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EDITION



Essentials of Entrepreneurship and Small Business Management

NINTH EDITION

Norman M. Scarborough
Jeffrey R. Cornwall



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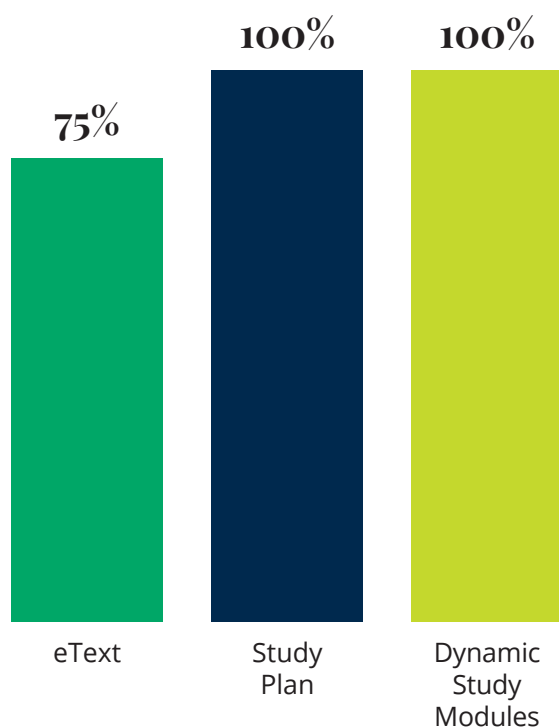
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CASES

ESSENTIALS OF ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT, 9/E

Case #	Entrepreneur; Company Name	Related Topics	Chapter Reference
1	Bill, Melody, and Stephanie Cohen United Apparel Liquidators	<i>Industry: Discount retail clothing</i> <ul style="list-style-type: none"> Developing a business strategy Bootstrap marketing and social media marketing Choosing the right location 	5 9 14
2	Matt Meeker, Henrik Werdelin, and Carly Strife Bark & Co.	<i>Industry: Subscription-based gift boxes for dogs</i> <ul style="list-style-type: none"> Entrepreneurship Creativity and innovation Developing a business strategy Sources of financing 	1 3 5 15
3	Jim Telikis and Saban Lomac Cousins Maine Lobster	<i>Industry: Restaurant (food truck)</i> <ul style="list-style-type: none"> Franchising Global expansion 	8 16
4	Saul Garlick ThinkImpact	<i>Industry: Social entrepreneurship</i> <ul style="list-style-type: none"> Ethics and social responsibility Building a business plan Forms of ownership Sources of financing 	2 5 6 15
5	Art, Ilene, Joseph, and Aaron Stadlen Intertech Construction Corporation	<i>Industry: Interior design and construction</i> <ul style="list-style-type: none"> Financial analysis and management Managing cash flow Family business and management succession 	12 13 17
6	Angela Crawford and Martin Rodriguez Bluffton Pharmacy—Part 1	<i>Industry: Pharmacy</i> <ul style="list-style-type: none"> Financial analysis and management 	12
7	Angela Crawford and Martin Rodriguez Bluffton Pharmacy—Part 2	<i>Industry: Pharmacy</i> <ul style="list-style-type: none"> Managing cash flow 	13
8	Max, Shelly, and Alfie Gitman Gitman Brothers	<i>Industry: Apparel (shirts and ties)</i> <ul style="list-style-type: none"> Social media marketing E-commerce and Web site design 	9 10
9	James, Trish, and Palmer Higgins Seabreeze Property Services	<i>Industry: Landscape and snow removal</i> <ul style="list-style-type: none"> Buying an existing business Sources of financing 	7 15
10	Jeff Braverman Nuts.com	<i>Industry: Snack foods</i> <ul style="list-style-type: none"> Developing a business strategy Bootstrap marketing and social media marketing E-commerce Family business 	5 9 10 17

Ninth Edition
Global Edition

Essentials of Entrepreneurship and Small Business Management

Norman M. Scarborough

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Belmont University



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To Cindy, whose patience is always tested during a writing project
of this magnitude. Your love, support, and understanding
are a vital part of every book.
You are the love of my life.

—NMS

To Ann, for her wisdom and love. Your encouragement
and support are the foundation for each new entrepreneurial
adventure we take.

—JRC

“May your own dreams be your only boundaries.”

—The Reverend Purlie Victorious Judson,
in *Purlie*, Broadway Theater, 1970

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Preface

Entrepreneurship is a fast-growing and ever-changing discipline. People of all ages, backgrounds, and nationalities are launching businesses of their own and, in the process, are reshaping the world's economy. The purpose of this book is to open students' minds to the possibilities, the challenges, and the rewards of owning their own businesses and to provide the tools they will need to be successful if they choose the path of the entrepreneur. It is not an easy road to follow, but the rewards—both tangible and intangible—are well worth the risks. Not only may you be rewarded financially for your business ideas, but also like entrepreneurs the world over, you will be able to work at something you love!

New to This Edition

This edition includes many new features that reflect this dynamic and exciting field of study.

- This edition features separate chapters on “Forms of Business Ownership” and “Buying an Existing Business.” In addition, we have reorganized the chapter on buying a business using a five-step process: the search stage, the due diligence stage, the valuation stage, the deal stage, and the transition stage. As members of the Baby Boom generation retire, the opportunities for you to buy a business are vast. This chapter covers the details of various valuation methods to help you determine the value of a business you might purchase.
- Almost every one of the real-world examples in this edition is new and is easy to spot because they are accompanied by an icon. These examples allow you to see how entrepreneurs are putting into practice the concepts that you are learning about in the book and in class. These examples are designed to help students remember the key concepts in the course. The business founders in these examples also reflect the diversity that makes entrepreneurship a vital part of the global economy.



ENTREPRENEURIAL PROFILE: Lauren Pears: Lady Dinah's Cat Emporium After a particularly bad day at work, Lauren Pears decided to leave her corporate job, began writing a business plan, and raised the necessary capital via crowdfunding to launch Lady Dinah's Cat Emporium, a café in London that is home to 13 rescued cats that each week host hundreds of human guests looking for feline companionship at high tea and a 90-minute respite from the hectic pace of life. Pears was confident that her business would succeed, but even she admits to being surprised at the 20,000 reservations the Cat Emporium received in only its first two weeks of operation. Pears drives business to her company's Web site primarily through social media. Every cat has his or her own Twitter handle and regularly tweets photos and comments about his or her activities (or, being cats, lack of activity). The cats and the Cat Emporium have 11,000 followers on Instagram, more than 55,000 likes on Facebook, and 19,000 followers on Twitter. Lady Dinah's Cat Emporium uses social media very effectively to connect with her audience; currently, there is a six-week waiting list for reservations.²⁷ ■



Roger Parkes/Alamy Stock Photo



ENTREPRENEURIAL PROFILE: Neil Parikh, Gabe Flateman, and Luke Sherwin: Casper Mattress

Neil Parikh, Gabe Flateman, and Luke Sherwin, all in their mid-20s, believed that the \$14 billion mattress industry, with its seemingly endless product variations, complicated delivery and return process, and high prices, was ripe for disruption. The trio of entrepreneurs decided to launch a business, Casper, in New York City that simplifies the process of buying a mattress. Casper produces only one mattress model that comes in six sizes and is priced from \$500 to \$950. Customers receive a 100-day trial period with every mattress. If a customer is dissatisfied at any time during the generous trial period, Casper picks up the mattress at no charge and provides a full refund. (Casper's return rate is extremely low, and the company donates returned mattresses to local charities.) Living in a large city where space is limited, the trio of entrepreneurs



Hands On . . . How To

Make Social Media Work for Your Business

Social media, such as Facebook, Twitter, LinkedIn, Snapchat, and YouTube, can be a vital and productive component of a company's bootstrap marketing strategy. Because a typical customer sees more than 300 advertising and sales messages each day, small businesses' marketing efforts, particularly their social media marketing efforts, must be well planned, consistent, and focused. Otherwise, they will become lost in a sea of ads, posts, tweets, and blogs.

