

The Entrepreneurial/ Innovative Economy

What is meant by the term *entrepreneurship*? What is innovation, and why is it important? What is the link between entrepreneurship and innovation? How does entrepreneurship and innovation improve organizational performance? What is the contribution of entrepreneurship and innovation to an economy?

Scenario: Facebook

Mark Zuckerberg is the CEO and cofounder of Facebook. He was born on May 14th, 1984, in New York. Zuckerberg is a computer programmer and Internet entrepreneur. In February 2004 from a dorm room at Harvard College, he cofounded Facebook with roommates and fellow students Eduardo Saverin, Dustin Moskovitz, and Chris Hughes. Initially, Facebook limited membership to students at Harvard, but later this expanded to other universities such as MIT, Yale, Princeton, and Stanford. Membership became available to students at other universities then to high school students. In September 2006, membership was open to anyone ages 13 and over with an e-mail address, resulting in 50,000 new users a day joining Facebook.

Zuckerberg dropped out of Harvard after his sophomore year, moving Facebook to Palo Alto, California. Since Facebook was growing rapidly, Zuckerberg needed investment money, so he made contact with Silicon Valley venture capitalists, receiving his first investment of \$500,000. By the end of 2004, Facebook had reached 1 million users; it reached 5 million users in 2005. In May 2005, Facebook received a major investment of \$12.7 million

from a venture capital firm, Accel Partners. In April 2006, Facebook raised \$27.5 million from Greylock Partners, Meritech Capital Partners, and others. Soon, other companies wanted to buy the entire business. In 2006, Zuckerberg refused a \$1 billion offer from Yahoo. In 2007, Microsoft offered \$15 billion, and once again Zuckerberg refused.

Zuckerberg's core focus was on developing the site, opening the project to external developers, and adding additional features. Investors bought into Facebook without too much concern about how the company was going to make a profit. In October 2007, Facebook and Microsoft developed an advertising arrangement to cover international markets with Microsoft taking a \$240 million equity stake in the company. By 2008, with over 100 million users, it was time to think about developing a profitable business model. To achieve this, Zuckerberg hired one of Google's star executives Sheryl Sandberg (as chief operating officer). She knew exactly how to build a company from the start-up phase to development. As Facebook grew, Zuckerberg continued to use the same energy and flexibility of a start-up with an unofficial motto of "Move Fast and Break Things." He was still closely involved in the details. Everyone at Facebook was expected to move fast with new programmers having a chance to write computer code that contributed to the site within their first days of employment.

Zuckerberg is recognized as a new type of entrepreneur. Since its formation in 2004, Facebook has found its way into the personal lives of 800 million people. Once in a while a breakthrough innovation and/or a business comes along that transforms an era by doing something very new and very big. Zuckerberg did this and turned social needs into a multibillion-dollar business. Facebook has changed the way hundreds of millions of people communicate and talk to each other. It has created not just a business but an entirely new culture.

In 2010, *Time* magazine named Zuckerberg their "Person of the Year"; *Vanity Fair* placed him at the top of their New Establishment list; and *Forbes* ranked him at No. 35—surpassing the late Steve Jobs, former Apple CEO, on their Forbes 400 list. In 2011, his personal wealth was estimated to be \$17.5 billion. Facebook has astronomically grown to 901 million active users as of April 2012. More people have signed up on Facebook than live in the United States and European Union combined, with 30 million registered users in Britain alone.

Facebook's mission is to make the world more open and connected.

Zuckerberg practices what he preaches, sharing a lot about his personal life on his Facebook page, which is open for anyone to view. There have been questions about how people communicate on Facebook, about

their privacy, and the sharing of information. Facebook asserts that it gives users full control over their privacy and what they choose to communicate. Zuckerberg believes that privacy is fundamental, but the big cultural change is that now more and more people are finding that they can build a reputation, disseminate interesting information, and be part of a new discovery process.

Facebook is not just a website; it is a platform. Software developers can write programs—apps—that then run on Facebook. These apps create a technology ecosystem with Facebook at the core. There are over 1 million different developers who have built things on Facebook. The question facing Facebook is this: How can they build all the things they want to? According to Zuckerberg, the answer was simply to build an ecosystem and make sure any developer from a student in a dorm to a small or large company can build things on the platform.

When Zuckerberg opened Facebook to developers, the biggest success was games. London is home to the second largest social gaming company. Kristian Sergerstrale, cofounder of Playfish, employs 350 people to make games for his 100 million regular players. Facebook has created an infrastructure for these and other games and social interactions. It is as much about that social interaction as it is about what is happening on the screen. This generates new revenue for Facebook, because game players pay money for virtual goods. They pay by sending money to Facebook to buy credits.

