

Entrepreneurship in the Service Industries



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Discussion Paper

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1. Background

In 2003, a Tourism Industry Action Group undertook workshops around Australia to discuss a range of skills- and labour-related issues. Among the issues canvassed was that of the skills and knowledge required to run a successful small business—in particular entrepreneur skills. The feedback from industry was that the current qualifications could more effectively meet the needs of small business operators, including both the practical skills of management as well as entrepreneurial competency—that is, the generic skills to identify opportunities and create a vehicle to implement them.

While the Training Packages can be modified to provide this broader range of competencies there was a view that there may be workforce development interventions, beyond Training Package design and content, which could assist in developing greater entrepreneurialism within the hospitality industry.

1.1 Aim

This paper aims to explore the issue of entrepreneurship development and to provide some ideas for ongoing research and development in the area.

1.2 Purpose

Entrepreneurship is a widely-used term. However, like many such terms, it is often used with a range of underpinning assumptions that may differ depending on the context.

The purpose of this study is:

- To examine those assumptions and develop a shared understanding of the term;
- To identify a core set of skills, attitudes and behaviours that are relevant in becoming entrepreneurial;
- To explore training and workforce development strategies to address the need for the development of entrepreneurial capacity.

2. Definition of entrepreneurship

In clarifying what is meant by the term, it is necessary to address some fundamental misconceptions, for instance:

“Entrepreneurs are always small business people and small business people are entrepreneurs”

“Entrepreneurship and innovation are the same thing”

“Beyond business management and planning, entrepreneur skills cannot be developed”

“Entrepreneurial behaviour cannot be learned, you either have it or you don’t”

“Entrepreneurship can be dealt with by just adding some units of competency to the Training Package”

This paper will explore these attitudes using published research, as a discussion starter for focusing on the development of entrepreneurship within the service industries.

2.1 A definition of entrepreneurship

According to the Merriam-Webster Dictionary,¹ an entrepreneur is:

One who manages and assumes the risks of a business or enterprise

From the Business Dictionary online² there is a more comprehensive definition:

Capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks, while seeking profit as a reward. In economics, entrepreneurship is regarded as a factor of production together with land, labor, natural resources, and capital. Entrepreneurial spirit is characterized by innovation and risk-taking, and an essential component of a nation's ability to succeed in an ever changing and more competitive global marketplace.

Entrepreneurship always includes, risk, novelty and reward. It can apply to small tasks and to large enterprises; it can apply across all industry sectors and to every person, however, it is most relevant to managers and proprietors.

While the term is often associated with small business operators, in reality entrepreneurs can be found in big business, in the social sector or in any field of endeavour. What sets an entrepreneur apart is a certain “entrepreneurial spirit”. So what is that spirit and can it be learned?

2.2 Entrepreneurship and small business

Not every cafe owner/manager or any small business owner is entrepreneurial. However because of the nature of small business—the slim margins, the risk of failure, the need for agility—it is assumed that successful small business owners have applied some level of entrepreneurship.

However, a small cafe which is stable, routine and not growing would not be described as entrepreneurial, even though it may be described as successful.

On the other hand a person working in a large organisation, for example, the head office of a chain of cafes may well be entrepreneurial in seeing the opportunity for and implementing a new venture, taking the risks and creating value.

¹ <http://www.merriam-webster.com/dictionary/entrepreneur>

² <http://www.businessdictionary.com/definition/entrepreneurship.html>

2.3 Entrepreneurship and innovation

Austrian economist Joseph Schumpeter,³ who in the 1930s succinctly identified the characteristics of an entrepreneur and the emerging role within an industrial economy, regarded innovation as central to the notion of entrepreneurship. He identified as essential:

- New products
- New markets
- New forms of organisation
- New production methods.

Entrepreneurship implies novelty, which is also central to the concept of innovation.

Peter Drucker⁴ identified innovation as critical to the concept of entrepreneurship, but also identifies amount of wealth creation, speed of wealth creation and risk.