The first key to a successful social media marketing strategy is understanding your customers and knowing where they are in the social media universe and what they expect from you. Entrepreneurs can use the following tips and success stories to develop

awareness of its brand and to build a launch. Before it began operations, it had more than 60,000 "likes" on Facebook and 32,000 Twitter followers through its social media content.

Use social media to level the playing field. One of the greatest advantages of using social media is that it gives small businesses a marketing advantage that large companies have. For example, a small restaurant chain based in Seattle has a budget to promote

wrestle with some of the ethical dilemmas that entrepreneurs face, including the controversial issues surrounding employers' responses to employees' postings on social media sites. Encouraging you to think about and discuss these issues now prepares you for making the right business decisions later.

- We have updated Chapter 10, "E-Commerce and the Entrepreneur," to reflect the multichannel approach that businesses use to meet their customers wherever and whenever they want to shop. This chapter also includes coverage of the latest search engine optimization techniques and the steps business owners can take to avoid becoming victims of cybercrime.
- This edition provides expanded and updated coverage of important topics such as using the Business Model Canvas to refine a business idea, attracting capital using crowdfunding, identifying the keys to selecting the ideal location for a business, developing a process for hiring the right employees, creating a company culture that inspires employees to achieve their full potential, and others.



Hands On . . . How To

Create a Culture of Creativity and Innovation

Creativity and innovation are important drivers of the global economy, allowing companies that use them well to prosper and providing consumers with products and services that make their lives better. A recent study by marketing communications firm MDC Partners reports that 98 percent of top executives say that creativity is critical to economic success; in addition, 76 percent of the managers believe that the world has entered an "imagination economy," in which companies' ability to harness the power of creativity determines their success. How can a company create a culture that promotes creativity among its employees and allows it to use innovation to gain a competitive advantage over its rivals? The following seven tips can help.

Ignite Passion

The philosopher Denis Diderot said, "Only passions, great passions, can elevate the soul to great things." So it is with creativity. The most basic ingredient for building a creative company culture is a passion to discover something new, to contribute to the betterment of society, and to make a difference. That passion starts at the top of an organization with the entrepreneur. Steve Jobs, cofounder of Apple Inc., often said that he wanted "to put a ding in the universe," an attitude that led his company to introduce many innovative products. When Jobs

the animated filmmaker. Delegating authority and responsibility requires an atmosphere of trust, which increases the likelihood that employees are engaged in their work and buy into the company's mission. The key is letting employees know that you value their ideas, creativity, and judgment.

Encourage Courage

Some companies actually discourage creativity and innovation by punishing those who dare to take chances and fail. Businesses that succeed over time have cultures that encourage employees to be bold enough to take creative chances without fear of repercussions. At DreamWorks Animation, managers regularly solicit ideas from every employee—and not just those in the creative side of the business. Accountants, administrative assistants, lawyers—anyone—can (and do) submit ideas for everything from story lines for new movies to improving a business system.

Fail Forward

The most creative companies have built cultures that encourage people to try new ideas and recognize that many (perhaps most) of them will fail. Companies that punish failure end up with a

- We have integrated discussions of social media into almost every chapter, including how entrepreneurs use social media in a wide range of applications, ranging from attracting investors and screening potential franchisees to getting feedback from customers about a business idea and using it as a powerful, efficient marketing tool.

- We have updated the chapter on "Ethics and Entrepreneurship: Doing the Right Thing." This chapter provides students with a framework for making ethical decisions in business and with the opportunity to

wrestle with some of the ethical dilemmas that entrepreneurs face, including the controversial issues surrounding employers' responses to employees' postings on social media sites. Encouraging you to think about and discuss these issues now prepares you for making the right business decisions later.

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- This edition provides expanded and updated coverage of important topics such as using the Business Model Canvas to refine a business idea, attracting capital using crowdfunding, identifying the keys to selecting the ideal location for a business, developing a process for hiring the right employees, creating a company culture that inspires employees to achieve their full potential, and others.

- To emphasize the practical nature of this book, we have updated the content of the very popular "Hands On: How To . . ." feature, which selects a concept from each chapter and explains how to put it into practice in your own company. These features include topics such as how to "Make Social Media Work for Your Business," "Create a Culture of Creativity and Innovation," "Build a Successful Global Company," "Make Your Small Business a Great Place to Work," and many others.

- Another feature that is popular with both students and professors is "You Be the Consultant." Every chapter contains at least one of these inserts describing a decision that an entrepreneur faces while asking you to play the role of consultant and to advise the entrepreneur on the best course of action. This feature includes the fascinating stories of how entrepreneurs came up with their business ideas (including Sihah Waris, who found a way to help women stay in the Pakistani workforce). Other topics explore deciding whether an entrepreneur should purchase one of the first outlets from a new franchise operation (John Rosatti and Lee Goldberg and BurgerFi), developing a strategy for providing "second mile service" to customers as a way of setting a company apart from its competition, understanding the psychology behind popular



You Be the Consultant

Would You Buy This Franchise?

Although opening a franchise is not a "sure thing," franchising's immense popularity is due, in part, to the support, experience, and training that franchisors provide their franchisees. Many would-be entrepreneurs believe that franchising reduces their risk of failure and see it as the key to their success. Large, established franchises have systems in place that have been replicated thousands of times and allow franchisees to follow a formula for success that the franchisor has worked out over many years. Many small franchisors don't have the benefit of learning from the mistakes of setting up thousands of outlets to fine-tune their business systems. Some franchisors build their business models on fads that will fade, while others tap into meaningful trends. Some of these small franchises have the potential to become tomorrow's franchise giants; others will fall by the wayside. What factors increase the probability that a new franchise will succeed?

- **Unique concept.** To be successful, a franchise must offer a unique concept that registers with customers by solving a problem or making their lives better or easier and gives the company a competitive edge in the marketplace.

success by providing them with a well-functioning system that is more likely to fail.

- **Replicable system.** Not only must a franchise system be effective and efficient, it also must be replicable. The franchise system is easily teachable to franchisees.
- **Experience.** To be able to provide franchisees with a client, effective system, a franchisor must have experience in the industry and must have built a successful operation as an independent business owner before starting to franchise.
- **Powerful marketing.** Successful franchisors understand the importance of building recognition for their brand and devote proper resources to protecting their brand and building recognition for them among customers.

BurgerFi

Nearly half of all consumers eat a hamburger at least once a week, and many "better burger" franchises, such as Fi

pricing strategies, helping an entrepreneur choose a location for his company's next retail store (Fan Bi, cofounder of custom shirtmaker Blank Label), and using social media to market a small company's services (Jeff Platt and SkyZone, an indoor wall-to-wall trampoline park franchise). Each one poses a problem or an opportunity and includes questions that focus attention on key issues to help you hone your analytical and critical thinking skills.

