

Entrepreneurship and Small-Business Ownership

BA291



Learning Objectives

1. Highlight the contributions small businesses make to Thai economy.
2. Identify the common traits of successful entrepreneurs.
4. Discuss the principal sources of small-business private financing.

The Big World of Small Business

Small Business

- A company that is independently owned and operated, is not dominant in its field, and employs fewer than 500 people (although this number varies by industry)



The Big World of Small Business

Small Business

- A company that is independently owned and operated, is not dominant in its field, and employs fewer than 500 people (although this number varies by industry)

Product Sector:

Agricultural
processing,
manufacturing,
and mining

Trading Sector:

wholesale and
retail

Service Sector



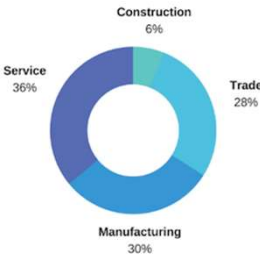
Type	Small		Medium	
	Employees	Capital (THB million)	Employees	Capital (THB million)
Production	Not more than 50	Not more than 50	51-200	51-200
Service	Not more than 50	Not more than 50	51-200	51-200
Wholesale	Not more than 25	Not more than 50	26-50	51-100

Note. Adopted from “*Financing SMEs and Entrepreneur 2016: An OECD Scoreboard*,” by OECD, 2016. OECD Publishing, Paris. Copyright 2016 by OECD.

Economic Roles of Small Business

- Provide jobs
- Introduce new products
- Meet the needs of larger organizations
- Inject a considerable amount of money into the economy
- They take risks that larger companies sometimes avoid
- They provide specialized goods and services

SME contribution to GDP by sector (%)



Source: Bank of Thailand statistics, Ministry of commerce

Exhibit 6.1 The Impact of Small Business on the U.S. Economy (1 of 2)

The U.S. Economy:
The Impact of Small Business

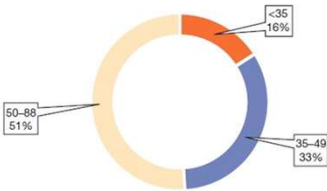
99.7% of employer firms



48.0% of private-sector employment



Business Owners by Age



Small Businesses by Employment Status

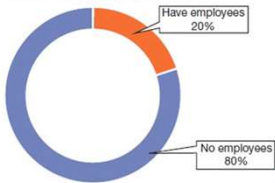


Exhibit 6.1 The Impact of Small Business on the U.S. Economy (1 of 2)

The U.S. Economy:
The Impact of Small Business

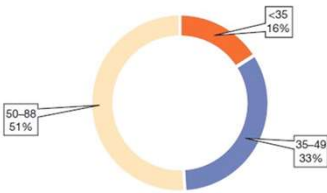
99.7% of employer firms



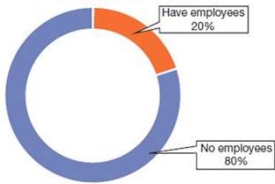
48.0% of private-sector employment



Business Owners by Age



Small Businesses by Employment Status



What factors contribute to the increase
in the number of small businesses?



Characteristics of Small Businesses

- Most small firms have a *narrow focus*
- Small businesses have to get by with *limited resources*
- Small businesses often have *more freedom* to innovate
- Entrepreneurial firms find it easier to *make decisions quickly* and *react to changes* in the marketplace





Instant Pot By Robert Wang

Wang, who has a PhD in computer science with a specialty in artificial intelligence, keeps three Instant Pots running at his house at all times, and he's read almost all of the reviews on Amazon — that's more than 39,000 for the most popular DUO60 6 Qt 7-in-1 Multi-Use Programmable model alone.



Velcro

Swiss electrical engineer **George de Mestral** invented his first touch fastener when, in 1941, he went for a walk in the woods and wondered why burdock seeds clung to his coat and dog. He discovered it could be turned into something useful.



Oprah Gail Winfrey is an American media executive, actress, talk show host, television producer and philanthropist.

Walter Elias Disney

was an American entrepreneur, animator, voice actor and film producer. A pioneer of the American animation industry, he introduced several developments in the production of cartoons.



