as "individuals and groups who have a stake in the running of an organisation and in the consequences of the organisation".

In seeking to achieve its objectives the organisation may have to take into account the expectations of both internal and external stakeholders. These could include managers, employees, shareholders, customers, suppliers, the local community and society at large.

The relationship between the level of interest and degree of power of each stakeholder group will vary depending on the organisation. Taking a university as an example, as a student you are a stakeholder with a high degree of interest but a relatively low level of power. Conversely the government is a stakeholder which has a high degree of power but, perhaps, a lower degree of interest. Organisations seek to balance the interests and needs of their various stakeholders.

## 2. BUSINESS AND ITS ENVIRONMENT



### 3. ANALYSING BUSINESS `SWOT` ANALYSIS

SWOT Analysis is a very effective way of identifying your Strengths and Weaknesses, and of examining the Opportunities and Threats you face. Carrying out an analysis using the SWOT framework helps you to focus your activities into areas where you are strong and where the greatest opportunities lie.

To carry out a SWOT Analysis write down answers to the following questions. Where appropriate, use similar questions:

#### *Strengths:*

- What advantages do you have?
- What do you do well?
- What relevant resources do you have access to?
- What do other people see as your strengths?

Consider this from your own point of view and from the point of view of the people you deal with. Don't be modest. Be realistic. If you are having any difficulty with this, try writing down a list of your characteristics. Some of these will hopefully be strengths!

In looking at your strengths, think about them in relation to your competitors - for example, if all your competitors provide high quality products, then a high quality production process is not a strength in the market, it is a necessity.

#### *Weaknesses:*

- What could you improve?
- What do you do badly?
- What should you avoid?

Again, consider this from an internal and external basis: Do other people seem to perceive weaknesses that you do not see? Are your competitors doing any better than you? It is best to be realistic now, and face any unpleasant truths as soon as possible.

#### *Opportunities:*

- Where are the good opportunities facing you?
- What are the interesting trends you are aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale

- Changes in government policy related to your field
- Changes in social patterns, population profiles, lifestyle changes, etc.
- Local Events

A useful approach to looking at opportunities is to look at your strengths and ask yourself whether these open up any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

***Threats:***

- What obstacles do you face?
- What is your competition doing?
- Are the required specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

Carrying out this analysis will often be illuminating - both in terms of pointing out what needs to be done, and in putting problems into perspective.

You can also apply SWOT analysis to your competitors. This may produce some interesting insights!

**Example:**

A start-up small consultancy business might carry out the following SWOT analysis:

***Strengths:***

- We are able to respond very quickly as we have no red tape, no need for higher management approval, etc.
- We are able to give really good customer care, as the current small amount of work means we have plenty of time to devote to customers
- Our lead consultant has strong reputation within the market
- We can change direction quickly if we find that our marketing is not working
- We have little overhead, so can offer good value to customers

***Weaknesses:***

- Our company has no market presence or reputation
- We have a small staff with a shallow skills base in many areas
- We are vulnerable to vital staff being sick, leaving, etc.
- Our cash flow will be unreliable in the early stages

***Opportunities:***

- Our business sector is expanding, with many future opportunities for success
- Our local council wants to encourage local businesses with work where possible
- Our competitors may be slow to adopt new technologies

*Threats:*

- Will developments in technology change this market beyond our ability to adapt?
- A small change in focus of a large competitor might wipe out any market position we achieve

The consultancy might therefore decide to specialize in rapid response, good value services to local businesses. Marketing would be in selected local publications, to get the greatest possible market presence for a set advertising budget. The consultancy should keep up-to-date with changes in technology where possible.

**Key points:**

SWOT analysis is a framework for analysing your strengths and weaknesses, and the opportunities and threats you face.

<b>INTERNAL</b>	Strengths	Weaknesses
<b>EXTERNAL</b>	Opportunities	Threats

This will help you to focus on your strengths, minimise weaknesses, and take the greatest possible advantage of opportunities available

## **4. ENTREPRENEURSHIP**

Entrepreneurship today is the fastest growing area of the curriculum in US business schools and the situation is very similar to it in the other countries of the world. This business and social phenomenon receives vast amount of public attention too.

In the everyday business life everybody seems to know exactly what entrepreneurship is and who the entrepreneurs are and who are not. However, when it comes to a scientific study of the subject the otherwise clear picture becomes somewhat blurred because there is no general understanding concerning this subject and what is more there is no single definition but there are many.

In practical life entrepreneurship is considered simply as being self-employed, or it is often simplified to the role of making business in small.

*“Entrepreneur: a person who undertakes the risks of establishing and running a new business. Entrepreneurs are characterized by their initiative and enterprise in seeking*

out new business opportunities; inventing and commercialising new goods and services and methods of production.” This is the definition provided by the Collins dictionary of business.

The Social Science Encyclopaedia provides a more precise definition. The word entrepreneurship was translated into English as merchant, adventurer or employer. The exact meaning of the word is undertaker of a project.

Naylor coined the following definition for entrepreneur relying on the above-mentioned factors: *“an entrepreneur is a person who shows willingness and ability to take reasonable risks for gain in business or commerce”*. (Naylor, 1999 p. 237)

If we look at the history of entrepreneurship we can say it looks back to the 18<sup>th</sup> century when economists first introduced the topic for discussion and analysis. It has been in the focus of attention ever since.

Shumpeter, the famous German economist regards entrepreneurs as the prime movers of the economy. He says that entrepreneurs implement new combinations and this how they drive the circular flow of economic life (Kreislauf des ökonomischen Lebens). Accordingly entrepreneurs’ role is rather managerial/leadership or decision-making role.

*“...entrepreneurship ... consist in doing things that are not generally done in the ordinary course of business routine; it is essentially a phenomenon that comes under the wider aspect of leadership”* (Schumpeter, 1951 p. 255)

An interesting approach says that entrepreneurship offers a way for social advancement for people who are refused in other opportunities. This may explain the fact that immigrants and religious minorities and people who did not attend higher education are way over-represented among entrepreneurs. There is also a great chance for the truth of that the most common type of entrepreneur is the son of an entrepreneur.

## **4.1.The functional approach**

This approach focuses on the role entrepreneurship plays in the society or more narrowly defined in the business life. The entrepreneur is the central figure in the modern business mythology. He or she is the main driver of economic growth, the catalyst of market economies.

### ***4.1.1. Social factors***

Entrepreneurial activity takes place in the society it is influenced by the society, by the social factors: This is evidenced by major factors characterizing self employment (Naylor, 1999, pp. 239-40):

- The age profile of the self-employed shows a remarkable peak around 30-45
- If the family contained someone with same profession it is likely to be influential
- Self-employment is widespread among married and less customary among single people
- Self-employment comes from social marginalization and is more prevailing among some ethnic groups.

These factors are only indicative, they do not provide conclusive arguments in any aspect.