The creation of Facebook has led to lawsuits and accusations of privacy invasion; it has even inspired a Hollywood movie. The first legal dispute was filed in 2004 when Harvard students Cameron Winklevoss, Tyler Winklevoss, Divya Narendra, and others accused Zuckerberg of misleading them into thinking he would contribute to them developing a social network called HarvardConnection.com (which was later called ConnectU), while he was taking their ideas to develop a competitive product. The three issued a complaint to the *Harvard Crimson*, and an investigation was undertaken by the newspaper. The legal dispute resulted in an initial settlement of \$65 million; however, the legal dispute over the issue proceeded into 2011 after Narendra and the Winklevosses claimed they were misguided about their stock value. Zuckerberg encountered another challenge in 2009 when the book *The Accidental Billionaires*, written by Ben Mezrich, was published. Mezrich was criticized for invented scenes, reimagined dialogue, and fictional characters of Zuckerberg's story. Mezrich sold the rights to screenwriter Aaron Sorkin, and the film *The Social Network* received eight Academy Award nominations. Zuckerberg had strong objection to the film's narrative and informed a reporter at *The*

New Yorker that numerous details in the film were incorrect. In spite of these obstacles and challenges, Zuckerberg's dorm project has come a long way since 2004, not just as a piece of technology but as a change in the way many people relate to each other. Facebook is a massive online social world that runs parallel with the real world. Many users spend more time online with their Facebook friends than meeting their real friends. A lot of people who would have otherwise lost contact stay in touch through Facebook. The next step for Facebook, according to Zuckerberg, is to allow people to connect to anything they want in any way they want.

On Friday, May 18, 2012, Facebook went public, pricing its initial public offering (IPO) at \$38 per share. Facebook shares rose 0.6% to \$38.23 at the close of business on its first day of trading. Approximately 570 million shares were traded and 70 million just at the IPO. Zuckerberg retains 533 million shares and voting control over Facebook. Zuckerberg's net worth increased by \$100 million to \$19.4 billion; he is now 26th on the Bloomberg Billionaires Index. The company's valuation at that time was more than Amazon.com, Kraft, Walt Disney, Cisco, and McDonald's. Facebook is the biggest technology business to go public since Google. The company had net income of \$205 million in the first three months of 2012 on revenue of \$1.06 billion. However, reflecting back, the stock has lost half its value since its IPO. Through hard work and commitment, Zuckerberg is now focusing on how well Facebook can do in the next 3 to 5 years with mobile as a path to generate revenue for the company. Facebook is a very controversial company. Zuckerberg has recognized his mistakes, stating that his biggest mistake was betting too much on HTML5, rather than focusing on native applications. Just as a culture of innovation and entrepreneurship is fundamental, so is the ability to learn from mistakes. Rather than being inhibited by their mistakes, Facebook has created an environment where they are very self-critical, and failure is both tolerated and learned from.

Introduction

As indicated in the scenario of Facebook, entrepreneurship and innovation do not just happen. It can be and in many cases is a risky and expensive investment to start a business and requires continuous investment and commitment in light of all the challenges and obstacles. This risk and expenses continue as established corporations continue to develop and implement entrepreneurial activity and innovation. Facebook's success indicates that it understood the importance of innovation, and even though it dealt with many challenges along the way, it has showed commitment, perseverance, and passion for pursuing entrepreneurial activity

and innovation. To manage environmental complexity and uncertainty, firms become more entrepreneurial in order to identify and exploit new opportunities. Regardless of the economic climate, entrepreneurship and innovation is a dynamic process involving opportunities, individuals, organizations, risks, and resources.

Entrepreneurship and innovation is a topic of interest and research that has been developed over decades. Entrepreneurship is developing something new with value by dedicating the required time, commitment, and perseverance, undertaking the associated risks and rewards with the objective of achieving prosperity and wealth. This can be a new start-up organization or part of revitalizing an existing organization in response to an observed opportunity. The term *entrepreneurship* has traditionally been associated with starting a new business; however, more recently the term has been developed to incorporate social and political forms of entrepreneurial activity. Entrepreneurship is not only evident by new firms coming into the market but also by innovative and similar entries of existing firms into new markets. Entrepreneurship within a large organization it is referred to as *intrapreneurship* or *corporate entrepreneurship* (CE). Entrepreneurial activities vary significantly in relation to the type of organization and the level of creativity and innovation within the organization. Innovativeness is the first dimension that characterizes an entrepreneurial organization. Innovation creates more efficient and effective products, systems, services, technologies, or ideas that are accepted by markets, governments, and society.