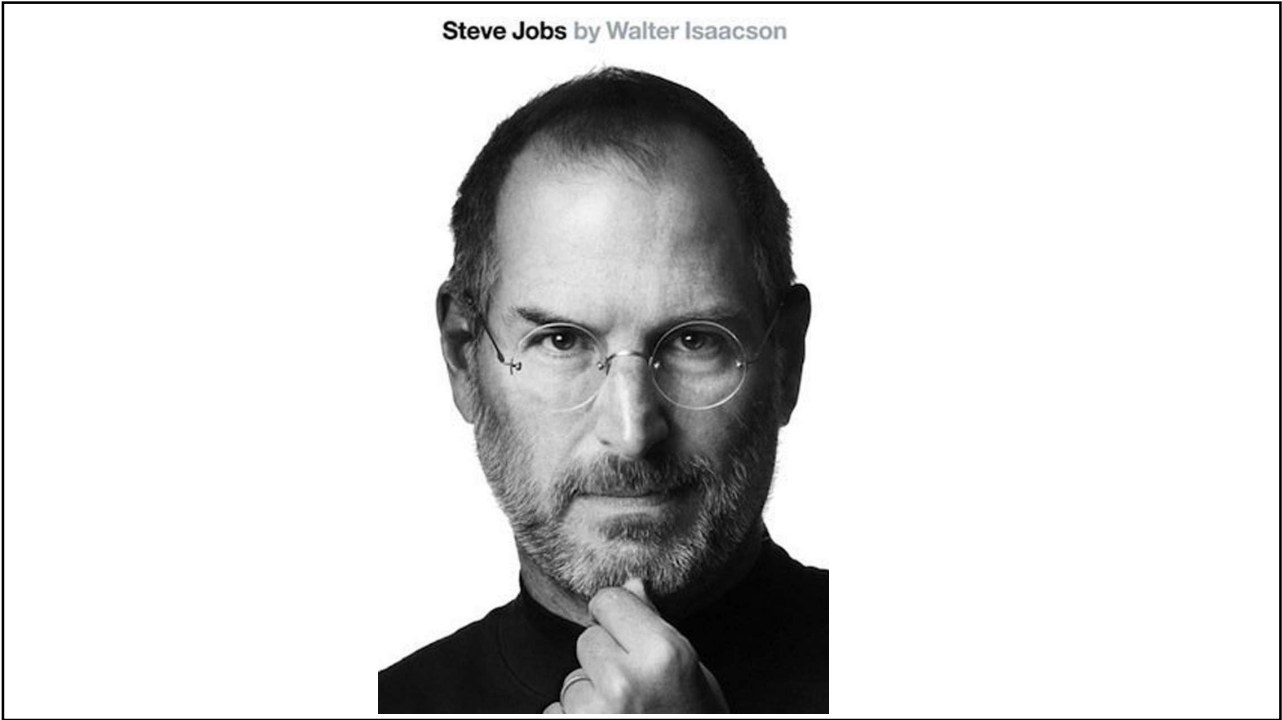
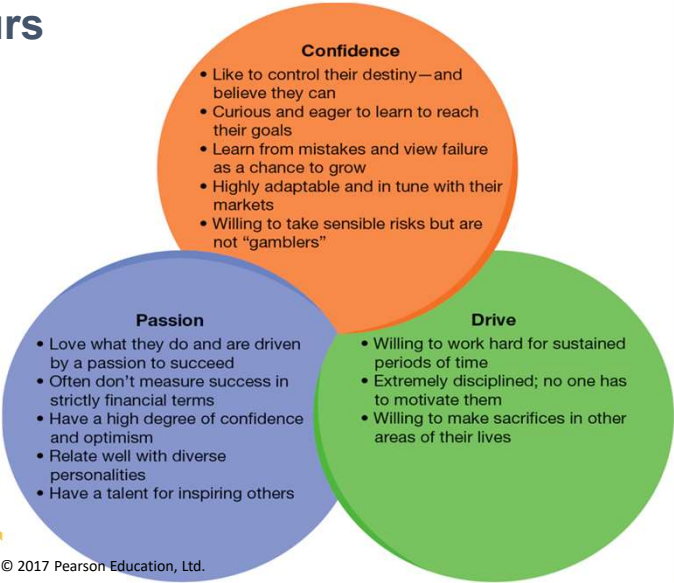


Exhibit 6.2 **Qualities Shared by Successful Entrepreneurs**



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Do you have an entrepreneurial spirit?
Do you agree or disagree with each of the statements?