Using the PEST analytical framework we can identify a number of factors which promote entrepreneurship in an economy, society (Naylor, 1999, pp. 242-43):

- A small independent unit friendly industrial structure
- Persons, whose job closely related to problem solving and contacting customers
- A group of technically advanced small firms
- High awareness of business activities
- Banks and financial institutions adjusted to the necessities of small businesses
- Help and advice is accessible
- The market is containing a wealthy population
- Social attitudes supporting individualism.

The expected rate of new businesses can be calculated on the basis of these factors. These are so called "pull factors" which encourages entrepreneurs to establish new businesses and "push factors" that are driving people away from the traditional activities. Government policies, growing sectors of finance, property and professional sales can all be pull factors for entrepreneurs.

## **4.2. Individual traits approach**

The functional approach to the understanding of entrepreneurship has not proved to be a good predictor of entrepreneurial activity. Attention was diverted to the individual traits of the entrepreneurs themselves. Investigations attempted to define and understand the psychological and sociological sources of entrepreneurship. They try to find some common characteristics of entrepreneurs. These studies are considered inconclusive. Stevenson goes as far as to say that "the search for a single psychological profile of the entrepreneur is bound to fail." (Stevenson, 1988, p. 1)

### **4.2.1. Personal factors**

Of the several researches conducted with the aim to define those personal traits that explain and predict entrepreneurship we quote here Deakins's list of personal traits (Deakins, 1996 pp. 17-18):

- *Need for achievement*  
Entrepreneurs are not exclusively motivated by financial gain. They enjoy finding solutions for problems and taking responsibility for their decisions and results.
- *Desire to be in control of environment and destiny*  
They prefer the self-employed status not to have to obey to orders of a boss.
- *Willingness to take risks*  
They are eager to take risk in order to expect a higher gain.
- *Need to be independent*  
They do not want to rely on others or to be responsible to others.
- *Unconventional personality*  
They cannot adjust to the environment of a large company; they are unable to find their place in a large firm.
- *Capability for innovation*  
The innovation may be expanded to all areas of the business.

This handful of traits may be characteristic for many entrepreneurs but they do not provide sufficient explanation whether individuals in possession of these traits are more likely to succeed than others as entrepreneurs. The literature criticizing this approach is abundant but we are not discussing them here. We single out one aspect, the relationship between achievement orientation and entrepreneurial success.

#### **4.2.2. Achievement Orientation and Entrepreneurship**

As we saw above one of the central assumptions of the trait theory of entrepreneurship is that there is a direct measurable link between certain personal characteristics, traits and the success as an entrepreneur. Several studies have been conducted to prove this relationship. Here we describe Hansemark's findings (Hansemark, 2000).

The personal trait that was singled out for the experiment was the achievement orientation as described by David McClelland's motivation theory. (For details see chapter 6 on motivation)

The Thematic Apperception Test (TAT) was developed by Henry Murray in 1938 and it was further developed by David McClelland. TAT is a method by the help of which one can have access to one's mind. The TAT procedure is the following: one is told that one will take a test of creative writing. One is shown photos mainly on people and asked to write an imaginative story on what one can see. The psychoanalytical theory behind this is that people will project their own feelings, needs and motives into the picture.

In Hansemark's longitudinal study TAT was conducted to measure achievement orientation. It took place 11 years before the study of relationship between entrepreneurial performance and TAT results were measured. Another method

Cesarec-Markes Personal Scheme (CMPS) was also used to measure achievement orientation which method was independent of TAT.

The econometric analysis of the results obtained are disappointing for the supporters of the trait approach. TAT has no measurable predictive validity of entrepreneurial performance. In case of CMPS the results are somewhat more encouraging. The analysis of the two test taken together is inconclusive since individuals with high achievement orientation are not much more likely to succeed as entrepreneurs as any other member of the society.

### 4.2.3. A Two-Dimensional Entrepreneurial Grid

The two-dimensional grids are very much in fashion nowadays. Of them the best known is undoubtedly the leadership grid by Blake and Mouton (See chapter 9 on leadership).

The present two-dimensional grid (Kuratko and Hodgetts, 1989 pp. 76-87) is concerned with comparing management skills with entrepreneurial characteristics and defining the concept of entrepreneur/ship. A glance on the diagram below suffices to remark that according to this approach entrepreneurs are those persons who possess the maximum of management skills and entrepreneurial characteristics. All the others are best in different roles.

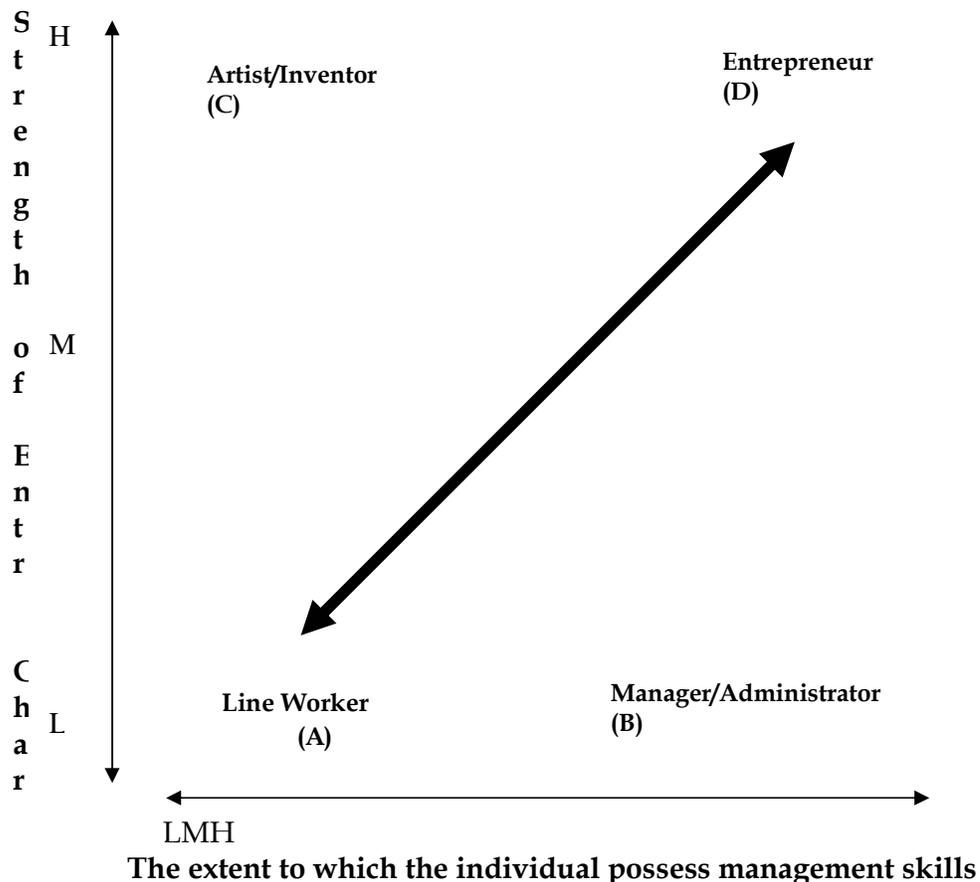
The Line Worker (A) is the individual who is low on both management skills and entrepreneurial characteristics.

