UNIT 5: LINKING CREATIVITY, INNOVATION AND ENTREPRENEURSHIP

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5.0 OVERVIEW

While creativity refers to the ability of an entrepreneur to bring something new into existence, innovation is the process of doing new things. Creativity therefore precedes innovation. Innovation goes further in developing the idea through detailed design up to commercialisation that gives customer value.

5.1 LEARNING OBJECTIVES

By the end of this unit, you should be able to do the following:

1. Identify sources of ideas for business opportunities.
2. Analyse stages in the start-up process from formulation to development.
3. Explain how creativity and innovation are linked to brain functions in an ideation and skills perspective.
4. Learn the links between innovation and entrepreneurship as mediated by innovation.
5. Analyse innovation in relation to external linkages with related stakeholders.
6. Link creativity, innovation and entrepreneurship in a process model.

5.2 INTRODUCTION

Having studied creativity and innovation earlier, we are now in a position to link these with entrepreneurship. The rationale for the above is that at least 50% of entrepreneurs do start a business through more or less systematically searching for a business idea and developing it (rather than based on previous employment experience). To-be entrepreneurs may therefore benefit from learning a systematic process in business start-up. Embedded in the process are the various links between creativity and innovation and innovation and entrepreneurship. Creativity displayed in business idea generation is linked to innovation by the entrepreneurial capabilities of the innovator to develop the
idea into a business opportunity, thereby linking creativity, innovation and entrepreneurship.

5.3 SOURCES OF BUSINESS IDEAS

A survey report (U.S.A) mentioned in Lambing & Kuehl (2007) indicates that 43% of entrepreneurs got their business idea from their own previous working profession, 15% copied from others, thinking they could do it better and 11% were motivated by an unfilled niche in the market. Only 7% reported having searched systematically for a business opportunity (interestingly enough 3% said their business idea originated from a hobby).

The above results may reflect the reality today, in most communities. It is not surprising that nearly half of all entrepreneurs got their idea from the experience they gained while working for a firm in the industry (or in the Civil Service department concerned) as also confirmed by Deakins & Freel (2003). They already knew how things operate, how to avoid pitfalls, knew the market and had access to the right networks – maybe the most important asset in starting a business. Most probably, the best preparation for an entrepreneur may be a conventional job in the trade concerned. This approach is advantageous by being more forgiving of mistakes and increases the chances of success later.

Since more than half of the samples of entrepreneurs seem to have searched for an opportunity more or less systematically, it is of interest to would-be entrepreneurs to understand a systematic way to formulate and develop a business idea.

**Note:** Findings of abovementioned survey do present some limitations based on original assumptions, for example, sample size, composition, origins and so on. Extrapolation is therefore to be exercised with caution.
5.4 STAGES IN THE START-UP PROCESS

“The business start up process can be broken up in five main stages”. (Deakins & Freel, 2003). At each stage, a number of factors can influence the process, having positive or negative effects.

These include the nature of the business environment, access to finance, local support networks or more ‘internal’ influences like the psychology of the entrepreneur, personal characteristics such as tenacity and perseverance.

5.4.1 Stage 1 – Formulation of the Business Idea

The formulation of a business idea is generally influenced by the human capital: the entrepreneur’s past experience, education, training and skills development. Individual experience may, for example, condition the entrepreneur to think that a particular process or product/service “could be done in a superior way”.

This stage is also influenced by creativity, either individual or group (can also be family and friends). An interesting distinction to make is the age of entrepreneurs related to the idea formulation stage. Acquisition of experience and human capital in general is more concerned with “older” entrepreneurs than with younger ones. This is only partly true because youth can also be an advantage.

Young entrepreneurs may have less inhibitions and can be more willing to test different ideas using different perspectives, being unbiased. Here, idea formulation will be strongly influenced by education, whereby the importance of enterprise education at school and University, with curricula based on transferable skills like problem solving, negotiation and communications. “Thus education is an important conditioning experience. Creative thinking can be enhanced or constrained by the education system and this will affect the way we view opportunities, not just in our formative years, but later in life as well”. (Deakins & Freel, 2003).
Idea formulation can take time although a sudden breakthrough is always possible. Ideas are enriched from discussion with others, peer evaluation, research and feedback, whereby they are refined and/or modified, if necessary.