Entrepreneurship emerged as a concept with the industrial revolution, when there was increasing opportunity to create wealth through ideas and new enterprises. It is one of the four mainstream economic factors: land, labour, capital, and entrepreneurship. Innovation and entrepreneurship often go hand in hand, but are not necessarily the same thing.

Innovation exists when there is a new idea or the new use of an old idea which creates value and can apply to products, processes, and services. It might be radical or incremental and can often change the ways we behave (e.g. take away food has changed the way we eat).

An entrepreneur, on the other hand, may take the innovation and sell it to the community. They create the business model, the market and the profit or value. The innovator and entrepreneur can be the same person or they may be different people.

2.4 Entrepreneurship in the Service Industries

Entrepreneurial activity and innovation in the service industries may take many forms. It typically involves any of the following:

- Starting a new enterprise in a new context;
- Creating a new business model for an enterprise;
- Creating new services, products to be offered to customers;
- Creating a new customer experience;
- Creating new workplace strategies;
- Hotels introducing quicker check-in and check-out technologies;
- Creating new marketing strategies, and so on.

³ <http://www.quickmba.com/entre/definition/>

⁴ Peter Drucker, Innovation and Entrepreneurship

Increasingly service industry innovation is not just about more effective and productive products, processes and services—it is also about ways to create competitive advantage through enhancing the whole customer experience. For instance, a hairdresser salon may offer foot massages and pizza, or a fitness studio may team up with a health food shop to create cross-patronage.

A cluster of establishments may form a precinct and team up to market the whole area. A group of enterprises may collaborate and put together an integrated tourist program.

Therefore, an entrepreneur in the service industries not only needs skills and behaviours to help think through ideas, but—most particularly—needs to be externally focussed to look for collaborative opportunities as well as internal innovations.

Discussion points

1. Do you agree that entrepreneurship is applicable in a number of environments and contexts beyond small business or even business in general?
2. Do you agree with the definition of entrepreneurship provided in this paper?
3. Do you agree that entrepreneurial skills are required by managers and proprietors in the service industries?

3. Learning to be an entrepreneur

There is a notable lack of research and/or development of training within the VET sector in Australia. A search through the NCVET database returned nothing related to “entrepreneur”, “entrepreneur skills” and “entrepreneurship”. Similarly, apart from five accredited courses in Queensland,⁵ there appear to be no VET qualifications or other courses on the NTIS in “entrepreneurship” or “entrepreneurial skills”. The research used in this paper, therefore, comes from higher education rather than VET and is mainly from the USA or UK.

There is a commonly-held belief that entrepreneurs are born and not made; based on a perception that entrepreneurs have a set of genetic traits that make them the people they are. However, as quoted in a recent report out of USA for the SBA Office of Advocacy:⁶

Donald Kurato (2004) argues that it is now definitively evident that entrepreneurship can be taught. Indeed Gorman, Hanlon and King’s 10 year study (1997) argues that... “most of the empirical studies surveyed indicated that entrepreneurship can be taught or at least encouraged by entrepreneurship education.”

The actual type, level or duration of entrepreneurial education is not clear and the relative importance compared to other drivers of entrepreneurship, which appear to be family and gender, is also not clear.

The study does, however, note that:

...rigid educational structures have been identified as a major barrier to economic growth in developing countries. And that innovation and entrepreneurship continue to suffer when taught by routine educational approaches.

The report continues to say that more information is required to explore the types of approaches that are most suitable.

There is significant debate about the success of courses in entrepreneurship because of the belief that it requires more than skills and knowledge—it requires attitudes and behaviours that are widely believed to be inherited and/or developmental. As a result, many courses designed to develop entrepreneurial small business people focus on tangible skills such as management, finance and planning. However, knowledge of these alone falls far short of creating entrepreneurial behaviour.