The Manager/Administrator (B) is the individual who is strong on managerial characteristics but lacks entrepreneurial characteristics.

Artists/Inventors (C) are the individuals who are high on entrepreneurial characteristics, strong in innovation and imagination, but low on managerial skills.

The effective Entrepreneur (D) is the individual who is high both on entrepreneurial characteristics and managerial skills.

#### A Two-Dimensional Entrepreneurial Grid



This Entrepreneurship Grid is also not only a descriptive tool but with the help of attached questionnaire one can find his personal position in this two-dimensional space. The Grid may prove to be an efficient training tool, too.

#### **4.2.3.1.Age Factors**

A study carried out to define the relationship between age and entrepreneurship, showed, that the majority of business starters were between 30-45 years old. (Deakins, 1996 p. 52) The study examining profit growth, turnover growth and employee growth demonstrates that the fastest growth in terms of all the three indicators was found for companies which were led by young entrepreneur. This tendency can be explained by the change of motivation of the director-entrepreneur. The younger the person is the higher the drive for achievement, and the older he or she is the higher the drive for comfort.

#### **4.2.3.2.Family (business) background**

Families and family businesses play an important, one could say, central role in entrepreneurship. One reason is that entrepreneurship, entrepreneurial values and skills are passed on by the parents to their children together with the family business. However, this does not mean that a successful family business will stay at the same high level after the first generation owners. Statistics has been compiled that show that the family businesses are very likely to start declining at the second generation and arrive to bankruptcy during the forth generation. (Abbot and Hay, 1996 p. 6). Of course there are counter examples, which demonstrate that there are successful family businesses after 5-10 generations as well, however the statistical data suggests that an overwhelming percentage of the family businesses fail during the second and third generation.

#### **4.2.3.3.Ethnic businesses**

A family business is more frequent among certain ethnic minorities. Jews are considered very entrepreneurial persons in the world. Italian family businesses are also worldwide known, and it is not exclusively the bad reputation mafia. Asians are also recognized as good entrepreneurs using the family as source of labour and contact network. In the United Kingdom whites are acknowledged less entrepreneurial than Pakistanis, Bangladeshis or Indians. Those ethnic groups that are accredited entrepreneurial skills are much more often successful than other minorities.

### **4.3.Can entrepreneurs be developed?**

By examining these personal factors, an interesting issue is emerging. If these traits are really indispensable for managers and entrepreneurs as well, then the entrepreneur development and the management development probably should have

much in common. The conclusion of this issue is very important concerning the success of certain persons. If these human factors are proven to be necessary for a person to be an entrepreneur, then the success can be predicted for a certain individual examining his or her capabilities. However there cannot be one or a few characteristics picked since entrepreneurs are quite dissimilar. Also social and economic environment are disregarded by these approaches, which may have a much noticeable effects than personal factors.

The training of entrepreneurship is not a clearly defined term. Entrepreneur developments are carried out several different ways through external and internal formal trainings. It includes the conceptualisation of entrepreneurial tasks, entrepreneurial practice and entrepreneurship development. So there aren't any certain definitions for entrepreneurial training in the small firms.

Whether education and training in entrepreneurship has an impact on entrepreneurial performance is one of the controversial issues. Several empirical studies have been conducted to prove this issue. Kolvereid and Moen examined if students of business schools with a major in entrepreneurship are more likely to succeed than students with other majors. (Kolvereid and Moen, 1997). They found that graduates with entrepreneurship major are more likely to start new businesses and have stronger entrepreneurial intentions than other graduates of the same business school in Norway.

On the other side there is the parental guidance as a kind of entrepreneurial training. Is it possible that parents who have already acquired entrepreneurial skills and knowledge by experience can transmit them to their children. It is also a very debated issue, since scholars could not agree on the basics; whether these are personal, economical or social factors that influence the formation of an entrepreneur. It may be any of these or the mixture of all of these or any other factor; there isn't any proof for one or the other. However there are signs that show that these factors can be dominant in a high number of cases.

Robert T. Kiyoshaki (1998) wrote a book on how he has learned entrepreneurship. In his first book "Rich Dad, Poor Dad" he explains what are the things that "entrepreneurial" parents teach to their children, what an "employee" parent cannot teach. He suggest that the first and most important thing is to decide where do we want and where can we work. There are four possibilities: we can be employees, self-employed, owners of business, and investors.

Here is a short story to exemplify what is the difference between an employee and an entrepreneur:

*...Once upon a time there was a little nice town in a forest. The town only had one problem; they did not have any drinking water. So they invited applications from entrepreneurs to supply water for the town. There were two persons applying for the work, and they settled with both. They thought that the competition could be advantageous for the town. One of them ran for two buckets and started to carry water*

*in those two buckets from the nearby lake. The town constructed a big tank in the middle of the town, where they kept the water. He was working hard every day; he supplied water 5 days a week, 12 hours a day. He woke up early in the morning to see if there is any water left in the tank and he refilled it.*

*The other man disappeared for months. He wrote a business plan, he searched for investors, he founded a company and then he hired a man to take care of the business. Then he went back to the town with his team, and constructed water pipes from the lake to the town. He announced that he will supply 24 hours a day, his water is crystal clear (he was aware, that the habitants of the town were unsatisfied with the cleanness of the other supplier), plus he will give the water for 20% less. The people were very happy and they ran to the tap at the end of the water pipe. The other entrepreneur did not quit, he also lowered his prices with 20 percent, bought two more buckets, so he could carry 4 at a time, and he hired his sons for the nights and for the weekends. He worked harder and harder as the time went by, his sons left for university, and they never returned to continue their fathers "business". The other entrepreneur thought that other towns might also need water, so he constructed water pipes everywhere. He made only 1-penny profit on every litre, but he supplied billions of litres every day. He was making huge amount of money without working...*

This short story raises the question how can a problem be solved. A solution can be worked out with toilsome work or with brain. The first one is an employee type person; the second one is an entrepreneur. He explains that the employee is working for someone else and receiving the smallest amount of money, because he is making the profit for his or her employer and for the state. The second variation is the self-employed, who is working hard for himself or herself, however if he wants to earn more than he or she has to work harder and harder. The third one is the owner of business. This is the person we call entrepreneur.

He has employees who are working for him or her and making the profit for the entrepreneur. The entrepreneur can enjoy the money earned, because he or she does not have to work at all if he or she does not wish to. The fourth one is the investor who is earning his or her living from investing. This type of person may be an investor in a company and if not necessary he or she would not intervene in the management's task only receives the money.