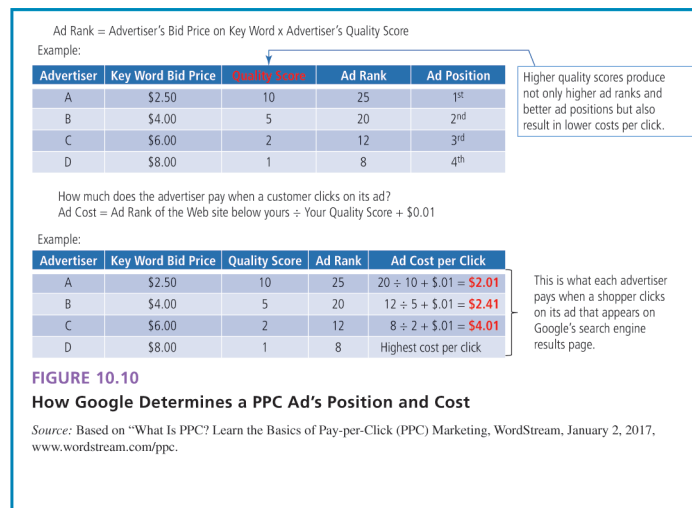
- This edition includes 10 new brief cases that cover a variety of topics (see the case matrix that appears on the inside cover). All of the cases are about small companies, and most are companies that you can research online. These cases challenge students to think critically about a variety of topics that are covered in the text—from developing a business strategy and building a brand to protecting intellectual property and financing a business.
- The content of every chapter reflects the most recent statistics, studies, surveys, and research about entrepreneurship and small business management. Students will learn how to launch and manage their businesses the *right* way by studying the most current concepts in entrepreneurship and small business management.

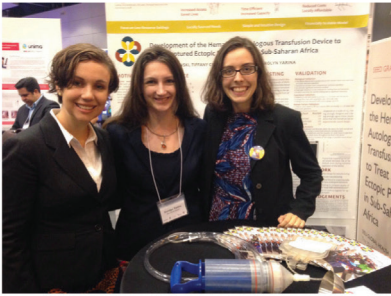
Entrepreneurship has become a major force in the global economy. Policy makers across the world are discovering that economic growth and prosperity lie in the hands of entrepreneurs—those dynamic, driven men and women who are committed to achieving success by creating and marketing innovative, customer-focused new products and services. Not only are these entrepreneurs creating economic prosperity, but as social entrepreneurs many of them are also striving to make the world a better place in which to live. Those who possess this spirit of entrepreneurial leadership continue to lead the economic revolution that has proved time and again its ability to raise the standard of living for people everywhere. We hope that by using this book in your entrepreneurship or small business management course, you will join this economic revolution to bring about lasting, positive changes in your community and around the world. If you are interested in launching a business of your own, *Essentials of Entrepreneurship and Small Business Management* is the ideal book for you!

This ninth edition of *Essentials of Entrepreneurship and Small Business Management* introduces students to the process of creating a new venture and provides them with the knowledge they need to launch a business that has the greatest chance for success. One of the hallmarks of every edition of this book has been a very practical, “hands-on” approach to entrepreneurship. We strive to equip students with the tools they will need for entrepreneurial success. By combining this textbook with professors’ expertise, students will be equipped to follow their dreams of becoming successful entrepreneurs.

Solving Teaching and Learning Challenges

Now in its ninth edition, *Essentials of Entrepreneurship and Small Business Management* has stood the test of time by presenting in an organized, concise manner the material needed to launch and manage a small business successfully in a hotly competitive environment. In writing this edition, we have worked hard to provide plenty of practical, “hands-on” tools and techniques to help you make your business ventures successful. Many people launch businesses every year, but only some of them succeed. This book provides the tools to help students learn the *right* way to launch and manage a small business with the staying power to succeed and grow.





ENTREPRENEURIAL PROFILE: Carolyn Yarina:

CentriCycle As part of a class project in a freshman engineering class at the University of Michigan, Carolyn Yarina discovered that one of the greatest needs of rural health workers in developing nations is a centrifuge that could operate without electricity. By the end of the semester, Yarina and a team of students designed a human-powered centrifuge made from bicycle parts called the CentriCycle. The project stirred Yarina's interest in entrepreneurship, and she began taking courses in that field, including one on social entrepreneurship that enabled her to go to India. Soon, Yarina and fellow student Katie Kirsch teamed up with University of Michigan graduate Gillian Henker, who was developing Hemafuse, an auto-transfusion pump for blood, to create Sisu Global Health, a socially conscious, for-profit business that focuses on medical products designed

Each chapter offers several insights from successful professionals, emphasizing concepts and valuable skills that students will explore in depth in the chapter.

Each chapter includes a chapter summary (organized by learning objectives), discussion questions, and “Beyond the Classroom” questions that are designed to engage students and help them develop their analytical and critical thinking skills. On MyLab Entrepreneurship are flash cards for students to use to test their knowledge of key terms used throughout the book.

Each chapter also includes a “Hands on: How to . . .” feature that provides students with practical insight into problems that entrepreneurs often face.

Chapter Summary by Learning Objective

1. Define the role of the entrepreneur in business in the United States and around the world.

- Entrepreneurship is thriving in the United States, but the current wave of entrepreneurship is not limited to the United States; many nations around the globe are seeing similar growth in their small business sectors. A variety of competitive, economic, and demographic shifts have created a world in which “small is beautiful.”
- Capitalist societies depend on entrepreneurs to provide the drive and risk taking necessary for the system to supply people with the goods and services they need.

2. Describe the entrepreneurial profile.

- Entrepreneurs have some common characteristics, including a desire for responsibility, a preference for moderate risk, confidence in their ability to succeed, desire for immediate feedback, a high energy level, a future orientation, skill at organizing, and a value of achievement over money. In a phrase, they are tenacious high achievers.

3-A. Describe the benefits of entrepreneurship.

- Driven by their personal characteristics, entrepreneurs establish and manage small businesses to gain control over their lives, make a difference in the world, become self-fulfilled, reap unlimited profits, contribute to society, and do what they enjoy doing.

3-B. Describe the drawbacks of entrepreneurship.

- Entrepreneurs also face certain disadvantages, including uncertainty of income, the risk of losing their investments (and more), long hours and hard work, a lower quality of life until the business gets established, high stress levels, and complete decision-making responsibility.

4. Explain the forces that are driving the growth of entrepreneurship.

- Several factors are driving the boom in entrepreneurship, including the portrayal of entrepreneurs

as heroes, better entrepreneurial education, economic and demographic factors, a shift to a service economy, technological advances, more independent lifestyles, and increased international opportunities.

5. Explain the cultural diversity of entrepreneurship.

- Several groups are leading the nation's drive toward entrepreneurship: young people, women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate castoffs, corporate dropouts, social entrepreneurs, and retired Baby Boomers.

6. Describe the important role that small businesses play in our nation's economy.

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Discussion Questions

- What advantages can an entrepreneur who buys a business gain over one who starts a business “from scratch”?
- How can an entrepreneur tap into the hidden market of potential acquisitions?
- Why is there a need to include a due diligence process that involves analyzing and evaluating an existing business before possible purchase?
- Outline the stages involved in buying a business.
- What topics does the due diligence process address?
- Briefly outline the process of valuing a business using the adjusted earnings, the capitalized earnings, and the discounted future earnings approaches.