⁵ Courses from NTIS

39202QLD	Vocational Graduate Certificate of Entrepreneurship	Accredited course
30535QLD	Certificate II in Entrepreneurship and Enterprise Skills	Accredited course
30534QLD	Certificate III in Entrepreneurship and Enterprise Skills	Accredited course
30533QLD	Certificate IV in Entrepreneurship and Enterprise Skills Expires	Accredited course
30532QLD	Diploma of Entrepreneurship and Enterprise Skills	Accredited course

⁶ Toward Effective Education of Innovative Entrepreneurs in Small Business: Initial results for a Survey of College Students and Graduates, September 2009. Page 8

While we know that learning results in the use of knowledge and skills (which changes behaviour and attitudes), what is learnt—and more importantly how it is learnt—is critical to developing attitudes and behaviours.

The following sections summarise some of the research into the important traits and skills required by an entrepreneur.

3.1 Context and judgement

Entrepreneurship happens in a context. It is iterative rather than linear in that it is not always predictable. There is no step-by-step process to entrepreneurship. It is the interaction of the individual with a situation that creates entrepreneurship. The entrepreneurial individual will perceive opportunities and make judgements instinctively. However, their judgements and perceptions are informed by an external focus, an inquiring mind and the capacity to see holistically. This is referred to as “integrative thinking”:

Integrative thinkers embrace complexity, tolerate uncertainty manage tension in searching for creative solutions to problems.⁷

Open University Business Schools (OUBS) has conducted research in this area over the years.

The findings from many different entrepreneurial firms... Apart from the effect of the various influences that can affect business judgements, the main points to note are:

1. *Business situations consist of real challenges, constraints and opportunities that directly impact on the business performance of a firm.*
2. *However, it is how entrepreneurs perceive these situations that guide their judgments and actions (which is why accurate market information, the ability to learn and experience are so important).*
3. *Business perceptions are also influenced by personal and business motivations, peer pressures and cultural influences (it could be argued that an entrepreneur's perceptions are more closely aligned with reality).*
4. *Entrepreneurial behaviour is guided by the entrepreneur's expectations rather than a rigid set of strategic objectives (again, it may be that the entrepreneur's expectations are more realistic and, maybe, more ambitious than those of other business managers).*
5. *The process is not static but very dynamic, with feedback and signals from the market consciously and indirectly affecting later decisions and actions”.⁸*

Therefore, it seems that (in a given situation) entrepreneurs may perceive things that others don't, make judgements that others wouldn't and, consequently, take risks that others don't understand.

The next section of the report identifies the behaviours and attitudes that are common to entrepreneurs.

⁷ The Art of Integrative Thinking, Rotman Management, Fall 1999

⁸ <http://openlearn.open.ac.uk/mod/resource/view.php?id=212978>

3.2 Behaviours and attitudes

The “entrepreneur” is recognisable. There is an implicit understanding of what it means and people readily describe a person or action as “entrepreneurial”. However, it is much harder to be more specific. OUBS⁹ explains it in the following way:

To date, researchers have not been able to identify a core and necessary bundle of attributes, characteristics or qualities that mark out successful entrepreneurs unerringly from the large crowd of business owners. However, a commonly quoted empirical and desk research study of new venture start-ups, that has stood the test of time over the past quarter-century, was conducted through the Massachusetts Institute of Technology by Jeffrey Timmons and colleagues (Timmons et al. 1977). They identified 14 important entrepreneurial characteristics of successful enterprise owners (see box below) which still frequently crop up in entrepreneurship research.

Behavioural characteristics of entrepreneurs¹⁰

- drive and energy
- self-confidence
- high initiative and personal responsibility
- internal locus of control
- tolerance of ambiguity
- low fear of failure
- moderate risk taking
- long-term involvement
- money as a measure not merely an end
- use of feedback
- continuous pragmatic problem solving
- use of resources
- self-imposed standards
- clear goal setting.

The following might be added, which are at least desirable in an entrepreneur:

- Openness to others and ideas
- Trustworthiness
- Ethical practice
- Personable

⁹ Ibid

¹⁰ <http://openlearn.open.ac.uk/mod/resource/view.php?id=212978>

- Reasonable
- Inspirational
- Enthusiastic and energetic
- Able to reflect and learn
- Self efficacy, a belief in one self and a sense of personal power
- Flexible behavioural changes in response to learning (as entrepreneurs are, in general, fast learners).

