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Entrepreneurship: Assignment - 1

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One of my colleague who was holding a senior position in a large financial institution in Canada got fired from his job. He is an aggressive character not willing to work for any one else. By profession he was a venture capitalist who made great investment decisions during his career in building up seed companies, and financially and strategically troubled companies. During these times, the world economies including Canada experienced economic recession during which period many small businesses went out of the business.

He decided to be an entrepreneur by himself. He formed a partnership to raise capital to focus on investing in debt and equity of companies that are experiencing operational or financial distress, are in out-of-favour sectors or are otherwise in need of a short-term catalyst. (Adaptive Response, Schumpeter – 1947, The Creative Response Economic History). This strategy is in line with Nicholas Batty's view with respect to entrepreneur's goals: "One thing I did take away is that all entrepreneurs need to have a goal, and ultimately make a profit to achieve that goal".

This strategy will seek to accumulate positions in distressed and undervalued equity securities and use influence and constructive engagement to unlock and create value for the distressed organizations and add value to economy. He believed that he and his potential partners (yet to be chosen) with their skill set and experience provide influence and constructive engagement and create value by improving capital structure. It will also a refreshing strategy and enable transformative transactions to provide assistance to these companies to avoid unavoidable bankruptcies in distressed economic situations. He believed that eventually the strategy will support the economic recovery and get back to its growing trend. (Creative Response, Schumpeter – 1947, The Creative Response Economic History). I agree with Saeed Ahamed in his attempt to explain Schumpeter's theory: The mechanisms of economic change in capitalism depends on entrepreneurial activities. Capitalism is best suited for entrepreneurship where the phenomena of 'creative destruction' proves to beneficial to the society as whole. He also mentioned in the forum; **Networking** (to scale his venture, he will be needing contacts either for funding, feedback regarding the initial testing of his product/service or for other stakeholders to join his venture). This is what my friend's strategy was.

This strategy also aligned to Cathy Davies's understanding of **Schumpeter's view**: Creative response (which is what I believe is innovation) "has at least three essential characteristics". The first being that "it can always be understood *ex post*; but it can practically never be understood *ex ante*". However, I have an extended view about the statement "this situation never be understood *ex ante*" because a trend relating economic recession could be understood *ex ante*; however, such investments can occur only after the recession has been materialized; *ex post*.

There were various psychological, economic and social factors involved for him to take the challenge of becoming an entrepreneur.

1. Psychological Factors

Independence: After he got fired from his previous job he decided to be independent and being in control for his rest of the career without any influence ever. (Independence is strongly positively correlated with

optimism among entrepreneurs. Being in control is strongly positively correlated with optimism among entrepreneurs. (Baron, 2000).

Be in control: He wanted to be his own boss who makes decisions for himself and not by others. He was determined to be in control by taking the responsibility for his actions. Any wrong decision made by him may lead to increased exposure to financial loss or even legal risks. (Internal locus of control - believe that their personal actions directly affect the outcome of an event - Rotter, 1966).

Innovative approach: He was a former venture capitalist who was engaged in creating innovative solutions for distressed companies. As a result of his innovative strategies and influences every company turned around. He was the individual who generated strategies for company survival and growth. Not the entity itself but the man who ran the entity. TEDxBerkeley talk - Carl Bass: Individuals are source of innovation and not the entity they work for. The skill set generated by the individual but not the organization itself. My friend kept searching for many opportunities to investing through various form of funding. I like the idea by Lonya that the innovative process is continuous. Lonya Sherief : “I also especially like the revelation that innovation is a process but a process with no end by design, it’s cyclical”.

Increased optimism in his skill set and the strategy: He believed himself in his skill set. He has a proven career record being a venture capitalist during the past. He had increased optimism in this strategy to create wealth and value. (Optimists rated their personal projects as more congruent with and fulfilling of their values and identities, which also reflected positively on their sense of self and other goals - Jackson, Weiss, Lundquist & Soderlind, 2002). Per Justin Fernando, such optimism affects the financial capital needed to jumpstart the venture. With an optimistic outlook, the entrepreneur could show funding sponsors that the new venture and the entrepreneur themselves is confident about the market opportunity and on their own ability to execute on opportunity as they arise.

High degree of tolerance for ambiguity: Going into this type of business required high degree of courage to face unpredictable business and economic distress as the challenges and potential for success associated with business start-ups are by nature unpredictable. (The tolerance for ambiguity is the propensity to view situations without clear outcomes as attractive rather than threatening. Because entrepreneurs continually face more uncertainty in their everyday environment – Budner -1982)

Profiting making attitude: He was an investment banker. He likes to earn money. Any deal he made was based on the bottom-line, the profit. He will not in favour of any investment decision which does not bring him profits. (Opportunities are aspects of the environment that represent potentialities for profit making - Shane and Venkataraman, 2000,). Sara Clements: Sees opportunities for profit - Austrian School; in fact, the majority of the forum members agreed to it.