- What determines the bargaining zone between a business seller and a buyer?
- Explain the buyer's position in a typical negotiation for a business.
- Explain the seller's position in a typical negotiation for a business.
- What steps should a business buyer take to ensure a smooth transition after closing the deal to buy a business?
- Once two parties strike a business deal, there will be many challenges in making a smooth transition. How can a business buyer avoid a bumpy transition?

- Your dinner guests are to arrive in five minutes, and you've just discovered that you forgot to chill the wine! Wanting to maintain your reputation as the perfect host/hostess, you must tackle this problem with maximum creativity. What could you do? Generate as many solutions as you can in five minutes working alone and then work with two or three students in a small group to brainstorm the problem.
- Work with a group of your classmates to think of as many alternative uses for the commercial lubricant WD-40 as you can. Remember to think *fluidly* (generating a quantity of ideas) and *flexibly* (generating unconventional ideas).
- A Facebook group of more than 25,000 people is trying to convince Cadbury, the venerable British

confectioner (now owned by Kraft Foods), to produce a giant chocolate Cadbury Crème Egg that contains a filling made from fondant that resembles the yolk and white of a real egg. (Currently, giant Cadbury chocolate eggs, which are about the size of an ostrich egg, are hollow, a great disappointment to fans of the company's smaller chocolate eggs that are filled with creamy white and yolk-colored fondant.) A Cadbury spokesperson says that “creating a [chocolate] shell that is strong enough to contain the sheer weight of the fondant is technically challenging.” Use the creativity-enhancing techniques described in this chapter to develop potential solutions that would allow Cadbury to manufacture a giant Crème Egg.

Q ?

Select all

bootstrapping

cloud computing

copreneurs

entrepreneur

family-owned business

gazelles

micromultinationals

necessity entrepreneurs

opportunity entrepreneurs

serial entrepreneurs

CLEAR ALL LEARNED TERMS

STUDY NOW

PRINT

MICROMULTINATIONALS

small companies that operate globally from their inception.

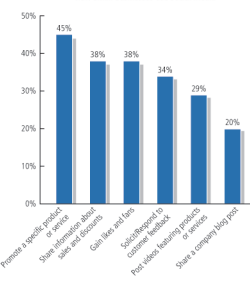
Hands On . . . How To

Use Social Media to Market Your Business

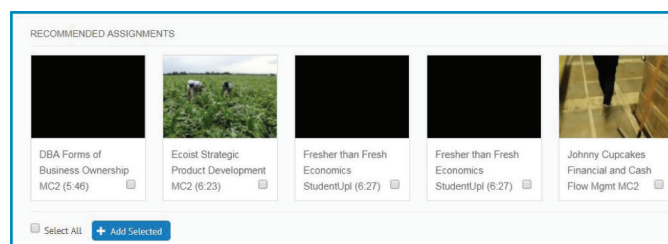
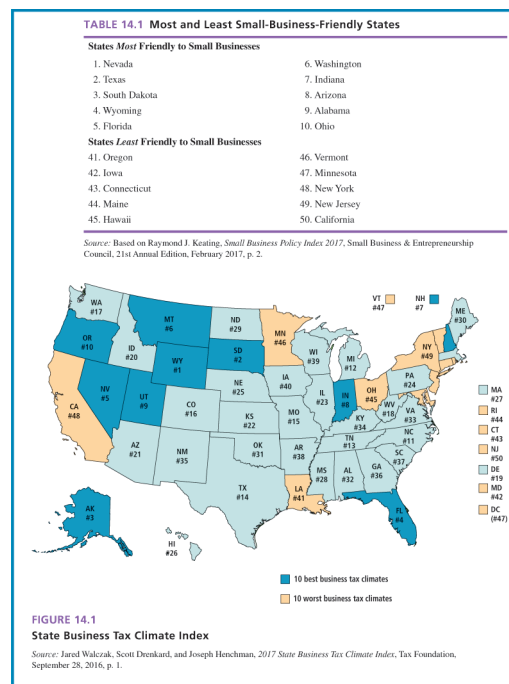
The typical digital consumer now spends an average of 1 hour and 50 minutes each day on social media (and 80 percent of that time is on a mobile device). In addition, 77 percent of online shoppers use social media (Facebook, YouTube, Twitter, and Pinterest are the most popular apps), and more than one-third of online shoppers say that social media has influenced their purchases. Social media apps now offer users “shop now” and “buy now” features that enable them to make purchases directly from the app. In fact, nearly one-fourth of online shoppers have purchased a product on a social media network. Clearly, social media represents a tremendous marketing opportunity for small businesses; however, only 57 percent of small businesses have a social media presence. The accompanying graphic shows how these small businesses put social media tools to work for their companies.

At Sky Zone, an indoor wall-to-wall trampoline park franchise with 127 locations in the United States and 22 outlets in foreign countries, social media marketing emerged organically. CEO Jeff Platt says the company noticed that customers were planning trips to Sky Zone locations on Twitter, so the company joined in the conversations and posted special offers, such as “bring five people to Sky Zone, and we'll give you a free pass.” Sky Zone also launched the Twitter campaign #IdratherBe@SkyZone to engage customers of all ages and to show people how much fun a Sky Zone adventure can be through posts, photos, and video. Platt was surprised to see how many people posted photos of their

How Small Businesses Use Social Media



- This edition once again emphasizes the importance of conducting a feasibility analysis and creating a business plan for a successful new venture. Chapter 4, “Conducting a Feasibility Analysis and Designing a Business Model,” offers comprehensive coverage of how to conduct a feasibility study for a business idea and then how to create a sound business model for the ideas that pass the feasibility test. This content will enable students to avoid a common mistake that entrepreneurs make: failing to define and test a viable business model *before* they launch their businesses.
- This edition features an updated, attractive, full-color design and a layout that includes an in-margin glossary and learning objectives and is designed to be user friendly. Each chapter begins with learning objectives, which are repeated as in-margin markers within the chapter to guide your students as they study. Attention-grabbing graphics help visually-oriented students learn more effectively.
- Chapter 3, “Inside the Entrepreneurial Mind: From Ideas to Reality,” explains the creative process entrepreneurs use to generate business ideas and to recognize entrepreneurial opportunities. This chapter helps students learn to think like entrepreneurs.
- Chapter 10, “E-Commerce and the Entrepreneur,” serves as a practical guide to using the Internet as a marketing and business tool and offers helpful advice for engaging successfully in mobile commerce. The Internet will be at the core of many of the businesses students will start, and they must have a solid understanding of the pitfalls to avoid and how to build a successful e-commerce strategy.
- Chapter 14, “Sources of Financing: Equity and Debt,” gives students a useful overview of the various financing sources that are available to entrepreneurs with plenty of practical advice for landing the financing they need to start or grow a business. In the difficult search for capital, many entrepreneurs take the first financing that becomes available, even though it often proves to be a poor choice. This chapter enables students to identify multiple sources of financing and evaluate the ones that are best for their particular situations.
- On MyLab Entrepreneurship, students can complete Assisted-grading writing questions that cut down on your grading time so you can spend more time teaching.