The next section unpacks the generic competencies that might be relevant to learning to be an entrepreneur.

3.3 Skills/knowledge

Entrepreneurship learning can be defined as providing individuals with the knowledge, skills and self-esteem to recognise opportunities overlooked by others and act where others have hesitated. In general, this covers opportunity recognition, marshalling the resources in the face of risk, and initiating a business venture. It also includes instruction in business management processes.

Importantly, entrepreneurship is a learning experience that develops or utilises at least some of the behaviours identified above.

Therefore, an entrepreneur potentially needs competencies in the following areas:

Innovative thinking or design thinking skills

- Identify an opportunity
- Observe and interpret customer needs, desires and preferences
- Challenge the status quo
- Research the opportunity
- Generate ideas relevant to the opportunity
- Solve problems
- Integrative thinking skills

Collaboration skills

- Collaborate
- Build trusting relationships
- Seek partnerships
- Look for external opportunities
- Attract talent to help develop ideas

Learning skills

- Learn new knowledge and skills needed to progress idea
- Reflect to improve idea
- Reflect to learn from others and self

Communication skills

- Articulate/represent ideas so others see it
- Develop and implement a marketing strategy
- Negotiate
- Share ideas and information with others

Research skills

- Evaluate idea to test feasibility
- Test market
- Gather market data
- Interpret data

People Management skills

- Develop and maintain team commitment
- Plan and manage projects
- Organise others
- Delegate
- Lead and manage to allow for entrepreneurial, innovative and flexible behaviour.

Business management skills

- Develop implementation plans
- Market interpretation and knowledge
- Develop business plans
- Develop budgets
- Develop business models
- Develop pricing structures
- Monitor business
- Manage risk

Discussion Points

1. Would you add/remove any behaviours and/or competencies in the lists above?
2. Should SSA conduct an audit of existing qualifications, courses and competency units in order to foster entrepreneurship across industry sectors within VET?
3. Should SSA research the feasibility of a qualification in entrepreneurship that would meet the needs of small business owners, particularly in restaurants and catering? And, at what qualification level should this be?

4. Strategies for developing entrepreneurs

Entrepreneurs emerge from a range of inputs which include genes, modelling, learning and opportunity.

While we cannot do anything to alter the genetic disposition of the individual, many things can be done in the other areas.

Government policy can stimulate entrepreneurial activities through providing access to funds, tax concessions and programs and strategies which provide support, networks and skills. There are now initiatives that address these concepts in many industry areas such as:

- Enterprise Connect¹¹ for the manufacturing sector
- Innovation Centres in Mining, Creative industries, Clean Energy and remote areas
- Commercialisation Australia¹² to support the commercialisation of research and ideas.

However, there appears to be little support for innovation and entrepreneurship in the service industries.

As has been suggested earlier in this paper, traditional classroom learning may not be the best training methodology for developing skills and attitudes that underpin entrepreneurship.

It would seem that the most desirable method of teaching entrepreneurship would incorporate a combination of policy, strategy and approach that support Training Package delivery.

This has been confirmed by a report¹³ produced by **The Ewing Marion Kauffman Foundation**, “a private, nonpartisan foundation, which works to harness the power of entrepreneurship and innovation to grow economies and improve human welfare”.

The report states that:

Participants noted three essential features that enhance the effectiveness of any entrepreneurship support program:

- *Ability to efficiently facilitate networks*
- *Management of peer-to-peer and mentoring programs*
- *Strength of the program’s leadership”¹⁴*

¹¹ <http://www.enterpriseconnect.gov.au/Pages/AlternateHome.aspx>

¹² <http://www.innovation.gov.au/Section/Innovation/Pages/CommercialisationAustralia.aspx>

¹³ Entrepreneurship Summit Executive Summary Kauffman Foundation and the International Economic Development Council September 2008

¹⁴ Entrepreneurship Summit Executive Summary Kauffman Foundation and the International Economic Development Council September 2008, page 4

It seems certain that to address the issue of developing entrepreneurs, some innovation may be needed in teaching learning approaches and in workforce development strategies.