5.4.2 Stage 2 – Recognition of the Opportunity

In order to materialise a business, the idea has to be converted into a business opportunity. Entrepreneurs recognise that opportunities are created by changes in the political, economic, social or technological environment (PEST factors). They harness such change to create new ventures by formulating ideas and fitting them to the opportunity. The idea has to be right for the opportunity. For example, the economic recession can be seen as an opportunity, whereby entrepreneurs can develop ideas for businesses that thrive during a recession.

Activity 1

Using individual or group creativity, try to develop ideas for businesses that can thrive during the economic recession. Recognise the opportunity and match the idea with the opportunity.

This stage can be influenced by role models e.g. in Industry, whereby the importance of promoting role models in the media (or to deliver talks at University). Whether the entrepreneur who has an idea will pursue it or not also depends on cultural attitudes towards risk and failure in business. When failure is severely punished by the system (for example, law on insolvency), there is definitely a constraint on the process of opportunity recognition. In August 2009, in Mauritius, the insolvency procedures have been changed so as to make the law more attractive to investors. In the U.S, insolvency is quite different from the rest of the world in the sense that the State gives a second chance to failed entrepreneurs. This is taken care of by the business friendly Bankruptcy Legislation.
Activity 2
Discuss the relevance of promoting fairly successful role models rather than the very successful ones.

5.4.3 Stage 3 – Business Planning

Pre-Start planning refers to a number of tasks that are closely related to the venture’s success. These include research (for example, on the potential markets, on competition and on sources of finance) and on the business environment in general. Thus, researching the best conditions for bank finance can be quite tedious.

Apart from marketing and finance, the entrepreneur will seek for a management team with complementary skills. The right mix of skills seems to be important although “with new technology firms, the best performers were those with a single founder”. (Oakey, 1995).

This stage is clearly influenced by market research, access to finance and finding the right partners. Entrepreneurs may decide to appoint non executive directors, then they will have to make a good match between the person and the job (or the culture they wish to develop). Business Planning will be dealt with in more detail in Unit 15.

5.4.4 Stage 4 – Entry and Launch Timing

Timing is important for a number of reasons. Going on the market too early can result in insufficient customers (to match the sometimes heavy investment). If IPR is involved, a decision has to be made whether to patent, especially and when venture capitalists will require that the entrepreneur patents his/her idea for their own protection.

Entry and launch is influenced by timing based on seasonality of sales, first mover advantage, IPR issues and… chance. Chance, however, is only one of the elements in the successful launch of a business. Related to chance, success may be more based on the ability of the entrepreneur to recognise and take advantage of an opportunity.
Activity 3
Business counters often refer to the term ‘serendipity’. Research on the common meaning the terms in business.

5.4.5 Stage 5 – Early Stage Development
The novice entrepreneur may be naïve and must learn quickly to understand the psychology of customers and suppliers, cash flow issues and human resource implications. The firm has to establish its credibility. For example, suppliers should be willing to give credit, customers will have to trust quality provided, banks may be unwilling to extend credit facilities. Eventually, all the above stakeholders will form part of the network of the entrepreneur (each one will become a business partner through nurturing relationships). Networks can be made to become powerful competitive weapons, whereby the importance of developing networking skills quite early (at University?).

At this stage, achieving credibility and developing a personal network is crucial in order to sustain the business and develop reputation on the market.

5.5 CREATIVITY AS A PRE-REQUISITE TO INNOVATION

In industry, more than in arts, creativity and innovation are often made to mean the same thing. Strictly speaking, creativity is the ability to bring something new into existence while innovation is the process of doing new things. The distinction is essential because ideas have little value until they are converted into new products, services or processes. However, creativity is a prerequisite to innovation. The figure below illustrates how a creative idea is transformed into a useful application.
For an idea to have value, it must be proven to be useful and marketable. Innovation is the development process of the idea. It requires persistence in analytically working out the product design in detail, to develop marketing, look for finance and plan operations.

5.5.1 Using Left Brain Skills to Harvest Right Brain Ideas

As seen earlier in Unit 1, the right hemisphere of the brain is the creative side where the spatial relationships are developed and intuition and imagination prevails. The left hemisphere is the analytical side where conceptualisation takes place, through logical and rational processes.