MyLab Entrepreneurship

If your instructor is using MyLab Entrepreneurship, go to www.pearson.com/mylab/entrepreneurship for the following Assisted-graded writing questions:

1. Briefly describe the role of the following groups in entrepreneurship: young people, women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate castoffs, corporate dropouts, social entrepreneurs, and retired Baby Boomers.
2. What contributions do small businesses make to our economy?

MyLab Entrepreneurship

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Deliver trusted content

You deserve teaching materials that meet your own high standards for your course. That's why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.

Empower each learner

Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.

Teach your course your way

Your course is unique. So whether you'd like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs.

Improve student results

When you teach with MyLab, student performance improves. That's why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.

Developing Employability Skills

In a recent survey by the Cooperative Institutional Research Program, 85 percent of college freshmen say that the main reason they decided to go to college is to secure a better job when they graduate. Whether you plan to pursue a career in entrepreneurship or some other field, the lessons you learn in your entrepreneurship course and from this book will help you secure a better job because the principles of entrepreneurship apply to *every* avenue of life. Whether you choose to start your own businesses or work for someone else in a for-profit or nonprofit organization, the skills you will learn in this course with the help of this book will be extremely valuable to you. Recent surveys show that employers value the following skill sets in the people they want to hire, and your course and this book will help you develop and enhance your abilities in these areas:

- **Critical Thinking and Problem Solving.** Every successful entrepreneur must engage in critical thinking and problem solving. Launching and running a successful company is a perpetual exercise in these areas. In this book, you can hone your critical thinking and problem-solving skills by tackling the “You Be the Consultant” and the “Beyond the Classroom” features that appear in every chapter. In addition, if one of the course requirements is to prepare a business plan, you will learn firsthand how to think critically and solve problems.

- **Communication Skills.** Successful entrepreneurs are good communicators. This book and the assignments you complete as part of the class will enhance your written and verbal communication skills. As part of entrepreneurs' search for capital, they must create well-written, coherent business plans and pitch their ideas to potential lenders and investors. Chapter 5, “Building a Solid Strategic Plan and Crafting a Winning Business Plan,” teaches you how to write a plan that not only will help you build successful businesses but also will convince potential lenders and investors to put up financing for them. This chapter also explains how to make a successful business plan presentation. If the class involves developing a business plan (and perhaps participating in a business plan competition), you will learn important written and oral communication skills.

You Be the Consultant

College: The Ideal Place to Launch a Business

For growing numbers of students, college is not just a time of learning, partying, and growing into young adulthood; it is fast becoming a place for building a business. Today, more than 2,300 colleges and universities offer courses in entrepreneurship and small business management, and many of them have trouble meeting the demand for these classes. Today, entrepreneurship has become a mainstream activity on college campuses around the globe. Greater numbers of students are pursuing careers in entrepreneurship and see their college experience as an opportunity to get an early start not only by studying entrepreneurship but also by putting what they learn into practice. Bill Aulet, head of the Martin Trust Center for MIT Entrepreneurship, says that faculty members who teach entrepreneurship must nurture the spirit of a pirate in their students while teaching them how to execute their start-up plans with the precision of a Navy SEAL. In addition to regular classroom courses, colleges increasingly are building an extra dimension in their entrepreneurship programs, including internships with start-ups, consulting jobs with small businesses, mentoring relationships with other entrepreneurs, networking opportunities with potential investors, and participation in business plan competitions. Allan R. Cohen, the dean of the graduate program at Babson College, says that entrepreneurial education is a contact sport, and many colleges are adding boot camp-like courses to their curricula. As the following examples prove, many college students expect to apply

and coaches often overlook talented athletes, who get only a handful of scholarship offers. That was the position that Samantha Weber found herself in during her last year of high school. Although things worked out well for Weber, who enrolled in Grove City College in Grove City, Pennsylvania, where she played varsity soccer for four years, the student-athlete decided to do something to help improve the recruiting process. During her senior year at Grove City College, while playing soccer and taking a full schedule of classes, Weber, just 21, created an athletic recruiting app, *ProfilePasser*, that connects high school athletes and college coaches at showcase tournaments. Student-athletes create their own profiles using the app, and when college coaches check in at a tournament, they have access to every player's profile and can use a search function to find athletes who fit a particular set of characteristics. *ProfilePasser* was one of only nine start-ups recently accepted into *Alphalab*, Pittsburgh's leading business accelerator. Weber already has raised more than \$25,000 in private financing and has attracted a “who's who” group of advisors, including her older sister, Alexa Andzrejewski, founder of Foodspotting, a company that OpenTable recently bought for \$10 million.

FiscalNote

Students Jonathan Chen (University of Maryland), Timothy

Beyond the Classroom . . .

- 1-15. Choose an entrepreneur in your community and interview him or her. What's the “story” behind the business?
- 1-16. How well does the entrepreneur fit the entrepreneurial profile described in this chapter?
- 1-17. What advantages and disadvantages does the entrepreneur see in owning a business?
- 1-18. What advice would he or she offer to someone considering launching a business?
- 1-19. Select one of the categories under the section “The Cultural Diversity of Entrepreneurship” in this chapter and research it in more detail. Find examples of business owners in that category and prepare a brief report for your class.
- 1-20. Search through recent business publications or their Web sites (especially those focusing on small companies, such as *Inc.* and *Entrepreneur*) and find an example of an entrepreneur, past or present, who exhibits the entrepreneurial spirit of striving for success in the face of failure. Prepare a brief report for your class.

- **Teamwork.** Research shows that businesses started by multiple founders have higher success rates than those started by solo entrepreneurs. Even if you choose to start businesses on your own, you will learn very quickly to rely on the help of other people to build it. In other words, you will learn the power of teamwork and collaboration. Chapter 17, “Building a New Venture Team and Planning for the Next Generation,” will help you learn these skills.
- **Leadership.** One of an entrepreneur’s most important skills is *leadership*. Effective leaders create a vision for their companies, convince other people to believe in and commit to it, develop a plan to implement the vision, and sustain the effort to accomplish it. Chapter 17, “Building a New Venture Team and Planning for the Next Generation,” explains the behavior of successful leaders. Building a company will test and improve your leadership skills.
- **Creativity.** Whatever their business, employers are seeking creative talent. In Chapter 3, “Creativity and Innovation: Keys to Entrepreneurial Success,” you will learn about the creative process and how to enhance both your personal creativity and the creativity of the people in your business. Throughout this book and course, you will experience the incredible creativity that entrepreneurs demonstrate.
- **Ethics and Social Responsibility.** One of a company’s most valuable assets is its reputation. A company’s reputation is critical to its success, but it also is quite fragile. One employee acting in an unethical fashion can destroy a company’s good reputation. Employers seek employees in whom they can have confidence to do the right thing when faced with an ethical dilemma. In Chapter 2, “Ethics and Social Responsibility: Doing the Right Thing,” you will learn basic principles of ethics and social responsibility. Often, entrepreneurs and employees fall into ethical traps that are cloaked in the garb of mundane decisions. This chapter will help you avoid these traps by making you aware of the issues and how to address them.

You may choose to use these skills in your own businesses or in someone else’s business or nonprofit organization; either way, these skills are essential to your success. Moreover, it is only through the aggregate of your educational experiences that you will have the opportunity to develop many of these skills that employers have identified as critical to success in the workplace. As you can see, in this course, and specifically in this book, you will have the opportunity to develop and implement these skills.