This chapter provides the historic development of the core concepts of the evolution of entrepreneurship, historic development of key definitions of entrepreneurs, entrepreneurship and innovation as well as the link between them. Following this, there is a discussion on understanding an entrepreneurial and innovative economy—along with the core benefits of entrepreneurship and innovation to an economy. Entrepreneurship and innovation represent a unifying framework for successful management practice that can be attained by combining the key roles of managers and entrepreneurs. The chapter concludes by providing an overall framework of entrepreneurship and innovation that will serve as the foundation for the structure of this book.

Entrepreneurship—What It Means and Why It Is Important

There is no universally accepted definition of entrepreneurship; rather, entrepreneurship is a phenomenon with many components. It takes many

forms such as private sector entrepreneurship, CE, public sector entrepreneurship (*governpreneurship*), and social entrepreneurship.

The Historic Development of Entrepreneurship

One of the first to be looked at as an entrepreneur was Marco Polo, who tried to set up trade routes to the Far East (Hisrich, Peters, and Shepherd, 2012). In the Middle Ages, the term *entrepreneur* was associated with an actor and an individual who managed large production projects—for example, an individual who manages architectural works such as castles, public buildings, or cathedrals. In major projects, the individual did not take risk but rather he/she managed the project utilizing the resources that the government usually provided. In the 17th century, an entrepreneur was an individual who entered into a contractual arrangement with the government to carry out a service or provide acquired products—for example, John Law, a Frenchman, was allowed to establish a royal bank. One of the earliest definitions of entrepreneurship was that of Richard Cantillon (1755), an economist, who described the entrepreneur as a rational decision maker who assumed the risk and provided management for the firm. He was the first to acknowledge that there is an entrepreneurial function within the economic system. In the 18th century, the entrepreneur was differentiated from what is today known as the venture capitalist. This differentiation was made because of industrialization. In the late 19th and early 20th centuries, entrepreneurship began to develop theoretically. In the 20th century, Joseph Schumpeter, an economist, made a significant contribution to the theoretical development of entrepreneurship. At that time, entrepreneurs were mostly viewed from an economic perspective. In the middle of the 20th century, the idea that entrepreneurs were innovators was established. Since then, innovation and newness is a fundamental aspect of entrepreneurship.

Historically, the term *entrepreneurship* has referred to an individual who takes on the risk of turning their vision into a successful business enterprise. Some definitions focus on entrepreneurship as the creation of new organizations, while others focus on wealth creation and ownership. This recognizes other forms of ownership—for example, franchising, corporate venturing, management takeover, and family business. Some have adopted the opportunity-based view and suggested that entrepreneurship is about the discovery and exploitation of profitable market opportunities.

Over the past four decades, entrepreneurship has extended beyond individual's efforts to follow their vision to include entrepreneurship within existing corporations. This has been referred to as CE as well as previously intra-corporate entrepreneurship, corporate venturing, organizational

entrepreneurship, innovation, and intrapreneurship. Corporate entrepreneurship is a process whereby individuals within an organization undertake innovative opportunities outside their current role. Companies like IBM recognized the value of CE in increasing corporate growth; 3M and Google has been known for decades as an entrepreneurial company with a strong corporate culture that encourages staff to spend 15% to 20% of their time working on projects of their choice; other companies like Apple, Facebook, and Johnson & Johnson are all global corporations recognized for their success in CE.

While the terms *entrepreneurship* and *CE* are mostly associated with private sector activity, in the past 30 years the value creation logic has been extended to public sector entrepreneurship (governpreneurship) and more recently social entrepreneurship. Public sector and social organizations worldwide are faced with their greatest challenge in decades. Public sector entrepreneurship is a means of achieving more efficient, flexible, and adaptable management in times of uncertainty and change. This can lead to more intensive and extensive innovations in the management of the public sector organization. The underlying drive for public sector entrepreneurship is the generation of new sources of revenue and the provision of enhanced services to create value for citizens.

Social entrepreneurship can make a significant contribution to communities and society in general by adopting business models to offer innovative and creative solutions to complex social issues. Social entrepreneurship can be broadly defined as innovative activity with a social objective in the for-profit sector—for example, social commercial ventures, nonprofit sector, or across sectors for example hybrid structural forms which combine for-profit and nonprofit approaches. The core objective of public sector and social entrepreneurship is to create value for citizens, stakeholders, and the wider community by utilizing available resources to exploit opportunities that will generate revenue.

While the definitions view the entrepreneurship, CE, public sector entrepreneurship, and social entrepreneurship somewhat distinctive, they include similar concepts such as discovering and exploiting of opportunities, innovating, organizing, creating, rewarding, and risk taking. Entrepreneurs and entrepreneurship is recognized in all professions, industries, and sectors. One all-inclusive broad definition of entrepreneurship and CE is that it is the process of creativity and innovation by committing the necessary time and energy, taking responsibility for all the risks and uncertainties, and taking personal satisfaction.