4.1 Teaching and learning strategies

Action learning, simulated project learning and work-based learning are proven strategies for developing an integration of skills, behaviours and attitudes. This is an important aspect of training for entrepreneurialism as such a strategy will inevitably encourage action, self-reliance and build confidence.

It is also evident that entrepreneurial skills are not linear—they are iterative. As the individual faces a problem, they may need specific skills and knowledge to solve it. Therefore, strategies which permit just-in-time learning are recommended. This might include:

- Online learning
- Short courses/seminars
- On-the-job coaching

Two significant attributes of entrepreneurs are their ability to collaborate and communicate in order to make things happen as well as to draw on the skills and talents of others. Therefore, group-based learning strategies are important and specifically develop the underpinning skills of collaboration. This can be through project working in the classroom, on the job or through web-based collaboration.

Since the skills people need will be dependent on the context, then a just in time strategy is needed so that skill gaps can be filled quickly as they emerge. For skills and knowledge such as budgeting, business planning, market interpretation and so on, an online learning program may be the most appropriate.

As discussed earlier, entrepreneurs often occur within family groups. It may be partly a matter of genetics; however, evidence suggests that there is also a strong element of role modelling. If it is true that the behaviours and skills can be learned by observing others (through experience), then this would suggest that practical learning supported by mentors and coaches may be an effective strategy.

4.2 Workforce development strategies

Budding entrepreneurs need a range of options so that they can access support at different times and in different ways. An initiative which provides assistance at all stages of the entrepreneurial process might include the following:

Opportunity recognition

Workshops to provide skills in finding opportunities and defining problems. The workshops could also provide a process for thinking through ideas to ensure that they are workable as well as innovative.

Idea development

Boot camps could be held where groups of entrepreneurs can develop ideas in collaboration with others and with strong leadership and facilitation. The boot camp should also provide access to experts to assist with specific skills (e.g. advice on business models, advice on marketing, etc.).

Network development

An entrepreneur's network could be established to provide information, skills and an opportunity to collaborate for budding entrepreneurs.

In order to keep innovating, entrepreneurs need access to outside knowledge and technology. Intermediary services can identify what they need and connect them with the sources that will assist them to innovate and grow.

Mentoring programs

Research suggests that mentoring, modelling and coaching are effective learning strategies for entrepreneurial skills. The program could provide mentors for the budding entrepreneurs to help them work through the problems that they confront.

4.3 Focus for entrepreneurship development

While everyone can benefit from developing these skills, the greatest need within the service industries would be among both existing employers as well as prospective managers and proprietors. While the chef may innovate in terms of the menu, and the merchandiser can apply creativity to how they display items, the greatest impact in developing these service industries would be to develop the leadership and management skills. Professor Roy Green in his recent study of management in Australia points out that:

There exists a strong and statistically significant relationship between innovation and management practices... The attention of enterprises needs to increasingly shift toward innovation, entrepreneurialism and management talent which plays a critical role in driving competitiveness and growth in the modern economy.¹⁵

Discussion Points

1. Should SSA conduct research into appropriate teaching and learning strategies to support the delivery of qualifications that aim to foster entrepreneurship?
2. Should SSA investigate the viability of developing an entrepreneur support program, which would be in addition to formal qualifications?
3. Should SSA investigate the specific needs of management and proprietor skill development programs?

¹⁵ Green, Roy, *Management Matters in Australia: Just how productive are we?* Dept. Innovation, Industry, Science and Research, November 2009

5. Conclusions

Entrepreneurship and innovation are important skills for small business operators in the hospitality sector, particularly for café and restaurant owners.

There is scope for improvement within the Training Package content (and possibly design), particularly in providing the skills and knowledge for small business management and marketing as well as acknowledging innovation and entrepreneurship skills within units of competency.

However, that is not likely to be sufficient. In order to develop the behaviours, attitudes and less quantifiable generic skills of collaboration and creativity, innovative teaching and learning strategies are vital.

In addition, a workforce development program may be required which provides the support, network, technical skills, market information, opportunities for innovation and collaboration to entrepreneurs in the service industries.