- 1. I don't mind if I break the rules when I am doing something.
- 2. I like to spend time daydreaming, even when I am working on a project.
- 3. I usually do things in a logical manner.
- 4. People sometimes object to my opinions.
- 5. What other people think of me is very important.
- 6. I prefer working in a team to working on my own.



Start-Up Strategy	Financial Outlay at Start-Up	Possibilities for Borrowing Start-Up Capital or Getting Investors	Owner's Freedom and Flexibility	Business Processes and Systems	Support Networks	Workforce	Customer Base, Brand Recognition, and Sales
Create a new, independent business	Some businesses can be started with very little cash; others, particularly in manufacturing, may require a lot of capital	Usually very limited; most lenders and many investors want evidence that the business can generate revenue before they'll offer funds; venture capitalists invest in new firms, but only in a few industries	Very high, particularly during early phases, although low capital can severely restrict the owner's ability to maneuver	Must be designed and created from scratch, which can be time-consuming and expensive	Suppliers, bankers, and other elements of the network must be selected; the good news is that the owner can select and recruit ones that he or she specifically wants	Must be hired and trained at the owner's expense	None; must be built from the ground up, which can put serious strain on company finances until sales volume builds
Buy an existing independent business	Can be considerable; some companies sell for multiples of their annual revenue, for example	Banks are more willing to lend to "going concerns," and investors are more likely to invest in them	Less than when creating a new business because facilities, workforce, and other assets are already in place—more than when buying a franchise	Already in place, which can be a plus or minus, depending on how well they work	Already in place; may need to be upgraded	Already in place, which could be a positive or a negative, but at least there are staff to operate the business	Assuming that the business is at least somewhat successful, it has a customer base with ongoing sales and some brand reputation (which could be positive or negative)
Buy into a franchise system	Varies widely, from a few thousand to several hundred thousand dollars	Varies, but many franchisors do not allow franchisees to buy a franchise with borrowed funds, so they must have their own capital	Low to very low; most franchisors require rigid adherence to company policies and processes	One of the key advantages of buying a franchise is that it comes with an established business system	Varies; some franchise companies specify which suppliers a franchisee can use	Must be hired and trained, but a franchisor usually provides training or training support	Customer base and repeat sales must be built up, but one of the major advantages of a franchise is established brand recognition

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Business
Start-Up
Options



Financing Options for Small Businesses

Seed Money

The first infusion of capital used to get a business started

Micro Lenders

Organizations, often not-for-profit, that lend smaller amounts of money to business owners who might not qualify for conventional bank loans

Venture Capitalists (VCs)

Investors who provide money to finance new businesses or turnarounds in exchange for a portion of ownership, with the objective of reselling the business at a profit

Angel investors

Private individuals who invest money in start-ups, usually earlier in a business's life and in smaller amounts than VCs are willing to invest or banks are willing to lend

Initial public offering (IPO)

A corporation's first offering of shares to the public

Crowdfunding

Soliciting project funds, business investment, or business loans from members of the public.