Need for achievement: He was a man with talent, reputation and respect with long record of accomplishment in a variety of areas. He was widely credited as one of the best restructuring experts in investing by taking control and non-control positions in undervalued debt of companies that are either financially distressed or that do not otherwise have access to conventional sources of capital. Getting fired from his job made a devastating impact on his social status. He desperately needed to earn both the income and the reputation that he used to enjoy. (That individuals who are high in nAch are more likely than those who are low in nAch to engage in activities or tasks that have a high degree of individual responsibility for outcomes, require individual skill and effort, have a moderate degree of risk, and include clear feedback on performance- McClelland -1961)

2. Economic Factors

He lost his career during the bad economic times. Many small companies were in distressed conditions due to low consumer demand. Further, many promising companies did not have or could not afford to hire the skilled personnel who could function even during bad economic times by employing right strategies. He believed this as an opportunity; “what goes down must come up”.

Weak macroeconomic outlook: Due to the country’s weak microcosmic outlook did not provide a great promise to small ventures. Country’s Real GDP grew at 1.2% in 2015, less than half the growth rate of 2014 and the slowest growth in the country since the 2009 recession. Lower commodity prices have reduced exports, business investment and domestic demand. The situation created great investment opportunities. (Opportunities are aspects of the environment that represent potentialities for profit making - Shane and Venkataraman - 2000)

Compelling Market Opportunity: Weak macroeconomic conditions, combined with high private sector leverage and an increasing amount of financial distress in the high yield market, are expected to provide him with an abundance of viable distressed opportunities across both the province. He believed such companies need help and as a result, such situations will create great buying opportunities at lower cost. (A valuable opportunity for an individual is one that generates a level of profit that exceeds the entrepreneur’s opportunity cost, a premium for the illiquidity of money, time, and effort expended, and a premium for bearing risk and uncertainty. Because some opportunities will exceed this threshold by a greater amount than will others, the nature of the opportunity will influence entrepreneurial decisions - Venkataraman (1997)

Finding attractive deals: Distressed small ventures were on the verge of collapse due to the bad consumer demand, heavy debt during the high inflationary and stressed economic conditions in the country. (To measure the effects of motivation on entrepreneurial decisions, researchers need to control the effects of opportunities - Shane, 2000, 2001). Further, by Don Manage: (Optimism results in a sense of subjective well being as it “...fosters self-esteem, relationship harmony, and positive perceptions of financial conditions.” (Leung, Moneta & McBrice-, by DChang, 2005)

Opportunities to take the right risk: Entrepreneurship is taking enormous risks to achieve the specific goals succeed. As a result, he faced various risks in his potential investments. Almost everybody at the forum agreed to the fact that the entrepreneur is a risk taker. The following are some of the contributory views made by the forum members.

Saeed Ahmed: Risk Taker (calculated risk within his/her risk tolerance); **Sarah Clements:** Takes risks - Risk Theory; **Bill Bakamora:** Risk Taker: Risk taking is the essential function of the entrepreneur. Proprietorship is the essence of entrepreneurship. Hawley (1907). The entrepreneurial function involves primarily risk measurement and risk-taking within a business organization (Palmer, 1971) and **Justin Fernando:** Risk Taker – Risk Theory of Profit.

Raising fund for investments: He planned to partner the strategy with three principles. Finding the right partner with appropriate capital and the right aptitude were the key challenges. (The entrepreneurial function involves primarily risk measurement and risk taking - Palmer (1971) – Risk theory). The rest came from the third-party investors will pay performance fees and will not share in excess contributions used to fund budgeted operating expenses. A substantial portion of the Principals’ return will be based on the receipt of performance fees and excess contributions. Insufficient third-party capital may therefore lead to a lack of scale and insufficient economics. (Profit is what is left after interest, insurance, and management wages. This residual profit consists

of payment for risk and the extra productivity of the manager's labor. The residual profit that arises from this extra productivity is termed *Unternehmergewinn* – the entrepreneur's profits. - Hufeland (1807), Thunen (1826), in Knight (1964))