Kiyoshaki defines four types of earning money in a Cash flow Quadrant. He stated that every corner of the Cash flow Quadrant is accessible for anybody and that all of them carry a certain necessity for inherited characteristics and some learned skills. So the entrepreneurial behaviour besides some inherited factors needs some acquired skills by learning the philosophy of a successful entrepreneur. This means that these skills can be transmitted by teaching. So what he believes is that if a parent was a good entrepreneur then it is very likely that his or her children can become one as well, and if a child was raised by parents who did not show any special inclination to entrepreneurship, then the child will probably be in a disadvantageous situation concerning his or her entrepreneurial skills and abilities.

## 5. ENTREPRENEURSHIP AS A BEHAVIOURAL PHENOMENON

Stevenson’s theory on entrepreneurship (Stevenson, 1988) looks at entrepreneurship as a behavioural phenomenon, since he believes that the term cannot be described purely in terms of individual traits. He defines “entrepreneurship as a management process” that is “the pursuit of opportunity without regard to resources currently controlled.” Stevenson says that there are six critical dimensions of business practice which are the following: strategic orientation, the commitment to opportunity, the resource commitment process, the concept of control over resources, the concept of management and compensation policy. These dimensions can be defined successfully by investigating behaviour styles between the two limits, “promoter” and “trustee”. Promoter is certain of his or her capability to exploit opportunity regardless of the resources under current control. On the other side the “trustee” stresses the efficient use of existing resources. The managerial behaviour that expands between these two extremes that are defined as entrepreneurial and administrative behaviour.

The concrete behaviour of the actors of business life is to be found in the space, in the continuum between the two extreme positions of the promoter and the trustee. It is a rare case that we find extreme or clear promoter or trustee behaviour: what is more likely is a mixture of the two mentalities where the proportions vary from case to case.

### 5.1.Strategic Orientation

Strategic orientation describes the factors that influence the way firm’s formulate strategy. A promoter – being opportunity driven – is using his or her perception of the opportunities and pays no attention to the resources available in his or her environment. The trustee however is concerned only with efficiently utilising the resources available. The administrator is more resource oriented and the entrepreneur is more likely to focus on opportunities.

<b>Promoter</b>	<b>STRATEGIC ORIENTATION</b>	<b>Trustee</b>
Driven by perception of opportunity	Entrepreneurial domain	Driven by resources currently controlled
	Administrative domain	
<b>Pressures towards this side</b>		<b>Pressures towards this side</b>
Diminishing opportunity streams Rapidly changing: Technology Consumer economics Social values Political rules		Social contracts Performance measurement criteria Planning systems and cycles

*Table 1. A perspective on Entrepreneurship – Howard H. Stevenson (1988)*

According to Stevenson shifts between the two extremes in the business behaviour of individuals and companies is continuous: companies may start with promoter mentality when looking for new opportunities but may assume trustee mentality once the resources are already available.

### 5.2. Commitment to opportunity

Creativeness and innovation is not enough to succeed. A promoter is someone who is eager to act rapidly and to track an opportunity fast. For promoters the duration of their commitment is questionable, while on the other side the trustee once engaged its commitment is long term.

Promoter	COMMITMENT TO OPPORTUNITY	Trustee
Revolutionary with short duration	Entrepreneurial domain	Evolutionary of long duration
	Administrative domain	
Pressures towards this side		Pressures towards this side
Action orientation Short decision windows Risk management Limited decision constituencies		Acknowledgement of multiple constituencies Negotiation of strategy Risk reduction Management of fit

Table 2. A perspective on Entrepreneurship – Howard H. Stevenson (1988)

The reputation of entrepreneurs as gamblers derives from the fact that they are willing to get involved in businesses and getting out of businesses quickly. Of course, the pure act of risk taking is not sufficient for success. The knowledge of the environment they are in is very important to recognize the hidden factors of the area and to be able to bypass others in commitment to action.

### 5.3. Commitment of Resources

The question raised concerning resources is the follows: what resources are needed in order to exploit a given opportunity? Entrepreneurs intend to maximize the value adding by minimizing the resources employed which means they have to take more risk. In contrast the trustee meets a challenge by deep analysis and high commitment of resources. Entrepreneurial management requires doing a little more with a little less. At this dimension entrepreneurs are seen as unreliable, because being tentative, uncommitted or temporarily dedicated. However in this fast changing world this characteristic is very valuable to react to changes in the market, technology and competition.

Promoter	COMMITMENT OF RESOURCES	Trustee
Multi-staged with minimal exposure at each stage	Entrepreneurial domain  Administrative domain	Single-staged with complete commitment upon decision
<b>Pressures towards this side</b>		<b>Pressures towards this side</b>
Lack of predictable resource needs Lack of long term control Social needs for more opportunity per resource unit International pressure for more efficient resource use		Personal risk reduction Incentive compensation Managerial turnover Capital allocation systems Formal planning systems

Table 3. A perspective on Entrepreneurship – Howard H. Stevenson (1988)

#### 5.4. Control of resources

The basic of this dimension is to learn how to utilise resources well. There are several resources that are not worth owning or employing continuously, because these resources are only temporarily critical success factors of the business. From this dimension originates the image of entrepreneur as exploitative. The good entrepreneur is able and willing to use the talents, skills and ideas of other people.

Promoter	CONTROL OF RESOURCES	Trustee
Episodic use of rent of required resources	Entrepreneurial domain  Administrative domain	Ownership or employment of required resources
<b>Pressures towards this side</b>		<b>Pressures towards this side</b>
Increased resource specialization Long resource life compared to need Risk of obsolescence Risk inherent in any new venture Inflexibility of permanent commitment to resources		Power, status and financial rewards Coordination Efficiency measures Inertia and cost of change Industry structure

Table 4. A perspective on Entrepreneurship – Howard H. Stevenson (1988)

A characteristic issue in this aspect whether a start-up company should by infrastructure (buildings, computers, vehicles like planes) or it is sufficient to rent these items for some period of time. A pure promoter would use the second approach, a pure trustee would favour the first solution.

## 5.5. Management Structure

The promoter is in favour of direct contact with all the major participants of a business, on the other side, the trustee imagines the relationships more formally, and is devoted to the delegation of authority. The promoters' decision of renting and using resources instead of owning them requires a highly developed informal information network. In the case of the trustee resources can be organized in hierarchy, since they are owned or employed by the trustee.

Many times there were intentions to make a distinction between entrepreneur and administrator by telling that being a good entrepreneur prohibits being a good manager. This statement is based on the assumption that an entrepreneur is an egocentric and idiosyncratic person, so is unable to manage. Still, the truth is that managerial skills are crucial to complete the entrepreneurial tasks. (See for example the `Entrepreneurship Grid` above) The key factor of fulfilment is the selection of appropriate tools.