It must be recognized that there are important differences in the strategies, goals, objectives, restrictions, and results associated with

successful entrepreneurship. Well-known entrepreneurs of the 21st century such as Richard Branson (Virgin Group), Michael Dell (Dell), Bill Gates (Microsoft), Kwon Oh Hyun (Samsung), the late Steven Jobs and currently Tim Cook (Apple), Anita Roddick (The Body Shop), and Mark Zuckerberg (Facebook) have all faced different challenges and obstacles along the way, but the one thing they have all demonstrated is commitment and perseverance to their core goals and objectives. The importance of entrepreneurship cannot be overemphasized in the value that it creates for individuals, organizations, and society at large. Entrepreneurship impacts employment, competitiveness, economic growth, and prosperity in a country.

The Meaning of Entrepreneurship to Different Groups

Entrepreneurship can have different meanings for different groups of individuals. Economists, psychologists, sociologists, anthropologists, managers, and businesspeople view entrepreneurship differently from their own perspective:

- Economists—an entrepreneur brings about innovation and change; he or she utilizes resources, labor, materials, and other assets in ways that generate greater value and wealth.
- Psychologists—an entrepreneur is motivated by certain factors—the need to achieve, to experiment, to acquire, or to control his or her own destiny.
- Sociologists—an entrepreneur is typically influenced by his or her culture and community, and the presence or absence of certain conditions motivate or de-motivate individuals for taking up entrepreneurial venture activities either as a start-up or within a large corporation.
- Anthropologists—an entrepreneur is one who recognizes opportunities. The result and the level of entrepreneurial activity is determined by opportunity structure. Opportunity structure is the economic opportunity and ability of entrepreneurs to recognize and act upon such opportunities.
- Managers and Businesspeople—an entrepreneur is an innovator who introduces new ideas for products, services, processes, or markets. To some business owners/managers, an entrepreneur seems to be a threat, a major competitor. To other business owners/managers, an entrepreneur may be one to unite with, a customer/client who generates wealth for him or herself and others, identifies

ways to effectively utilize resources, and creates opportunities and employment.

There is no common theoretical framework that synthesizes the diverse views and opinions. Therefore, a valuable and multidimensional number of entrepreneurship theories can be utilized together to describe entrepreneurial phenomena. However, an overlapping theme is that entrepreneurs have a high level of creativity and innovation together with a high level of opportunity recognition, risk taking, visionary activity, and persistence.

Innovation—Meaning and Importance

Innovation is a process that starts with an idea; proceeds with the development of an invention; and results in the development or enhancement of products, services, processes, or technological advancement as part of organizational innovativeness. Innovativeness reflects an inclination to participate in and facilitate new ideas and develop new processes, thereby moving away from existing practices, processes, and technologies. Innovative organizations place a strong emphasis on research and development (R & D). Innovation is not only the opening of new markets but also new ways of serving established and mature markets.

Innovative organizations support new ideas and are experimental and creative—in search of new improved practices and technologies. The newness can be anything from a new product/process to a new distribution system or approach for developing a new organizational system. Examples of these entrepreneurs include Edward Harriman, who reorganized the Union Pacific Railroad through the Northern Pacific Trust and John Pierpont Morgan, who developed his large banking house by reorganizing and financing the nation's industries. The most successful entrepreneurial organizations are those that link knowledge gained from their previous innovations into future innovation strategies.

Innovation, as an act of introducing something new, novel, or advanced with the intention of creating benefit, is one of the most challenging tasks for an organization. It is not just the ability to create, conceptualize, and develop but also the ability to fully recognize the importance of all factors in the internal and external environment. The internal and external factors vary between different sectors and industries and every organization needs to have a comprehensive knowledge and awareness of each aspect of the internal and external environment and the direct and

indirect impact that the environment places on their innovation (see Chapters 4 and 6). Successful innovation under complexity, uncertainty, and dynamism can only succeed through collaborative approaches that fully integrate internal and external organizational knowledge. This has influenced organizations to start recognizing that they need to find new ways of determining the knowledge needed to adjust to a continuously complex, uncertain, and dynamic environment. Organizations need new ways of recognizing what knowledge they acquire by discovering, experimenting, and networking with individuals internal and external to the organization. This has led to the rise in what Henry Chesbrough termed *open innovation*, which is linked to the idea core capability and how that influences an organization's innovation process. Moving from internal R & D to external connection and development creates opportunities for SMEs and large corporations to move beyond their core capabilities to retain competitiveness in today's fast-changing environment.