The Pitch: Making the Business Plan Presentation

Entrepreneurs who are informed and prepared when requesting a loan or an investment impress lenders and investors. When entrepreneurs try to secure funding from lenders or investors, the written business plan most often precedes the opportunity to meet face-to-face. In recent years, some investors have moved away from requiring the submission of a formal business plan and instead have based their interest on the entrepreneur’s presentation of the business model. However, even in these situations, sound planning is required.

Leadership: An Essential Part of an Entrepreneur’s Job

To be successful, an entrepreneur must assume a wide range of roles, tasks, and responsibilities, but none is more important than the role of leader. Some entrepreneurs are uncomfortable assuming this role, but they must learn to be effective leaders if their companies are to grow and reach their potential. Leadership is the process of influencing and inspiring others to work to achieve a common goal and then giving them the power, the incentive, and the freedom to achieve it. Without leadership ability, entrepreneurs—and their companies—never rise above mediocrity. Entrepreneurs can learn to be effective leaders, but the task requires dedication, discipline, and hard work. In the past, business owners often relied on an autocratic management style, one built on command and control. Today’s workforce is more knowledgeable, has more options, and is more skilled and, as a result, expects a different, more sophisticated style of leadership. Millennials, the 80 million Americans born between 1981 and 1997, now make up nearly 35 percent of the U.S. workforce and demand a more open, participative, inclusive, and flexible leadership typology.¹ Leadership is no lon-

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This title is available as an eBook and can be purchased at most eBook retailers.

Essentials of Entrepreneurship and Small Business Management, 9/e, has stood the test of time and contains a multitude of both student- and instructor-friendly features. We trust that this edition will help the next generation of entrepreneurs to reach their full potential and achieve their dreams of success as independent business owners. It is their dedication, perseverance, and creativity that keep the world's economy moving forward.

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Special Note to Students

We trust that this edition of *Essentials of Entrepreneurship and Small Business Management* will encourage and challenge you to fulfill your aspirations as an entrepreneur and to make the most of your talents, experience, and abilities. We hope that you find this book to be of such value that it becomes a permanent addition to your personal library. We look forward to the day when we can write about your entrepreneurial success story on these pages.

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The Foundations of Entrepreneurship



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Learning Objectives

On completion of this chapter, you will be able to:

1. Define the role of the entrepreneur in business in the United States and around the world.
2. Describe the entrepreneurial profile.
- 3-A. Describe the benefits of entrepreneurship.
- 3-B. Describe the drawbacks of entrepreneurship.
4. Explain the forces that are driving the growth of entrepreneurship.
5. Explain the cultural diversity of entrepreneurship.
6. Describe the important role that small businesses play in our nation's economy.
7. Put failure into the proper perspective.
8. Explain how an entrepreneur can avoid becoming another failure statistic.
9. Discover how the skills of entrepreneurship, including critical thinking and problem solving, written and oral communication, teamwork and collaboration, leadership, creativity, and ethics and social responsibility, apply to every career choice and every avenue of life.

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LO1

Define the role of the entrepreneur in business in the United States and around the world.

The World of the Entrepreneur

Welcome to the world of the entrepreneur! Despite economic swings, entrepreneurship is thriving in nearly every part of the world. Globally, nearly one in eight adults is actively engaged in launching a business.¹ In the United States alone, entrepreneurs launch more than 6.6 million businesses annually.² These people, who come from diverse backgrounds, are realizing that Great American Dream of owning and operating their own businesses. Some of them have chosen to leave the security of the corporate hierarchy in search of independence, others have been forced out of large corporations as a result of downsizing, and still others have from the start chosen the autonomy that owning a business offers. The impact these entrepreneurs make on the nation's economy goes far beyond their numbers, however. The resurgence of the entrepreneurial spirit they are spearheading is the most significant economic development in recent business history. These heroes of the business world are introducing innovative products and services, pushing back technological frontiers, creating new jobs, opening foreign markets, and, in the process, driving the U.S. economy.

Entrepreneurs, once shunned as people who could not handle a “real” job in the corporate world, now are the celebrities of the global economy. According to the Global Entrepreneurship Monitor, a global study of entrepreneurial activity across 60 nations, 68 percent of working adults around the world perceive entrepreneurs as having high status.³ These entrepreneurs create companies, jobs, wealth, and innovative solutions to some of the world's most vexing problems, from relief for sore feet to renewable energy sources. “The story of entrepreneurship entails a never-ending search for new and imaginative ways to combine the factors of production into new methods, processes, technologies, products, or services,” says one government economist who has conducted extensive research on entrepreneurship's impact.⁴ In short, small business is “cool,” and entrepreneurs are the rock stars of the business world.

One important indicator of the popularity of entrepreneurship is the keen interest expressed by young people in creating their own businesses. Globally, the highest rates of entrepreneurial activity are among people between the ages of 25 and 34, but entrepreneurship is the desired career path for many people who are still in college.⁵ According to a recent study of global entrepreneurship, 65 percent of college students around the world aspire to be entrepreneurs, 27 percent of them immediately after graduation and 38 percent after gaining experience working for someone else. In the United States, 59 percent of college students in the survey expressed a desire to run their own businesses.⁶ Although the percentage of people in the United States under 30 who own a share of a private company has declined to 3.6 percent from 6.1 percent in 2010, entrepreneurship remains the preferred career path for many young people (some of them while they are still in school), a more enticing option than joining the ranks of the pin-striped masses in major corporations.⁷ When many young people hear the phrase “corporate America,” they do not think of career opportunities; instead, negative images of the corporate world from the film *Office Space* come to mind. Others choose entrepreneurship out of necessity. The Kauffman Foundation reports that nearly one out of five entrepreneurs in the United States start businesses of their own because they cannot find jobs elsewhere.⁸ The bottom line is that whatever drives your career choices, the probability that you will become an entrepreneur at some point in your life is quite high!



ENTREPRENEURIAL PROFILE: Riley Csernica and Chelsea Ex-Lubeskie: Tarian Braces

While working on a class project in a bioengineering class at Clemson University, Riley Csernica and Chelsea Ex-Lubeskie were inspired to create a novel shoulder brace aimed at athletes. After graduating with degrees in biomedical engineering, Csernica and Ex-Lubeskie discovered that jobs in their field were extremely difficult to come by and began exploring the possibility of converting the shoulder brace they had developed as undergraduate students into a business. With the help of the business plan Csernica had built as part of a graduate course in Clemson's Entrepreneurship and Innovation program, the entrepreneurs, just 23 years old, launched Tarian Braces, a business based in Mt. Pleasant, South Carolina, that creates custom-fitted shoulder and ankle braces that give athletes better support and greater range of motion than traditional orthotic braces. To finance their business, Csernica and Ex-Lubeskie landed grants from South Carolina Launch and the National Science Foundation. They also competed in business plan competitions, where they met the director of The Harbor Accelerator, a business

incubator in Mount Pleasant. They applied to be and were accepted as tenants of the incubator, where they continue to build their company, promoting it on social media, networking, calling on potential customers, and attending trade shows aimed at athletic trainers. Csernica and Ex-Lubeskie currently are developing new products for the shoulder (a commonly injured part of the body) and other joints, exploring other markets (for example, elderly people with physical impairments), and investigating the possibility of using 3-D printers to produce their braces. “College students should realize that starting a company is very difficult and requires a lot of sacrifice [both women still live with their parents so that they can funnel their resources into their business],” says Csernica. “However, there is no better time to give running your own company a shot. Working for ourselves is one of the most rewarding things Chelsea and I have ever done because we have the freedom to be our own bosses.”⁹ ■