Promoter	MANAGEMENT STRUCTURE	Trustee
Flat with multiple informal networks	Entrepreneurial domain	Formalized hierarchy
	Administrative domain	
<b>Pressures towards this side</b>		<b>Pressures towards this side</b>
Coordination of non-controlled resources Challenge to legitimacy of owner's control Employees' desire for independence		Need for clearly defined authority and responsibility Organizational culture Reward systems Management theory

Table 5. A perspective on Entrepreneurship - Howard H. Stevenson (1988)

## 5.6. Reward Philosophy

The entrepreneurial firms are very different from the administratively managed organizations concerning their reward and compensation systems. Entrepreneurial firms are more concentrated on value creation, they (entrepreneurs and their investors) invested cash, so they want cash in return. Given this philosophy of value-orientation, entrepreneurial firms are likely to use performance-based compensation. Administratively managed firms are more likely to settle for compensation based evaluation on individual responsibility and instead of the value maximising philosophy they rather tend to defend their position and security. Reward means promotion and increased responsibility levels.

Promoter	REWARD PHILOSOPHY	Trustee
Value-driven Performance-based Team-oriented	Entrepreneurial domain  Administrative domain	Security-driven Resource-based Promotion-oriented
<b>Pressures towards this side</b>		<b>Pressures towards this side</b>
Financial backers Individual expectations Competition		Societal norms Impacted information Demands of public shareholders

Table 6. A perspective on Entrepreneurship – Howard H. Stevenson (1988)

As these 6 tables and dimensions showed, entrepreneurship is much more complex, than a set of individual traits and it is not a pure economic function either. It is rather a continuum of possible behavioural types.

## 6. INTRAPRENEURSHIP

The term ‘Intrapreneur’ is used for defining a person who shows entrepreneurial characteristics, but prefers to stay within the framework of an established organization. (Naylor, 1999) There is of course very little agreement on what these characteristics are.

Intrapreneurs are often considered simple successful managers, leading a company. Some of them is rising to the top on a hierarchical ladder, while others are appointed to leadership position directly. These persons, no doubt, are strongly motivated, exceedingly competent managers. They are considered more cautious than entrepreneurs, because of developing and consolidating their business step by step. Some authors believe that intrapreneurs are not purely successful managers. Their special intrapreneurial skills and qualities are needed to deal with the large companies’ complex and uncertain environment. Usually large companies do not really belong to these environmental criteria. They have a propensity to have rigid structures and systems, limit personal autonomy and creativity and to utilize controls that obstruct innovation.

Carrier has the following definition for intrapreneurship: “the taking in charge of an innovation by an employee or other individual working under the control of an enterprise.” (Carrier, 1994) Then he adds that any improving change of the performance is an innovation. The large firms in order to accelerate growth and change tend to endorse intrapreneurship. There are three potential roles described:

- The inventor is the idea creator, for any change, including products, services, processes, etc.
- The product champion facilitates the destruction of resistance to change by showing commitment to the idea and utilising position and experience to promote the project.

- The sponsor is the senior manager who identifies the value of the certain idea and exploits position and organizational politics to provide the necessary resources and give it a chance of survival.

Of course there is the possibility, that the above-mentioned roles are gathered in one person. Successful intrapreneurship programmes consider the followings:

- Support teamwork
- Focus on results
- Awards innovation and risk taking
- Puts up with mistakes and learns from them
- Upholds flexibility and an orientation towards change

3M have introduced a very successful intrapreneurship policy. At the company scientist were endorsed to spend 15 per cent of their working time on self-picked project. Art Fry has utilized this opportunity to employ a previously rejected project to solve a problem that was bothering him. His page markers often fell out of his hymnal, and with some impermanent glue he could solve this problem. The 3M's Commercial Office Supply Division encouraged Fry to take the product to the market. Although at the beginning the sales were not satisfactory, after a promotion campaign it become a real sensation and is a exemplary business success still today. (Naylor, 1999 p. 252)

However not every large company was content enough with the intrapreneurship programme. For Kodak it was a complete failure and cancelled the whole programme. (Naylor, 1999 p. 251)

## 7. THE FUTURE OF ENTREPRENEURSHIP: THE TEAM

In the United States it seems that the solitary heroes' time is over. Heroes like Rambo, Terminator or any cowboys are replaced with teams. These individuals are not anymore the invincible and positive heroes of the society, the team becomes more and more important. This reflects on every aspects of the environment, entrepreneurs are also changed to entrepreneurial teams, which can solve and deal with problems easier.

There have been entrepreneurial heroes since the very beginning in the United States. The sentiment of nation the inspiring writers have always suggested that in America – the Promise land – a person who is willing to take risk and is decided to work for it and is persevering would achieve his or her goals. The amount of stories of the poor boys becoming rich was never-ending. (Reich, 1987)

John D. Rockefeller started as a clerk in a commission merchant's house and when he died he was the richest man of the world and also probably one of the best known as well.

Andrew Carnegie earned 1.20 USD when he started to work as a bobbin boy in a cotton mill in Pittsburgh later he was known as the nation's richest steel industrialist.

Henry Ford in the early 20<sup>th</sup> century made a fortune of the mass production of the Ford T model, becoming also a national folk hero and a presidential candidate.

In this environment it was a common belief that effort and imagination brought a reward. Everybody's goal was to become his own boss, since the most admired man was the self-made and self-reliable man. The words of the immigrant grand father are still flying all over in the heads of the Americans: "You could be anything you want to be, if you want it bad enough and you are willing to work for it." (Lee Iacocca) In the American economic mythology such heroes take the central place. They are envisioned as warriors, competitors, and persons who were able to break the tie with the mother company and their prosperity is highly or even exclusively dependent on their entrepreneurial consideration. Other, average workers are pictured as slaves of the Big Companies, and they are all incapable to work without the direction of their leaders. They are accomplishing tasks that need their hand rather than their minds. (Fredrick Taylor's and Henry Ford's famous opinion about the workers) They are valued for their reliability, however they have inflexible routines, no possibility to use their imagination, creativity and their shrewdness.

These are the nameless, grey, uninteresting and uninterested antiheroes like the ones who worked at the assembly lines of the Ford Factory. These individuals and the entrepreneurial heroes together formulate the American economic system. They are both needed for the smooth and unflustered performance of the economy, but their rewards and treatment is very different just as their tasks are. Entrepreneurs are remunerated with fame and fortune; drones – the workers – are "rewarded" with

strict rules and punishment. The awe-inspiring significance of the entrepreneur in this system justifies this approach.

However, this myth is going out of fashion. There is a completely changed world facing entrepreneurs. The ideas and innovations of American entrepreneurs can move around the world in just a few seconds. The global economy can take advantage of it and in this highly competing global market any adaptation, improvement or reconstruction of a good idea can ruin the American entrepreneurial dream. The big companies established in the United States that were so efficient just a few decades ago, are no longer competitive. Just as the ideas, the processes are also travelling around the world and look for the cheapest and friendliest environments to outsource the work. The migration of technological and economic resources is just as natural as the movement of ideas. Workforce in other nations might be much more suitable for the companies, and they also seem to be more willing to obey the rules of American companies.