Traditionally, innovation has been more associated with private sector where the driving force to successfully innovate or the application of new innovations in a given industry is fundamental to future growth and development. Innovation is equally important to the private sector organizations, public sector organizations, and social enterprises. Private sector innovativeness is concerned with the creation or development of any product, service, or process for the business that will lead to competitive success. Innovativeness in the public sector is more focused on process improvements, new services, and new organizational forms that will enhance the efficiency and effectiveness in the delivery of services. Innovativeness in social enterprises creates practical, innovative, and sustainable approaches to social problems for the benefit of society in general, mobilizing ideas and resources required for social transformation.

Innovation is central to organizational competitiveness around the globe. Increased competition arising from globalization and technological advancement has heightened companies' needs to leverage and utilize resources to develop innovation within their organization. In today's society, individuals are constantly searching for higher standards of living and the newest, most sophisticated innovations that are introduced such as the iPhone, iPad and iPad Mini, iTunes, eBay, Skype, Viber, and Toyota Hybrid Prius. Increasingly, more sophisticated individual needs necessitate more rapid innovation; this, in turn, intensifies competition. Organizations that fail to innovate will fail to compete and very quickly will fail to exist. Procter and Gamble (P&G) was previously recognized as a company that did not just launch new products but created new product categories; however, in recent years, they have lost their cutting

edge in innovation. This has resulted in loss of market share to more competitive and innovative companies like Unilever. Innovation is a key factor in the growth and wealth of organizations and societies. In today's global economy, organizations are only as good as their next innovation and their pipeline of innovations to follow.

Characterizations of Innovation

A common factor in innovation is that it represents something new, whether this is a new product, service, process, or technology. Innovation, whether incremental (improvement to existing product lines) or breakthrough (unique and rare), will result in new ways of doing things and changes the thought process to develop new ways of thinking about things. Innovation in organizations needs to be involved in the following:

- Developing new products, services, processes, or technologies
- Developing new, more efficient methods of production
- Identifying new markets both nationally and globally
- Extending distribution beyond existing channels

Innovation also needs to deliver customer value by creating a product or providing a service that not just meets but exceeds customers' needs, wants, and expectations. Innovations are not always planned or deliberate; some of the most successful innovations were discovered by accident such as cell phones, cornflakes, nylon, penicillin, Post-its, and Teflon. Therefore, organizations need to be open to potential innovations beyond and in contrast to what they are aiming to achieve.

Phases of Innovation

An innovation must progress through a number of phases before it is commercially viable. This applies to all innovations whether incremental or breakthrough in terms of product, service, process, and technological advancement. These phases are as follows:

- Idea generation
- Selection of most viable idea
- Coalition building to transform the selected idea into reality
- Implementation and commercialization of the developed or new product, service, process, or technology

The Link Between Entrepreneurship and Innovation

Entrepreneurship and innovation are complementary. Entrepreneurship is about identifying new innovations and adapting these innovations to achieve greater competitiveness and enhanced performance. Entrepreneurship and innovation are about having a great idea and the resources to implement. Innovation is a core part of entrepreneurship and a way in which an organization can exploit change as an opportunity for new or developed products, services, processes, or technologies. Innovation is a key function in the entrepreneurial process where new ideas are put into practice. Innovation has been recognized as a central characteristic of the entrepreneurial endeavor and one of the most pressing challenges facing organizations today. Innovation harnesses the creative energy and develops those ideas into realistic opportunities. Drucker (1985) stated, "Innovation is the specific function of entrepreneurship.... It is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth" (p. 43). An entrepreneurial organization is characterized by its degree of innovativeness.

Entrepreneurial mind-sets are continually refining ways to produce and deliver existing goods and services or develop new products, services, or technologies. Entrepreneurship and innovation are linked to each other and interact to help an organization to develop and grow. Both require creative thinking and the desire to think outside the box and take risks. Creativity needs to be managed and ideas need to be transformed into innovations. External environmental forces such as technological advancements, globalization, government deregulation, social changes, and economic downturn require organizations to become more entrepreneurial and innovative than they were in the past.

Entrepreneurship, Innovation, and Organizational Performance

Entrepreneurship and innovation are dynamic processes that enhance organizational performance. Entrepreneurship and innovation can improve the organization's profitability, enhance its growth, deliver competitive advantage, and improve its performance. Organizations that know how to facilitate entrepreneurship and innovation in its various forms are more competitive and perform better than those that do not. Entrepreneurship and innovation can result in the development of important capabilities that

can not only improve the organization's financial performance but also produce other nonfinancial outcomes such as experiencing growth in employment, retaining key employees, managing change, and strategic repositioning (see Chapter 10).