Csernica and Ex-Lubeskie’s journey is nothing new; entrepreneurship has been part of the fabric of the United States since its earliest days. Many of the nation’s founding fathers were entrepreneurs. Thomas Jefferson started a nailery (a business that transformed iron into nails) in 1794 and purchased high-tech (at the time) nail-making machinery in 1796 to increase his company’s production. Benjamin Franklin was an inventor and in 1729, at the age of 21, convinced several friends to finance his purchase of a newspaper that he renamed *The Pennsylvania Gazette*, a business that made him quite wealthy.¹⁰ That same entrepreneurial spirit remains strong today. According to the Global Entrepreneurship Monitor, 12.6 percent of the U.S. population aged 18 to 64 is engaged in entrepreneurial activity. The level of entrepreneurial activity in the United States is slightly above the global average of 12.3 percent and is well above the average (8.7 percent) for innovation-driven economies (see Figure 1.1).¹¹

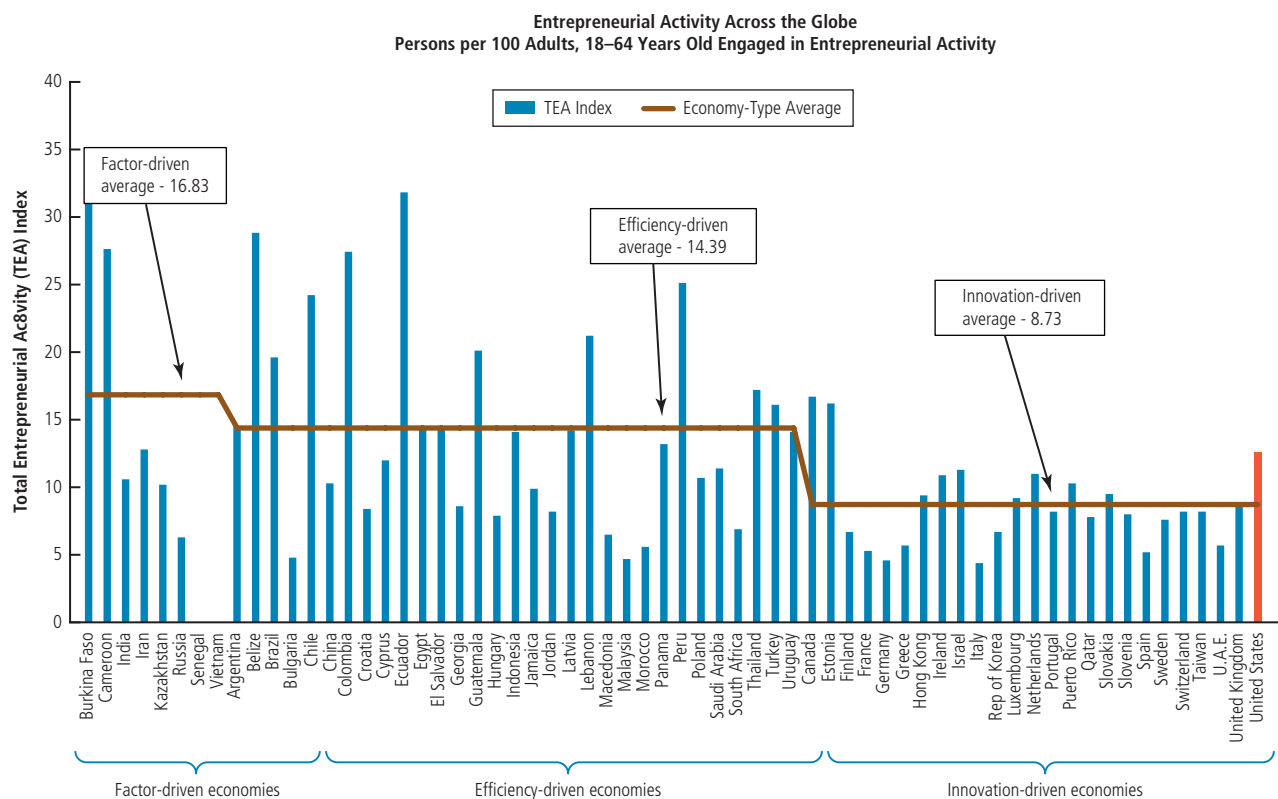


FIGURE 1.1
Entrepreneurial Activity Around the Globe

Source: Based on data from Donna Kelley, Slavica Singer, and Mike Herrington, *Global Entrepreneurship Monitor 2016/17 Global Report*, Global Entrepreneurship Monitor, 2017, pp. 39–102.

In recent years, large companies in the United States and elsewhere around the world have engaged in massive downsizing campaigns, dramatically cutting the number of managers and workers on their payrolls. This flurry of “pink slips” has spawned a new population of entrepreneurs—“castoffs” from large corporations (many of whom thought they would be lifetime ladder climbers in their companies) with solid management experience and many productive years left before retirement.

One casualty of this downsizing has been the long-standing notion of job security in large corporations, which all but destroyed the notion of loyalty and has made workers much more mobile. In the 1960s, the typical employee had worked for an average of four employers by the time he or she reached age 65; today, the average employee has had eight employers by the time he or she is 30.¹² Members of Generation X (those born between 1965 and 1980) and Generation Y (those born between 1981 and 2000), in particular, no longer see launching a business as being a risky career path. Having witnessed large companies lay off their parents after many years of service, these young people see entrepreneurship as the ideal way to create their own job security and career success. They are eager to control their own destinies.

This downsizing trend among large companies also has created a more significant philosophical change. It has ushered in an age in which “small is beautiful.” Thirty years ago, competitive conditions favored large companies with their hierarchies and layers of management; today, with the pace of change constantly accelerating, fleet-footed, agile, small companies have the competitive advantage. These nimble competitors dart into and out of niche markets as they emerge and recede, they move faster to exploit opportunities the market presents, and they use modern technology to create within a matter of weeks or months products and services that once took years and all of the resources a giant corporation could muster. The balance has tipped in favor of small entrepreneurial companies. Alan Murray, editor of *Fortune* magazine, questions the necessity for large corporations, pointing out that today, from home (or anywhere there is an Internet connection), an entrepreneur can assemble a talented team of employees on LinkedIn, store intellectual property in the cloud, turn out products on 3-D printers, and reach customers around the world through the Internet. Howard Stevenson, Harvard’s chaired professor of entrepreneurship, says, “Why is it so easy [for small companies] to compete against giant corporations? Because while [the giants] are studying the consequences, [entrepreneurs] are changing the world.”¹³

Entrepreneurship also has become mainstream. Although launching a business is never easy, the resources available today make the job much simpler today than ever before. Thousands of colleges and universities offer courses in entrepreneurship, the Internet hosts a sea of information on launching a business, sources of capital that did not exist just a few years ago are now available, and business incubators hatch companies at impressive rates. Once looked down on as a choice for people unable to hold a corporate job, entrepreneurship is now an accepted and respected part of our culture.