These global changes are forcing the United States of America to face competition in a different way. Developing nations have significant advantage over America concerning their efficiency, because they are using American ideas with American technology processes wisely melting it with the domestic workforce who is hardworking and low paid. Another emerging issue originates from Japan, where the collective entrepreneurship is moving into the foreground more and more. This collective entrepreneurship led to a solution that creates competitive advantage and that helps to keep wages at a high level at the same time. Americans are still one of the first in the inventions and scientific discoveries, however these innovations are easily escaping abroad. This means that those foreign nation will start to improve it, and to perfection it which will result in a high speed, low cost and efficient production.

The RCA licensed several Japanese companies in the 1950s to make colour televisions, which ruined the whole future of American colour-television production. Sony and other Japanese companies started to develop the technology and providing new perspectives for it. Later Unimation accredited Kawasaki to produce industrial robots. After exploiting the essential technology, Japanese started to refine it and expand the technological possibilities. And then came the videocassette recorder, microwave ovens, computerized machine tools, etc. All these ideas, among many others left the country in a short eye-blink. There were two options left to the United States: one is to standardized the low wages and work discipline on a global base, and the other one is to find a way to quickly, well and efficiently transform the ideas into better products, then the competitors'. This second option is the one that presents a high real income and keeping up with competition. However a lot of solitaire entrepreneurs cannot bear the weight of this task. In order to be able to execute this solution there is a need for permanence and cooperation. This is the point when collective entrepreneurship comes into the mind. (Webber, 1992)

The new “fashion” among the globally competing companies is presenting a talented and creative winner team instead of a single hero. An efficient process for an incessant development of product requires every possibly resource – workers – of a company to participate. This collective entrepreneurship is not a brand new idea at all, however while the Japanese are pushing it really hard, in the United States it is still not enough promoted.

Collective entrepreneurship is a tool for an incredible development just looking back how the colour TV become digital television, the vacuum-tube radio to transistorised radios than stereo pocket-radios and finally compact disc players and optical-disc computer memories and so on. This pattern indicates that there is practically an indefinable life cycle for certain products. These inventions are constantly changing and developing which requires workers at all levels to add value through discovering new improvement opportunities in the production process, besides the routine value adding tasks.

The mission of the workers is to endlessly reinvent the whole company. They cannot stop at one idea; it leads to another one and again to a new one. Nor the industries can be separated from each other, a high interrelatedness and cooperation is anticipated from the industries. If someone is involved in car manufacturing, than it automatically means that he or she will be drawn into electronic circuit making for gas consumption and performance monitoring, and also sensing equipment and software developing will come across to them. At this stage entrepreneurship ceases to be the privilege of the company’s founder or top manager.

The entrepreneurial capability and attitude should be scattered throughout the company in order to be able to utilise the knowledge accumulated by the workers. The top managers and the production workers are brought closer to each other to cooperate, and the entrepreneurial efforts are concentrated on a number of small ideas instead of one big idea. This is the key factor to enable them to show a continuous improvement in production as well as in the processes. And realizing that several precious information and expertise is among people, top management no longer solves problems; they only provide an atmosphere for workers to solve the emerging problems themselves.

This new style of work requires a completely new training method. Formal education will no longer fulfil the prerequisites braced towards it. It may provide a footing to absorb experience better, however it cannot supply the experience itself. On-the-job experience is needed to fit into the environment. Any task that can be taught completely in advance can be imported from a low wage country or even programmed into a robot. The information processing, the know-how, the creativity are the skills that has to be experienced and that provide the ad valorem to the job.

The concept of collective entrepreneurship is to integrate individual skills into the group and create an efficiency that is higher than the sum of the individuals’ output separately. Working together, the group members should be able to learn each

other's capabilities and by this they can improve their performance. Collective entrepreneurship necessitates close working relations among people at all phases of the production.

The old-fashioned hierarchical organisation structure cannot cope with the idea of collective entrepreneurship. Coordination and communication has to substitute command and control. Enterprises that are designed for innovation and development cannot be hindered with a bureaucratic hierarchy. There are few middle managers in this organisation, and there is only insignificant difference in the status of senior managers and junior employees. Neither the old accounting systems can be used anymore. These are useless and inappropriate for monitoring and evaluating jobs and tasks are more and more interdependent. The quality comes into the foreground instead of the quantity of the work when assessing it. In this system the workers are highly dependent on each other, the success of the company depends on all of the workers and the only measurement of accomplishment is a common one. The reward system of profit sharing, gain sharing and performance bonuses are all exemplifying that the success is in the interest of all and it comes from the contribution of every worker.

Another advantage of collective entrepreneurship is the fact that the fear of employees of losing their job because of automation and technology is no longer present. Technology becomes only a tool to help the job of the workers and to provide them more time that they can use for creative thinking, to come up with new inventions, and to focus more on the collective jobs that they have to exercise.

In 1986 America's oldest and largest enterprise the U.S. Army introduced a new way of assigning its personnel. Soldiers were allocated individually to a team that was together during the whole period of the duty. This new system of "collective entrepreneurship" in the army was also explained with the improved performance of the individuals. When individuals are part of a non-changing team, then they become more reliable, they perform better and they feel more responsible for the success of the team. (Webber, 1992)

Though the efficiency of teams versus individuals is proven, the Americans still tend to believe to certain heroic stories. They are more likely to imagine, that Lee Iacocca saved Chrysler from bankruptcy alone than, accepting that a large team of persons with different experiences and knowledge joined together and worked out a solution to rescue the company.

There are many books about the success story of excellent CEOs. It is no question that a good leader is essential for a success, however a well functioning and effective team is even more vital for succeeding, because of the variety of information, knowledge, skills and experience the individuals possess.

If a nation wants to become or stay competitive globally than collective entrepreneurship will need to be promoted strongly. This goal can be achieved if

people will stop to celebrate the individual entrepreneurial heroes and will look up sufficiently to the creative teams.

## 8. ENTREPRENEURSHIP: INTERNATIONAL COMPARISON

Since entrepreneurship is a central factor, the catalyst of the modern market economies it is an interesting question whether its intensity varies from country to country. Global international comparisons are few in this area since there are several theoretical and practical problems if a comparison tries to be really global.

One of the recent efforts is a project carried out by the University of Pécs (Pécsi Tudományegyetem) with the participation of many universities and research institutes from abroad. The primary focus of the project is to examine the relationship between entrepreneurial activity and economic growth based questionnaires and interviews. The findings are published in a booklet (University of Pécs, 2001).