Entrepreneurship, Innovation, and the Economy

Entrepreneurship and innovation play a key role in the economy by establishing firms and developing existing ones that in turn create markets and opportunities that contribute to economic growth, development, prosperity, and competitiveness. Entrepreneurs are responsible for a substantial amount of technological innovations driving economic transformation and international trade. Schumpeter (1911/1963) established conceptually the "entrepreneur as innovator" and as a major contributor in driving economic growth and development. Schumpeter's theory predicted that an increase in the number of entrepreneurs leads to an increase in economic growth. Pre-20th-century writing on economic history offers a detailed affirmation that entrepreneurship is critical to long-term economic growth and prosperity (see Chapter 10).

The link between the entrepreneur and market is evident in the example of Amazon.com. Entrepreneur Jeffrey Bezos established the organization, which created major online markets for a board range of products. The link between the entrepreneur and organizations is evident in the example of Intel. Entrepreneurs and founders Bob Noyce and Gordon Moore grew into an organization with over 90,000 employees within 40 years of its foundation. Economic equilibrium, such as prices, distribution of goods, and transaction structure, is influenced by the degree of entrepreneurship and innovation within an economy. The actions of entrepreneurial and innovative organizations are a fundamental driver that brings the economy toward equilibrium.

The Benefits of Entrepreneurship and Innovation to an Economy

There are significant benefits of entrepreneurship and innovation to a society and to allow an economy to flourish. These benefits include the following:

- Generating employment
- Creating wealth
- Introducing new products, services, processes, and technologies

- Opening new industries and markets
- Creating regional development
- Increasing exports
- Intensifying competitiveness
- Creating innovations that can improve the quality of life and well being
- Providing greater customer value
- Generating greater customer choice

Entrepreneurial and innovative organizations have the ability to marshal resources to seize new business opportunities and promote a more productive economy, the foundation for economic growth and development. Identifying these opportunities is more achievable for organizations that keep themselves flexible, because these are the organizations that quickly adapt to change and take advantage of opportunities as they emerge.

A Framework for Managing Entrepreneurship and Innovation

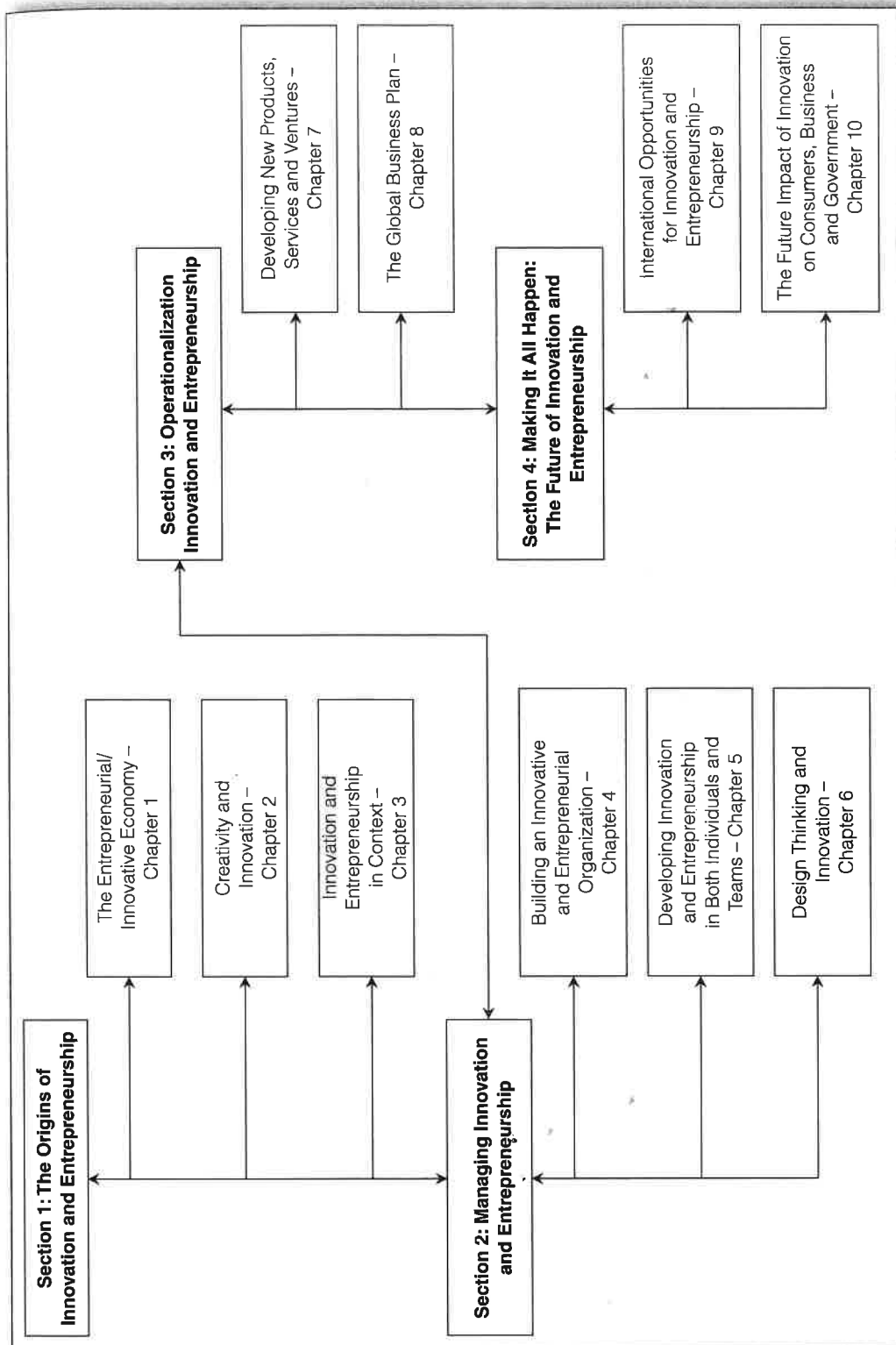
Managing entrepreneurship and innovation has been of increasing interest in recent years by academics, managers, entrepreneurs, individuals, and companies. Innovativeness is the first dimension that characterizes an entrepreneur and an entrepreneurial organization. Innovation is the extent that things are being done that are unique, or different.