Appendix One Entrepreneurship in the service industries (case study)

Barney's of Bookham

The owner of a successful city-based public relations company decides to embark on a new venture.

A business opportunity presents itself as a café in the country on a major highway. The disused shop is located on a highway roundabout, near the rest stop at Bookham, which makes it easily accessible to traffic from both directions, visible from the highway and attractive to locals from a number of nearby towns and cities, including Wagga, Gundagai, Yass and Canberra.

The local community is primarily rural with some historical interest and there are an increasing number of attractions, by way of restaurants, galleries, leisure activities in the area.

The identified gap in the market is quality coffee and quick, nutritious food for travellers between points along the Hume Highway.

The concept is to provide a “food on the move” experience different to that provided by the fast food establishments which dot the highway and also to provide a city style coffee shop for locals.

She has a strong relationship with the location and has a good network of family and friends among the community.

While an expert in PR she however, has no skills in hospitality or restaurants. Her strengths are marketing and management.

She, therefore, finds the best local talent and uses their expertise to complement her own.

In consultation with a local restaurateur, she invests in high-quality equipment, including a commercial kitchen, a cool room and an espresso coffee machine.

She attracts local staff and offers a good salary to a trained chef to get the business up and running with the promise of an increased stake once it is profitable.

She pays for key staff to attend training courses in Food Hygiene, barista and responsible serving of alcohol.

She is open to ideas about the look and feel for the café. An obvious idea is the rural Australia, droving feel, or the “olde worlde” first settler motif (given that this is one of the first country areas in Australia to be settled). Eventually, with input from everyone around her (but guided by her own marketing sense), an upmarket roadside diner emerges complete with an original juke box, Andy Warhol-like prints, and a red vinyl bench seat around the walls.

To match the design, a menu emerges to suit, which includes all-day breakfasts, high-quality burgers and fusion food, homemade cakes, muffins and biscotti.

However, to appeal to the travelling public she includes ice creams, locally-made pies and sausage rolls. To appeal to locals, she includes newspapers as well as some basic groceries such as milk and eggs.

She engages some public relations to announce its opening through local and state media.

She gets the signage made, but relies on designers who—as it turns out—have little experience with road side signs. She quickly realises that she needs expertise in this specialisation.

In her business plan she has allowed for a steady build up because her priority is to establish a high standard and work slowly into a profit position rather than seeking an initial high volume.

She uses social media and web based tourist mechanisms to spread the word.

Most importantly she is aware that the cafe has to become part of a bigger experience and the local area is full of possibilities. . She has plans to develop a community centre, a gallery and/or attract another business in the nearby church building which she has purchased.

She is investigating teaming up with other businesses to create some sort of country tourist experience. She’s looking at partnering with someone to operate a monthly market, working with the local sports clubs, women’s groups, and with city tour operators.

Time will tell whether the application of these entrepreneurial skills and behaviours results in a profitable outcome either through sustaining the business over the long term or through selling, leasing, or even franchising the business—the ultimate definition of entrepreneurial activity. At this early stage it can be said that it is growing and it looks to be a highly-viable business proposition for the future.

What might be described as “Entrepreneurial skills” relevant to this case study include:

- Opportunity recognition
- Financial planning
- Business planning
- Marketing and communications
- Collaboration and networking
- Team building
- Human resources
- Innovative Thinking skills
- Learning skills

In order to grow the business she needs to apply these skills and particularly look at emerging opportunities so that the Diner becomes part of a bigger experience or a different experience.

At the same time the chefs are experimenting with food offerings and are now gaining a reputation for delicious but unusual pies, such as camel pie and buffalo pies.

The behaviours demonstrated include:

- drive and energy
- resourcefulness
- self-confidence
- high initiative and personal responsibility
- internal locus of control
- openness to the ideas of others
- fairness and reasonableness
- tolerance of ambiguity
- low fear of failure
- moderate risk taking
- long-term involvement
- money as a measure not merely an end
- use of feedback
- continuous pragmatic problem solving
- use of resources
- self-imposed standards
- clear goal setting.

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