The project perceives entrepreneurship in a wide sense since apart from the traditional approach their definition covers beyond the existing companies attempts to create a new company. Consequently entrepreneurship is defined here as "... any attempt by private individuals or groups or by already existing companies to establish a new business unit. Consequently entrepreneurship covers self-employment, start-up of a new company or the expansion of already existing companies." (University of Pécs, 2001 p. 3).

For the purpose of comparison the Global Indicator of Entrepreneurial Activity (GIEA) was compiled which covers both the existing ventures and also those emerging (being in states nascendi). This is expressed as percentage share of individuals already owning ventures or contemplating to start one in the population in the age group 18-64 years.

On the basis of the above indicator it is clear that entrepreneurial activity varies considerably from country to country. The lowest value for the GIEA indicator, 5 per cent was found for Belgium and the highest one, 18 per cent for Mexico. The difference is almost fourfold. Entrepreneurial activity in Hungary as measured by the above indicator is 11 per cent roughly at the same level as in the United States.

In the survey distinction was made between opportunity driven entrepreneurship and `forced entrepreneurship`. The latter covers individuals who start a business for lack of suitable employment. This phenomenon is very well-known in the former centrally planned economies where after the collapse of the big state companies thousands and thousands of the one time employees had to turn to `forced entrepreneurship`.

In respect of *opportunity driven entrepreneurship* cross-country differences are more marked: the lowest, 2 per cent for Israel and 15 per cent for New-Zealand, the

difference is here 7-fold. The GIEA indicator opportunity driven entrepreneurship in Hungary is which is 8 per cent way below the US value, which is more than 10 per cent.

The cross-country differences in terms of *forced entrepreneurship* are even more marked: GIEA's value is the lowest for Norway 0.25 percent and the highest, 7.5 per cent for India, the difference is more than 30-fold. For Hungary it is 3.2 per cent, relatively high. For illustration compare 5 per cent for Poland and 1.1 per cent for the US.

## **9. PLANNING AND DECISION MAKING IN COMPANIES**

Planning and decision making are two relatively close concepts overlapping each other to a certain extent. Both have decisive impacts on the short and long term future of the given organisation, company.

When Henry Fayol worked out his famous principles concerning managerial activity 'POCCC', (planning, organizing, commanding, coordinating, controlling) planning was mentioned first. In the original French the word used 'prevoyance' meant somewhat different: foreseeing into the future. In any case planning, foreseeing, forecasting all relate to the future and as such are associated with uncertainty.

Therefore in this chapter planning is discussed first in relation to how companies can cope in an uncertain environment through planning and forecasting. Strategic management is discussed as the second issue as it also relates to the uncertain future but to the long term issues.

### **9.1.PLANNING**

The major reason for planning is the natural need of actors of the social and business life to reduce risks coming from the uncertain environment by choosing the best of the future alternatives. In other words planning may be regarded as future oriented decision making with risk minimization efforts. At individuals' level plans are normally mental phenomena they are rarely put on paper. Companies usually keep records - as suggested by H. Fayol - so plans inevitably assume the form of written formal documents.

*"A plan is an explicit statement that identifies both objectives and the actions needed to achieve them."* (Naylor 1999, p. 270)

It is obvious that planning is a process that consists of two parts: identification of objectives and the selection of actions needed to achieve these objectives.

### 9.1.1. Main features of planning

The planning activity may be classified by several aspects. One of the possible aspects is who is engaged in the planning activity.

Planning may take place at the level of individuals, organisations, companies and a country as a whole. The last type, the national (economic) plans are very well known in the countries of the Central Eastern European region since as the major tools of centrally planned economies, they used to assume the legal form of law passed by the Parliaments.

Academic textbooks prefer to classify planning activity by the *planning (time) horizon*. This is the time that elapses between making and executing a plan.

*Operational plan's* purpose is to facilitate the use of resources to achieve the preset task. Its time horizon extends from a few hours to 1 year.

*Intermediate plan's* time horizon is longer, it is between 6 months to 2 years. Its main concern is the allocation of resources and the co-ordination of ongoing activities.

*Strategic plans and planning* is associated with the highest level uncertainty, its time horizon extends from 1 year to 10 years or more. It focuses on the allocation of key resources and the co-ordination of long-term relationships.

It is also a part of the planning activity to co-ordinate the links (upwards and downwards) between the individual planning levels.

It is a general rule, the longer is the time horizon, the higher is the degree of uncertainty associated with the planning activity.

In general three types of uncertainty is mentioned in the textbooks. *State uncertainty* which means that our or the planners' knowledge about the future is incomplete not fully reliable. *Effect uncertainty* refers to the unreliable estimate of the impact future environmental changes will have on the plan and/or the organisation. *Response uncertainty* describes our inability to completely predict the effects of any decision made in connection with plan implementation or independently of it.

Fighting uncertainty is therefore a central issue in the planning process. The usual ways of dealing with uncertainty is either intensive forecasting activity of items beyond the control of the (business environment, world market, etc., etc.) or the preparation of contingency, alternative plans.

### 9.1.2. Objectives and goals

Every plan's central element is the objective it tries to achieve. In some of the textbooks especially in those on organizational change management, this objective is referred to as vision, the future state of the given company.

Most of the authors present a detailed definition of objectives:

An objective is a defined, measurable result that can be achieved within a stated time. (Naylor 1999, chap. 9).

This definition has two important elements: one the objective must be measurable and it must be implemented within a given time limit.

There are further frequently used terms associated with planning. The term *goals* is sometimes used interchangeably with objectives. According to the definitions goals are less strict in the sense they are 'only' a description of a future state the given company wants to achieve but without a compulsory time horizon.

*Mission statements* are very much in fashion nowadays. They are regarded as some sort of a summary of the main goals, a wide statement of the purpose of the company. Integral elements of the mission statements are the *vision* - the desired future of the company - and the main *intentions* - activities, positions, values.

Naylor proposes the following definition for the contents of a mission statement:

*The mission is what the organisation is for, why it exists and what role it seeks in the world.* (Naylor 1999, chap. 9)

### 9.1.3. Planning in practice

As centrally planned economies collapsed more than a decade ago planning is not that much of a central issue in the countries of Central and Eastern Europe. It has totally lost its political flavour and it is primarily a company category. Large national and multinational companies are engaged in intensive planning everywhere.

Planning tools and procedures are many. We mention of them only a few here. Management by Objectives (MBO), flow charts, Gantt charts, Program Evaluation and Review Technique (PERT) and many others. A detailed description of these tools one can find in Naylor's book (Naylor 1999, chap. 9.)

## 9. STRATEGIC MANAGEMENT: LOOKING TO THE LONG TERM

Strategic management is planning and conducting business in the long run. In this respect the central concern is the balance between the business organisation and its environment under change and uncertainty.