While innovation is fundamental to business success, it is challenging for small businesses as well as large corporations to manage and effectively plan. With the increase in globalization and competitive intensity for organizations, the ability to continuously develop successful, competitive innovative products, services, processes, and strategies is essential. There is an ever-increasing need for organizations to become more innovative and engage in entrepreneurial activities to stay ahead.

This book focuses on the important topic of effectively managing entrepreneurship and innovation. An integrative framework of managing entrepreneurship and innovation has been developed. As indicated in Figure 1.1, the framework has four major components: (1) Discovering the Origins of Innovation and Entrepreneurship; (2) Managing Innovation and Entrepreneurship; (3) Operationalizing Innovation and Entrepreneurship; and (4) Making It All Happen: The Future of Innovation and Entrepreneurship.

The starting point is to develop an in-depth understanding of managing entrepreneurship and innovation. Entrepreneurship and innovation are

Figure 1.1 A Framework for Managing Entrepreneurship and Innovation



universal concepts, and there are certain commonalities as well as fundamental differences. Building on this foundation, organizational managers must develop and build an organizational environment that encourages and motivates employees to identify and recognize opportunities and behave like entrepreneurs by engaging in innovative activities that will make their organization more competitive and enhance organizational performance.

Three key elements for the origins of innovation and entrepreneurship include (1) understanding entrepreneurship and innovation and the contribution it can make to organizational performance, (2) recognizing the key role and nature of creativity and innovation, and (3) having a clear understanding of the importance of entrepreneurship and innovation within the different contexts. The ability to effectively manage innovation and entrepreneurship requires building an innovative and entrepreneurial organization, developing innovation and entrepreneurship internally among individuals and teams, being able to effectively manage innovation and entrepreneurship in dynamic and uncertain environments, and recognizing and appreciating the importance of design thinking.

Operationalizing innovation and entrepreneurship requires understanding of the aspects of the business plan, the application of tools and techniques, as well as an appropriate organization to support innovation and entrepreneurship and an explicit process to manage the development of new products, services, and ventures. Finally, making it happen—the future of innovation and entrepreneurship—requires understanding the international opportunities for innovation and entrepreneurship, which allows organizations of all sizes to become more competitive and establishing innovation and entrepreneurship in your organization in times of global economic prosperity or global economic downturn.

Section 1 of this book, *Discovering the Origins of Innovation and Entrepreneurship*, consisting of Chapters 1 through 3, provides the origins of innovation and entrepreneurship. The chapters highlight the core benefits of entrepreneurship and innovation and the way it can improve organizational performance. This requires individuals and groups identifying, evaluating, and selecting particular opportunities for developing the organization and improving its profitability and success. Creativity and innovation are examined by investigating the approaches, role, and nature of the creative process. In light of the importance of innovation and entrepreneurship, the different types of innovation, the innovation process, and sources of innovation in small and medium enterprises (SMEs) and large corporations are presented.

Section 2 of the book, *Managing Innovation and Entrepreneurship*, consisting of Chapters 4 through 6, focuses on the management of innovation and entrepreneurship. An innovative and entrepreneurial organization

requires an appropriate structure, system, and management orientation. Developing an innovative organizational culture with appropriate structures and processes is fundamental. The behaviors associated with innovation and entrepreneurship requires promoting individual and team creativity. A system for monitoring, assessing, and evaluating the external environment to ensure the right decisions are made and actions are taken needs to be established. A discussion of the concept of design thinking and its significance in meeting the needs and demands of customers to achieve business success concludes this section.