Financing Possibilities over the Life of a Small Business

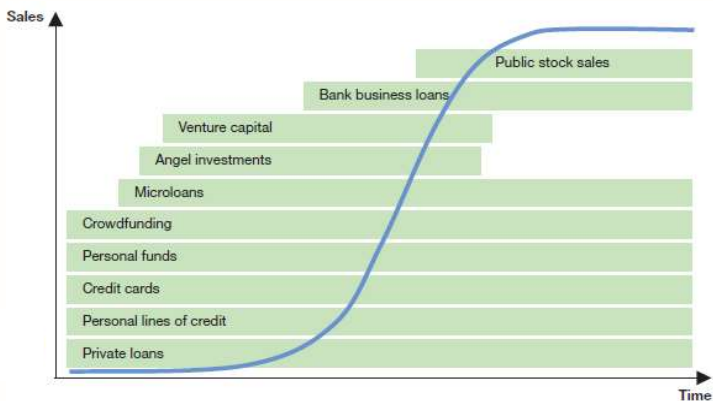


Exhibit 6.4 Why New Businesses Fail

Strategic Issues	Leadership Issues	Marketing and Sales Issues	Financial Issues
Little or no demand: Company introduced a product that few, if any, customers wanted. Lack of strategic planning or a viable business model: Owners didn't think through all the variables needed to craft a viable business strategy. Failure to pivot: Owners missed (or failed to take) a chance to purpose a better opportunity. Overpowering competition: Company might have been on the right track, but the competition simply did things better.	Managerial incompetence: Owner didn't know how to plan, lead, control, or organize. Lack of relevant experience: Owner may be experienced in business but not in the particular markets or technologies that are vital to the new firm's success. Inability to make the transition from employee to entrepreneur: Owner couldn't juggle the multiple and diverse responsibilities or survive the lack of support that comes with going solo. Motivational collapse: Entrepreneur burned out before the business became self-sustaining	Ineffective marketing: Small companies—especially new small companies—face a tremendous challenge getting recognition in crowded markets.. Uncontrolled growth: Company added customers faster than it could handle them, leading to chaos, or might have even "grown its way into bankruptcy" if it spent wildly to capture and support customers.. Poor Location: For retailers and businesses that depend on easy customer access or visibility, a poor location limited sales potential. Customer neglect: Company failed to support customers or respond to problems	Inadequate funding: Company lacked the funding needed to launch or scale up to the point of being self-funding. Poor cash management: Company spent too much on nonessentials, failed to balance expenditures with incoming revenues, failed to use loan or investment funds wisely, or failed to budget enough to pay its bills. Excessive overhead: Company created too many fixed expenses that weren't directly related to creating or selling products, leaving it vulnerable to any slowdown in the economy Poor inventory control: Company produced or bought too much inventory, raising costs too high—or it did the opposite and was unable to satisfy demand

Business Ethics, Corporate Social Responsibility, and Social Enterprise

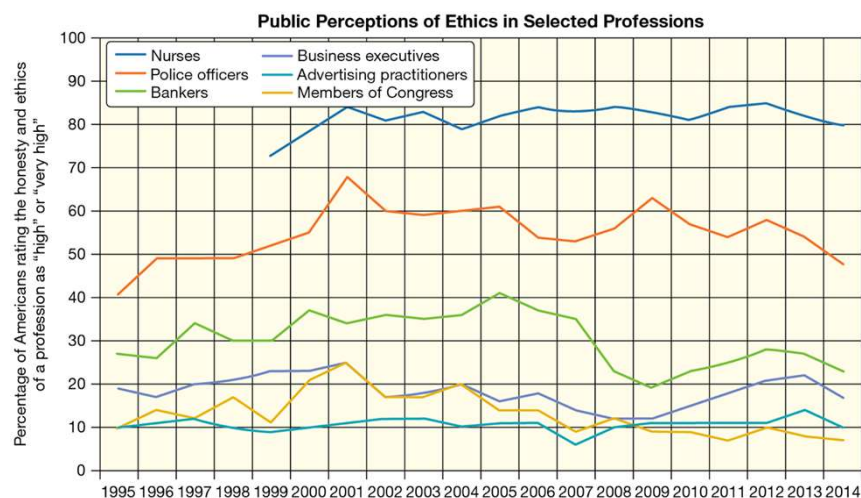
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Learning Objectives:

1. Describe the difference between *social enterprise* and other types of enterprises
2. Explain main characteristics of *social enterprise*
3. Discuss what it means to practice good business ethics, and highlight three factors that influence ethical decision making.
4. Define corporate social responsibility (CSR), and explain the difference between philanthropy and strategic CSR.
5. Distinguish among the four perspectives on corporate social responsibility.

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Public Perceptions of Business Ethics



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Which is
which?

unethical but legal
unethical and illegal
ethical and legal
ethical but illegal

Giving employees cash bonuses for exceeding sales targets

Stealing food to help family members survive

Employing child labor in countries where it's legal to do so

Engaging in insider trading

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What is Ethical Behavior?

- **Ethics**

↳ The rules or standards governing the conduct of a person or group

- **Transparency**

↳ The degree to which affected parties can observe relevant aspects of transactions or decisions

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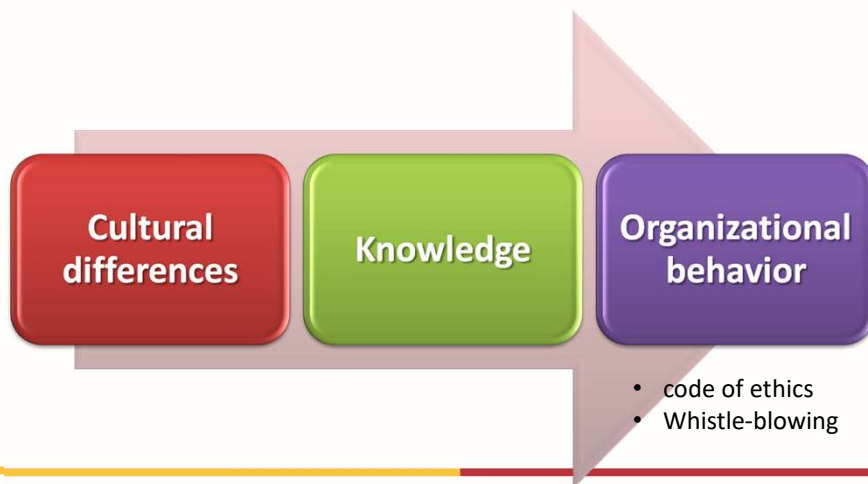
What is Ethical Behavior? (cont.)