“From an entrepreneurial perspective, the right brain skills are crucial for the vision necessary to be creative but innovation does not occur until left brain rationalisation takes place ...... to use left brain rationality to harvest right brain creativity”. (Holt, 2001).

5.6 CREATIVITY AND INNOVATION

In the last section, we saw that creativity normally precedes innovation. Bolton and Thompson, (2000) associated invention closely with creativity but also linked it with entrepreneurship. “Creativity is the starting point whether it is associated with invention or opportunity spotting. This creativity is turned to practical reality (a product, for example)
through innovation. Entrepreneurship then sets that innovation in the context of an enterprise (the actual business), which is something of recognisable value”.

Burns (2005) links invention and opportunity in an entrepreneurial environment in the framework shown below:

```plaintext
Entrepreneurial environment

Ability to be creative

Invention

Ability to spot opportunities

Innovation

SUCCESS
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Burns. P (2005) further developed a matrix which differentiates ‘innovators’ from copiers, based on high or low propensity for creativity and opportunity perception.

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<tr>
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<th>High</th>
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<tbody>
<tr>
<td>Creativity</td>
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<tr>
<td></td>
<td>STRUGGLER</td>
<td>STAGNATOR</td>
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<td></td>
<td>A</td>
<td>C</td>
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<tr>
<td>Opportunity</td>
<td>INNOVATOR</td>
<td>COPIER</td>
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<tr>
<td>Perception</td>
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9
Quadrant A: A winning combination of creativity and opportunity perception leading to an entrepreneurial action.

Quadrant B: The struggler fails to see the commercial application of the idea through lack of entrepreneurial orientation. Results in a waste of ideas.

Quadrant C: The lack of creativity potential is made for by copying and possibly improving on existing ideas.

Quadrant D: Stagnators rarely survive in a competitive business environment.

Activity 4
Scan the business environment for examples of each one of the above as far as possible. You may refer to industries or sectors instead of individuals or firms.

Case Study: The Body Shop
Anita Roddick’s innovations have been in areas far removed from the high technology of electronics and computers. Anita Roddick had a mixed career before the Body Shop, varying between teacher, traveller and restaurateur. When her husband went off on a long trip to South America, she decided she needed ‘just a little shop’ to provide her with a living in his absence. She had long been irritated by the marketing of cosmetics which were sold on a message of hope in expensive packaging.

One of the great challenges for entrepreneurs is to identify a simple need. The simple need that she identified had two main aspects. Firstly she saw the need for cosmetics in cheap containers of different sizes with simple labels. Secondly she believed in products made from natural ingredients, rather than chemically produced cosmetics which often relied on animal testing. In this sense she was a forerunner of the green movement, sharing the perceived need of a growing percentage of the population for environmentally sound ‘return-to-nature’ style products. The first shop opened in Brighton in 1976 and the second in Chichester six months later.
But fast growth came through use of another innovation, franchising. By using the commitment and cash of franchisees, the franchisor is able to devote their resources to expand the coverage of a business concept much faster than by internal organic growth. In 1984, the Body Shop was floated on the Unlisted Securities market; in 1988 there were more than 200 stores in 33 countries, and franchises were opened in the USA.
(Source: Stokes. D, 1995)

**Activity 5**
From the above Case Study, spot the idea, the business opportunity and the innovations. Try to spot how the ‘copiers’ can get in the deal of the ‘innovator’ for mutual benefit.

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**5.7 NETWORKING AND INNOVATION**

**5.7.1 Benefits of Networking**
As discussed earlier, the development of environments that encourage networking, such as business incubators, have been the focus of recent development. Networking of entrepreneurs encourages innovation due to:

- the ability to call on different skills to solve technical problems;
- firms interact to develop new ideas;
- access to resources and funding may be more likely;
- prototypes may be enhanced by testing and development through interaction;
- encouragement of the development of an innovative and entrepreneurial culture.
5.8 INNOVATION AND EXTERNAL LINKAGES

5.8.1 Links with Suppliers and Subcontractors
The extent to which suppliers are asked to contribute to the design and development of product is a crucial dimension affecting the scope for innovation by including supplier views and needs at the design stage for enhanced customer value.

In essence, the firm is able to gain many of the advantages of vertical integration (and larger size) while reducing the transaction costs involved.