Section 3 of the book, *Operationalizing Innovation and Entrepreneurship*, consisting of Chapters 7 and 8, deals with operationalizing innovation and entrepreneurship. A concerted effort needs to be made to build and plan the innovation case: how it will unfold and develop and how it will be successful. Since developing new products, services, and ventures is a challenge, the most common processes for development, which are the stage gate and development funnel, are explored. How the market influences the process of development and commercialization of breakthrough innovations versus incremental innovations are discussed along with the differences between developing new products and services. Additionally, organizations can develop innovations outside their existing strategy. The section closes with a discussion on the importance and aspects of a business plan such as forecasting the sales and profits of the innovation, assessing and recognizing the risk and uncertainty, and anticipating the necessary human and nonhuman resources needed.

Section 4 of the book, *Making It All Happen: The Future of Innovation and Entrepreneurship*, consisting of Chapters 9 and 10, is concerned with the future of innovation and entrepreneurship. There are significant differences between an international and a domestic business. With technological advancements today, competitors are anyone your customers have access to. SMEs and large corporations need to think globally. This requires understanding the local factors that influence the level and the direction of innovations. One of the key concerns for managing innovation and entrepreneurship is how to achieve growth. Financial and nonfinancial performance measures of innovation in SMEs and large corporations are discussed. The book concludes with a discussion of the future of innovation on customers, organizations, and governments.

Summary

Entrepreneurship and innovation is not just associated with business start-up but also existing and mature organizations in the private, public, and

social sectors. It includes innovations that exist inside or outside the domain of an existing organization. These include innovations such as the creation of new venture, new and novel combinations of existing products, new forms of production, and new markets. There is a greater need for entrepreneurship and innovation today more than ever before due to globalization, technological advancement and development, intensified competitiveness, and the global economic downturn. Entrepreneurship and innovation is important to individuals, organizations, and governments and will continually impact consumers and economic development in the future.

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- Schumpeter, J. A. (1963). *The theory of economic development: An inquiry into profits, capital, credit, interest and the business cycle* (R. Opie, Trans.). Oxford, UK: Oxford University Press. (Original work published 1911)

Suggested Readings

- Ahlstrom, D. (2010). Innovation and growth: How business contributes to society. *Academy of Management Perspectives*, 24(3), 11–24.

In this article, the author argues that the core business objective is the development of new innovative goods and services that generate economic growth while also providing important societal benefits. The author asserts that small changes in economic growth can create major differences in income; this, in turn, makes firm growth very salient to societies. Through innovation and growth, firms can greatly benefit society.

- Finkle, T. A. (2012). Corporate entrepreneurship and innovation in Silicon Valley: The case of Google, Inc. *Entrepreneurship Theory and Practice*, 36(4), 863–884.

In this article, the author provides a case study of Google Inc. The author discusses the problem Google faced in how they could maintain the company's culture of CE and innovation in light of stagnant profits and other key issues. The case focuses on Google seeking answers on how to develop CE and innovation during the most challenging economic climate in the history of the company.

Haynie, J. M., Shepherd, D., Mosakowski, E., & Earley, P. C. (2010). A situated metacognitive model of the entrepreneurial mindset. *Journal of Business Venturing*, 25(2), 217–229.

The authors develop a framework to examine the bases of an “entrepreneurial mind-set,” explained by scholars as the ability to sense, act, and mobilize in uncertain conditions. The authors focus on metacognitive processes that allow the entrepreneur to think beyond or reorganize existing knowledge structures and heuristics, promoting adaptable cognitions in light of novel and uncertain decision contexts.

Welter, F. (2011). Contextualizing entrepreneurship: Conceptual challenges and ways forward. *Entrepreneurship Theory and Practice*, 35(1), 165–184.

In this article, the author explores the contexts for entrepreneurship, demonstrating how a contextualized view of entrepreneurship contributes to understanding the phenomenon. In his research, he argues that context is fundamental for understanding when, how, and why entrepreneurship happens and who becomes involved. Exploring the multiplicity of contexts and their impact on entrepreneurship, the author identifies challenges researchers face in contextualizing entrepreneurship theory and makes recommendations for ways forward.

Williams, L., & McGuire, S. (2010). Economic creativity and innovation implementation: The entrepreneurial drivers of growth? Evidence from 63 countries. *Small Business Economics*, 34(4), 391–412.

In this article, the authors examine the impact of culture on national innovation and prosperity. Using a sample of 63 countries, they propose and test a comprehensive explanation of how culture as an umbrella construct affects innovation and national prosperity. Their empirical findings buttress the theoretical arguments that culture powerfully shapes the character of national innovation.