- Competing **fairly** and **honestly**

- Being **transparent**



Factors Influencing Ethical Behavior



Ethical Decision Making

- **Ethical lapse**

↳ A situation in which an individual or a group makes a decision that is morally wrong, illegal, or unethical

- **Ethical dilemma**

↳ A situation in which more than one side of an issue can be supported with valid arguments

Sample Dilemma in Business

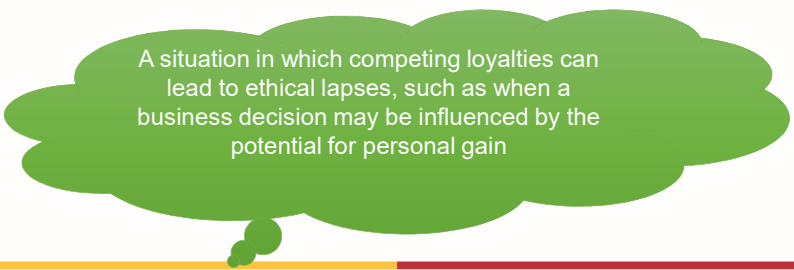
- Your co-worker asks you to cover for him so he can sneak out of work early to go to his son's football match. Do you agree? If he went anyway, would you keep silent?
 - You are about ready to sign a big new client to a contract worth over 1 million Baht. Your boss is under a lot of pressure to increase sales. He calls you in and asks you to include the revenue for your contract in the sales figures for the quarter ending tomorrow. You know the contract is a sure thing but the client is out of town and cannot possibly sign by tomorrow. What do you do?
 - The manufacturing cost of the widgets your company makes has dropped by 50%. One of your customers, Sam, tells you he knows this because he is best friends with your company's VP of production and asks you for a discount on his order. Your boss okays the discount. Your other customer, Sue, who is one of your best friends and knows nothing about the drop in manufacturing costs, places the exact same order for widgets as Sam. Do you offer her a similar discount? Do you tell her about the drop in manufacturing costs?
-

Finding the Right Answer When Faced with an Ethical Dilemma

- Make sure you frame the situation accurately, taking into account all relevant issues and questions.
 - Identify all parties who might be affected by your decision.
 - Be as objective as possible.
-

Finding the Right Answer When Faced with an Ethical Dilemma (cont.)

- Don't assume that other people think the way you do.
- Watch out for **conflicts of interest**.



A situation in which competing loyalties can lead to ethical lapses, such as when a business decision may be influenced by the potential for personal gain

Approaches to Resolving Ethical Dilemmas

Approach	Summary
Justice	Treat people equally or at least fairly in a way that makes rational and moral sense
Utilitarianism	Choose the option that delivers the most good for the most people (or protects the most people from a negative outcome)
Individual rights	To the greatest possible extent, respect the rights of all individuals, particularly their right to control their own destinies
Individual responsibilities	Focus on the ethical duties of the individuals involved in the situation
The common good	Emphasize qualities and conditions that benefit the community as a whole, such as peace and public safety
Virtue	Emphasize desirable character traits such as integrity and compassion

Sources: Manuel Velasquez, Claire Andre, Thomas Shanks, S.J., and Michael J. Meyer, "Thinking Ethically: A Framework for Moral Decision Making," Markkula Center for Applied Ethics, Santa Clara University, accessed 3 June 2009, www.scu.edu; Ben Rogers, "John Rawls," *The Guardian*, 27 November 2002, www.guardian.co.uk; Irene Van Staveren, "Beyond Utilitarianism and Deontology: Ethics in Economics," *Review of Political Economy*, January 2007, 21–35.