Subcontracting on the other hand can enable firms to innovate in products requiring new production techniques without having to invest initially heavily in expensive, sophisticated production equipment.

Activity 6
Research on the Just in Time Concept in Total Quality Management.

5.8.2 Links with Customers
Indeed it has been further argued that there is scope for considerable gain through involving the user in the product design and development processes. These gains are believed to be principally fourfold:

1. Firms may be able to supplement their internal design and development activities by accessing the technical and managerial skills resident within their customers.
2. User involvement is likely to be the ideal way to establish the optimum price/performance combination and, consequently, the optimum specification.
3. Involving the user in the product design and development stages is likely to reduce the post-delivery learning required on their part.
4. Where user involvement engenders a strong relationship, this may result in user feedback and associated product improvements.

**Activity 7**
Research on the Customer Relationship Management.

**5.8.3 Links with Competitors and other Firms**
Local clusters of (mainly) small enterprises alternately co-operate and compete. Gains that arise through direct collaboration between small firms has an impact upon their innovative capability.

**Activity 7**
Explain the rationale behind the ‘Grandes Surfaces Reunies’ (Chain of Supermarkets in Mauritius).

Collaborative areas include complementing and supplementing internal product development efforts, cost and risk sharing, accessing new markets and the transfer of both (embedded) technology and (tacit) knowledge.

Firms can obtain mutual benefits that could not be achieved independently.
5.8.4 Links with Universities and Colleges

Apart from the University perspective mentioned earlier, two principal reasons are posited to support the notion that university links are likely to improve small firm innovative capability:

Firstly, it is argued that ‘university research is a source of significant innovation-generating knowledge which diffuses initially through personal contacts to adjacent firms’

Secondly, it is suggested that small firms are able to alleviate internal resource deficiencies by accessing university resource networks.

Small firms are able to gain access to sophisticated technology and technical expertise, whose direct acquisition is prohibitively costly.

5.8.5 Links with Governments and Support Agencies

‘Encouragement of networking relationships between firms to establish collective economies of scale’ is one of a number of worthy features of such organisations.

The argument that institutions like Local Enterprise Companies (LECs) in Scotland, should be able to provide specialist advice and information, or an introductory service, holds equally well for Chambers of Commerce or Trade Associations.

Alternatively, and perhaps more realistically, government may play a network management role. As the competitiveness White Paper suggests, ‘there may be a role for government in brokering greater collaboration between firms or between firms and universities’

In Mauritius, organisations like the National Productivity and Competitiveness Council, Mauritius Research Council, Ministry of Industry and Commerce, SEHDA and so on. play this role to ranging extents and with relative success.
5.9 A PROCESS MODEL OF CREATIVITY, INNOVATION AND ENTREPRENEURSHIP

(Source: Adapted from Schaper & Volery, 2004).

According to Schaper & Volery (2004), the above representation is an oversimplification of the links between creativity, innovation and entrepreneurship as a process model. It is portrayed as a sequential process, divided into a number of interdependent stages, for example, creativity is a prerequisite for innovation and (strictly speaking) entrepreneurship follows innovation (whereby the ongoing debate as to whether all business start ups are really examples of entrepreneurship – example of street corner snacks shops).

The framework can be visualised as a set of communication paths over which knowledge is transferred through internal and external linkages with both the market place and the science and technology base.
Two main factors influence the entrepreneurial process are:

**Pull factors:** The unsatisfied needs of the marketplace (pull) represent one source of opportunity to develop and commercialise new products or services.

**Push factors:** Progress in science and technology such as powerful computers, telecommunication networks, biotechnology etc. produce knowledge at an exponential rate and commercial applications (push) their way up the market.

Customer needs are often unformulated (latent needs) and astute entrepreneurs often (at a risk) intuitively push products on the market – for example, the need for a sophisticated mobile phone can be more about a need to acquire latest technology than a need to communicate.

The above model is not necessarily a linear process in successive stages of idea generation, idea evaluation and idea implementation. In fact, these stages can overlap, as usually occurs in practice for the seasoned entrepreneur.

### 5.10 SUMMARY

Creativity results in production of new ideas, innovation ensures materialisation of the idea into a business opportunity and the entrepreneur creates value in the marketplace by exploiting the opportunity commercially. The entrepreneur is therefore instrumental in linking creativity, innovation and entrepreneurship by displaying a high propensity for both creativity and opportunity perception.
5.11 REFERENCES