- **Limited geographic focus:** Investment activities were limited to Ontario province in Canada. This may lead to a lack of diversification and missed opportunities. This may deteriorate potential profits. (Risk taking is the essential function of the entrepreneur. Proprietorship is the essence of entrepreneurship. Hawley (1907) – Risk theory of profit).
- **Reputational and potential legal risks:** The investment strategy, by its very nature, may involve making difficult decisions regarding the strategy and operations of a target company. He may encounter situations where existing stakeholders of a target company have already suffered deep economic loss based on the performance of the target company's securities or may not want to take the positive actions in order to generate value. He may have required to use different means, including recourse through the legal system, to achieve its investment thesis with respect to a target company. Therefore, investing in distressed companies and using activist techniques has the potential to raise reputational concerns. ("The person or group of persons who assume the task and responsibility of combining the factors of production into a business organization and keeping this organization in operation... he commands the industrial forces, and upon him rests the responsibility for their success or failure." - Ely and Hess (1937) – Dynamic Theory).
- **Process and Execution Risks:** Investments in distressed situations can involve complex legal processes and uncertain execution. While he will operate in country that has strong legal institutions and long-established rules surrounding restructurings, the application of the principles of equity in the bankruptcy context may reduce the ability to predict the eventual outcome of an investment. ("The person or group of persons who assume the task and responsibility of combining the factors of production into a business organization and keeping this organization in operation... he commands the industrial forces, and upon him rests the responsibility for their success or failure." - Ely and Hess (1937) – Dynamic Theory)
- **Investment Concentration:** The investments are made only on distressed companies. As result the strategy may be highly concentrated over a small number of companies which exhibit the greatest risk-adjusted return potential. This lack of diversification may lead to large swings in the performance of the whole enterprise caused by a limited number of investments. (The entrepreneur always searches for change, responds to it, and exploits it as an opportunity." – Drucker, 1985- Dynamic Theory). "An Entrepreneur is someone who perceives an opportunity and creates an organization to pursue it." - Bygrave and Hofer (1991) – Austrian Dynamic & Risk Theory).

3. Social Factors

- **His age:** My friend is middle age man with highly recognized credentials. His age was a crucial sociological factor that affected him in exploiting the entrepreneurial opportunities. At that age, he was an explorer of profit opportunities with considerable professional experience within the field. He believed that it was the best time to get into the right business with a determination to succeed. (Age has a positive effect of experience that increased as the age increases and it on the other hand involves the negative effects of uncertainty that increases as the age increases. At first, age increases the possibility of opportunities' exploitation because people collect information and skills during life more than enough amount. - Shin: 1388/2009: 55).

- **Social Status:** He was widely recognized within the business community. Sudden departure from his career was an unbearable shock to his social statue. As a result, it had a positive impact for tendency of exploitation of entrepreneurial opportunities. (Behrooz Sabuhilaki -2016).
- **Need for Achievement:** He needed personal achievement in order to enhance his finances, recognition in the business society, improve business relationships, etc. This was a classic example that motivation can influence the entrepreneurial process. (Individuals who are high in nAch are more likely than those who are low in nAch to engage in activities or tasks that have a high degree of individual responsibility for outcomes, require individual skill and effort, have a moderate degree of risk, and include clear feedback on performance - McClelland -1961). I also agree with Saeed Ahmed's view as well. Saeed Ahmed: Need for Achievement (it can be any financial, social and any sort of achievement).
- **Self efficacy:** Again, believing his past skill set and the experience he believed that he can generate value to himself, to those distressed companies and was well as to the economy as a whole. (The belief in one's ability to muster and implement the necessary personal resources, skills, and competencies to attain a certain level of achievement on a given task (Bandura, 1997). I agree that in order to achieve self efficacy entrepreneur has to be an opportunity seeker. Bill Bakomora: **Opportunity seeker:** "An Entrepreneur is someone who perceives an opportunity and creates an organization to pursue it." Bygrave and Hofer (1991). I also agree with Nick's view in this context. Nick Batty: Personal gain – the fact the farmer nurtured his crop to be the best, and for him to have the opportunity to display the crop at the end of year farmers show and win a prize - thus he still achieved his goal in setting a new standard of crop with a compelling story around the growth - with no profit gain, purely a personal goal.
- **His social networking ability:** He had the leadership skills in locating in a variable network of business relations in order to track potential business opportunities and various investors together to achieve a common goal. This was a crucial factor in this type of a business strategy. (Networking is the collection of people who have communication via certain relations with each other and can play five important roles in the process of establishing the companies: the ease of thought conversion to a real scheme, increasing motivation, provoking thoughts, presenting the practical help, and support (Ahmadpoor-Daryani: 1391/2012: 30). From the forum Saeed Ahmed's view: Networking (to scale his venture, he will be needing contacts either for funding, feedback regarding the initial testing of his product/service or for other stakeholders to join his venture).

There are so many factors that helped him to become an entrepreneur. in addition to economic, psychological and social factors. The existing political framework, internal and external defensive and security measures, prevailing legal infrastructure, financial status, family support, etc. persuaded him to launch this strategy.

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ARE ENTREPRENEURS OPTIMISTIC, REALISTIC, BOTH OR FUZZY? RELATIONSHIP
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