Strategic management is almost as old as management itself. One of the best known examples is that Alfred P. Sloan applied strategic ideas as early as 1921 on, although he did not publish his principles until 1963 in the book *My years with General Motors*. The list of main contributors to this topic is impressive, it includes basically the main 'gurus' of the theory of management. To mention just a few names: Peter Drucker, Alfred D. Chandler, Peter Senge, Igor H. Ansoff and many others. For details see Naylor. (Naylor 1999, chap. 10). Naturally each of them represent a different approach to the issue of strategic management.

Strategic management has three pillars: *strategic analysis*, *strategy implementation* and *strategic control*. The basic idea behind these concepts is similar to Fayol's classical description of managerial activity 'POCCC', (planning, organizing, commanding, coordinating, controlling): analysis, choice of alternative, implementation and control, although there are significant differences, too.

### 9.2.1. Strategic analysis

*Strategic analysis*: data collection and interpretation on issues like how well the organisation adapts to the changing environment, how much value it provides its stakeholders and how efficiently it uses the available resources.

There are many tools that are used with varying success for analysis in strategic planning. The Ashridge Mission model, MER test, PEST factors are the best known of them.

The Ashridge Mission model checks the internal consistency between mission (statement) and goals. The model requires to answer the following questions:

- a. **Purpose:** Why the company exists?
- b. **Strategy:** What is the competitive position and distinctive competence of the company?
- c. **Values:** Which are the main values the company believes in?
- d. **Behaviour:** Which are the policies and standards that support competences and values?

The MER (mission-environment- resources) test investigates how far goals of a company are consistent with the available resources and the environment.

It is a frequent case that the MER test is based on the complex SWOT analysis. SWOT spells out the internal `Strengths and Weaknesses` and the external `Opportunities and Threats` of a business venture for the long run. In the course of conducting MER test comparison is performed among the individual items in the SWOT matrix.

Miles and Snow examined how companies react to uncertainty in the environment. They distinguish four categories of companies: *Defenders, Prospectors, Analysers and Reactors*. The answer to the question which type the given company belongs to opens new horizons to the analysis. For details see Naylor (Naylor 1999, pp. 316-318).

### 9.2.2. Strategy selection

**Strategy selection:** based on the current strengths and opportunities as measured by SWOT or other analysis choosing from among the possible paths for the future.

Strategy selection is a typical decision making process which is discussed in chapter 4. The main choices are *selection of grand strategy* (stability, growth or retrenchment), *selection of direction* (internal, external; product or market – Ansoff's product-market matrix is used here in general), *selection of competitive strategy to use* (According to Porter the available strategies are: differentiation, cost leadership, focus. We can add that time is an increasingly important competitive element. Providing goods and services in the shortest possible time period or be available on line is today a major strategy tool.)

### 9.2.3. Strategy implementation

**Strategy implementation:** focal point of this activity to make sure that the strategy is implemented throughout the organisation paying due attention to the hierarchy of strategies: corporate, business and functional. This basically means giving the `right` answer to the following questions `What business should we be in`, `How do we succeed in this particular business`, `How the given function contribute to the business strategy`.

### 9.2.4. Strategic control

**Strategic control:** continuous monitoring of the implementation and careful adaptation of tool and procedures used.

We have discussed companies so far as more or less homogeneous units, one company producing, selling (wide) variety of products. In real life larger companies consist of several Strategic Business Units (SBUs). It is also part of strategic thinking what mix of SBUs to maintain in the face of changing environment and increasing uncertainty.

The Boston Consulting Group (BCG) matrix is the best known tool for analysing this strategic issue and finding the optimal SBU mix for a given company. In the classical

two-by-two matrix SBUs are classified in terms of their market shares and the growth rate of industries they operate in. The resulting four groups are named as *Stars*, *Question marks*, *Cash cows* and *Dogs*. This the so called portfolio concept.

There is a lot of criticism voiced against the theory and practice of strategic management. One trend bases its criticism on empirical study, other(s) raise theoretical counter-arguments. The former proves that companies could have done better without formal strategic management, the latter points to the theoretical weaknesses of methods used.

## 10.HOW TO START A BUSINESS

Starting and managing a business takes motivation, desire and talent. It also takes research and planning.

Like a chess game, success in small business starts with decisive and correct opening moves. And, although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and wellthoughtout business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business. It should also provide milestones to gauge your success.

### 10.2.The choice of right business idea

Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- ✓ You want to be your own boss.
- ✓ You want financial independence.
- ✓ You want creative freedom.
- ✓ You want to fully use your skills and knowledge.

Next you need to determine what business is "right for you." Ask yourself these questions:

- ✓ What do I like to do with my time?
- ✓ What technical skills have I learned or developed?
- ✓ What do others say I am good at?
- ✓ How much time do I have to run a successful business?
- ✓ Do I have any hobbies or interests that are marketable?

Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions:

- ✓ Is my idea practical and will it fill a need?
- ✓ What is my competition?
- ✓ What is my business advantage over existing firms?
- ✓ Can I deliver a better quality service?
- ✓ Can I create a demand for your business?

The final step before developing your plan is the pre-business checklist. You should answer these questions:

- ✓ What business am I interested in starting?
- ✓ What services or products will I sell? Where will I be located?
- ✓ What skills and experience do I bring to the business?
- ✓ What will be my legal structure? (see overview below)
- ✓ What will I name my business?
- ✓ What equipment or supplies will I need?
- ✓ What insurance coverage will be needed?
- ✓ What financing will I need?
- ✓ What are my resources?
- ✓ How will I compensate myself?

Your answers will help you create focused, wellresearched business plan that should serve as a blueprint. It should detail how the business will be operated, managed and capitalized.

### **10.3.Details (chapters) of a business plan**

What goes in a business plan? The body can be divided into four distinct sections:

- 1) Description of the business
- 2) Marketing
- 3) Finances
- 4) Management

Addenda should include an executive summary, supporting documents, and financial projections.

Although there is no single formula for developing a business plan, some elements are common to all business plans. They are summarized in the following outline:

#### **Elements of a Business Plan**

- 1. Cover sheet**
- 2. Statement of purpose**
- 3. Table of contents**
  - I. The Business**
    - A. Description of business

- B. Marketing
- C. Competition
- D. Operating procedures
- E. Personnel
- F. Business insurance

## **II. Financial Data**

- A. Loan applications
- B. Capital equipment and supply list
- C. Balance sheet
- D. Breakeven analysis
- E. Pro-forma income projections (profit & loss statements)  
Three-year summary  
Detail by month, first year  
Detail by quarters, second and third years  
Assumptions upon which projections were based
- F. Pro-forma cash flow

## **III. Supporting Documents**

- Tax returns of principals for last three years Personal financial statement (all banks have these forms)
- For franchised businesses, a copy of franchise contract and all supporting documents provided by the franchisor
- Copy of proposed lease or purchase agreement for building space
- Copy of licenses and other legal documents
- Copy of resumes of all principals
- Copies of letters of intent from suppliers, etc.

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