Corporate Social Responsibility

- **Corporate social responsibility (CSR)**
 - ↳ The idea that business has obligations to society beyond the pursuit of profits

Philanthropy vs. Strategic CSR

- **Philanthropy**

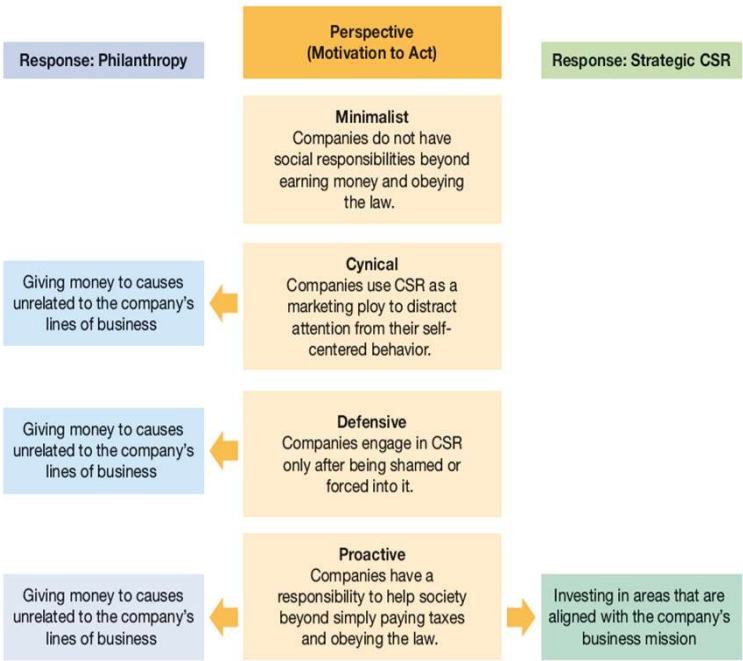
↳ The donation of money, time, goods, or services to charitable, humanitarian, or educational institutions



- **Strategic CSR**

↳ Social contributions that are directly aligned with a company's overall business strategy

Perspectives on Corporate Social Responsibility



Social Enterprises / Entrepreneur

Social Enterprises is a mission-driven individual who uses a set of *entrepreneurial behaviors* to deliver a *social value* to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable.



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Factors that make social entrepreneurship distinct from other forms of entrepreneurship

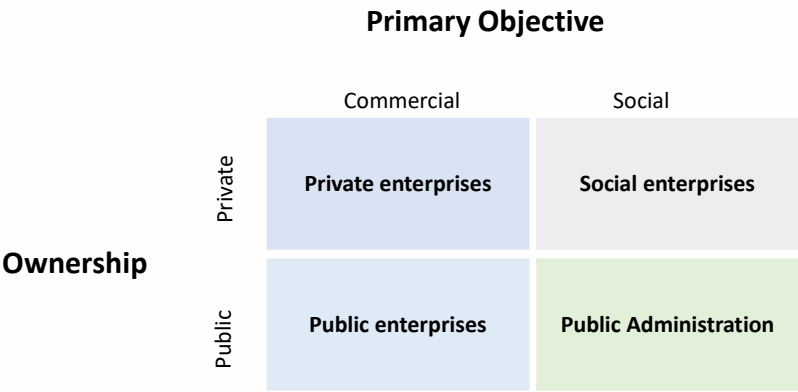
1. They are **mission-driven**. They are dedicated to serve their mission of delivering a social value to the underserved.
2. They act **entrepreneurially** through a combination of characteristics that set them apart from other types of entrepreneurs
3. They act within **entrepreneurially oriented organizations** that have a strong culture of innovation and openness.
4. They act within **financially independent organizations** that plan and execute earned-income strategies. **The objective is to deliver the intended social value while remaining financially self-sufficient.**

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Unique and Common Characteristics of Profit-Oriented Entrepreneurs and Social Entrepreneurs

Unique characteristics of the profit-oriented entrepreneur	Characteristics common to both types	Unique characteristics of the social entrepreneur
• High achiever • Risk bearer • Organizer • Strategic thinker • Value creator • Holistic • Arbitrageur	• Innovator • Dedicated • Initiative taker • Leader • Opportunity alert • Persistent • Committed	• Mission leader • Emotionally charged • Change agent • Opinion leader • Social value creator • Socially alert • Manager • Visionary • Highly accountable

Classification of Businesses



Source: http://www.acrn.eu/resources/Journals/JoE012012/Grassl_SE-Hybridity.pdf