Another significant shift in the bedrock of our nation’s economic structure is influencing this swing in favor of small companies. The world is rapidly moving away from an industrial economy to a knowledge-based one. What matters now is not so much the traditional factors of production but *knowledge* and *information*. The final impact of this shift will be as dramatic as the move from an agricultural economy to an industrial one that occurred more than 200 years ago in the United States. A knowledge-based economy favors small businesses because the cost of managing and transmitting knowledge and information is very low, and computer and information technologies are driving these costs lower still.

Research suggests that entrepreneurial activity remains vibrant not only in the United States but elsewhere around the world as well. Entrepreneurs in every corner of the world are launching businesses thanks to technology that provides easy access to both local and global markets at start-up. Eastern European countries, China, Vietnam, and many other nations whose economies were state controlled and centrally planned are now fertile ground for growing small businesses. Table 1.1 shows some of the results from a recent study that ranks 137 nations according to the quality of the entrepreneurial environment they provide. Even countries that traditionally are not known as hotbeds of entrepreneurial activity, such as Malawi (which ranks 130th out of 137 nations in the GEDI survey), a growing country of nearly 18 million people in southeastern Africa, are home to promising start-up companies.

TABLE 1.1 Entrepreneurship-Friendly Nations

Which nations provide the best environment for cultivating entrepreneurship? A recent study ranked 137 countries on the quality of the entrepreneurial ecosystem in each nation using the Global Entrepreneurship and Development Index (GEDI), an index that includes a variety of factors that range from the availability of capital and workforce quality to attitudes toward entrepreneurs and technology available. The maximum GEDI score is 100.

GEDI Score, Top Ten Countries	GEDI Score, Bottom Ten Countries
1. United States 83.4	128. Venezuela 13.0
2. Switzerland 78.0	129. Nicaragua 12.7
3. Canada 75.6	130. Malawi 12.5
4. Sweden 75.5	131. Guinea 12.1
5. Denmark 74.1	132. Burkina Faso 11.9
6. Iceland 73.5	133. Bangladesh 11.8
7. Australia 72.5	134. Mauritania 11.6
8. United Kingdom 71.3	135. Sierra Leone 11.4
9. Ireland 71.0	136. Burundi 11.4
10. Netherlands 67.8	137. Chad 8.8

Source: *Global Entrepreneurship Index*, The Global Entrepreneurship and Development Institute, 2017, <https://thegedi.org/global-entrepreneurship-and-development-index/>.



ENTREPRENEURIAL PROFILE: Bellings Zkgaka Bellings Zkgaka lives in Usisya, a small village in Northern Malawi, where only 4 percent of residents complete high school and just 16 percent of the population is employed. Living in one of the most disadvantaged and remote regions of the world has not stifled Zkgaka's entrepreneurial spirit, however. To support his six children and three orphans he was raising, Zkgaka started a small grocery store. With a microloan of just £150 from Temwa, a nonprofit community development agency, Zkgaka was able to expand his store with a greater selection of goods, including ice pops, which have proved to be a popular item in the tropical heat. As sales and profits from his grocery store grew, Zkgaka spotted other entrepreneurial opportunities and opened a barber shop and a tailoring business. His companies now employ three people, and Zkgaka already is planning his next business venture: a restaurant. "There isn't one in my area," he says. "I want to set one up to employ more people, and I know some very good cooks!" Before starting his businesses, Zkgaka had great difficulty providing for his family; today, he is proud that his entrepreneurial ventures allow him to offer them a bright future.¹⁴ ■

Wherever they choose to start their companies, entrepreneurs continue to embark on one of the most exhilarating—and one of the most frightening—adventures ever known: launching a business. It's never easy, but it can be incredibly rewarding, both financially and emotionally. It can be both thrilling and dangerous, like living life without a safety net. Yet, true entrepreneurs see owning a business as the real measure of success. Lara Morgan started Pacific Direct, a British company that sells toiletries to the hotel industry, when she was just 23. Seventeen years later, she sold a majority share for £20 million and launched a second business, Company Shortcuts, a career coaching site aimed at entrepreneurs. "Running a business is not for the faint-hearted," says Morgan. "Yes, there are sacrifices to be made; yet I would change nothing of [my] journey. I have had the flexibility, freedom, and choice to do as I please because I choose to run my own company. It was by no means an easy road. I have been sued, risked my house as collateral, and have been through my own wars, not to mention weathering storms in the business and downturns created by wars. Yet, I am now wealthy beyond my wildest dreams." As an entrepreneur, she advises, "accept that you will make sacrifices, but the up side far outweighs the down side."¹⁵ Like Lara Morgan, true entrepreneurs see owning a business as the real measure of success. Indeed, entrepreneurship often provides the only avenue for success to those who otherwise might have been denied the opportunity.

Who are these entrepreneurs, and what drives them to work so hard with no guarantee of success? What forces lead them to risk so much and to make so many sacrifices in an attempt to achieve an ideal? Why are they willing to give up the security of a steady paycheck working for someone else to become the last person to be paid in their own companies? This chapter will examine the entrepreneur, the driving force behind the U.S. economy.

LO2

Describe the entrepreneurial profile.

entrepreneur

one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.

What Is an Entrepreneur?

Adapted from the French verb *entreprendre*, which means “to undertake” or “to attempt,” the word “entrepreneur” was introduced in 1755 in economist Richard Cantillon’s book *Essay on the Nature of Trade in General*. Cantillon defined an entrepreneur as a producer with nonfixed income and uncertain returns.¹⁶ In a typical month, adults in the United States launch 550,000 new businesses, traveling down the path of entrepreneurship that Cantillon first wrote about more than 260 years ago. An **entrepreneur** is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. Although many people come up with great business ideas, most of them never act on their ideas. Entrepreneurs do.

Harvard Business School professor Howard Stevenson says that entrepreneurs spot opportunities, often a better way to do something, and do not feel constrained from pursuing it because they lack resources. In fact, entrepreneurs are *accustomed* to making do without resources.¹⁷ In essence, entrepreneurs are *disrupters*, upsetting the traditional way of doing things by creating new ways to do them. They upend the status quo by playing the central role of entrepreneurs: catalysts who create change.

In his 1911 book *The Theory of Economic Development*, economist Joseph Schumpeter said that entrepreneurs are more than just business creators; they are change agents in society. The process of creative destruction, in which entrepreneurs create new ideas and new businesses that make existing ones obsolete, is a sign of a vibrant economy. Although this constant churn of businesses—some rising, others sinking, new ones succeeding, and many failing—concerns some people, in reality it is an indication of a healthy, growing, economic system that is creating new and better ways of serving people’s needs and improving their quality of life and standard of living. Schumpeter compared the list of leading entrepreneurs to a popular hotel’s guest list: always full of people but people who are forever changing.¹⁸

High levels of entrepreneurial activity translate into high levels of business formation and destruction and make an economy more flexible and capable of adapting to structural changes in the competitive landscape. “The United States has succeeded in part because of its dynamism, its high pace of job creation and destruction, and its high pace of churning workers,” says John Haltiwanger, an economist who studies trends in entrepreneurship.¹⁹ As disrupters, entrepreneurs are important change agents in the global economy, uprooting staid, old industries with fresh new business models that spot market opportunities and deliver the products and services that customers want.



Chance Yeh/Getty Images



ENTREPRENEURIAL PROFILE: Neil Parikh, Gabe Flateman, and Luke Sherwin: Casper Mattress

Neil Parikh, Gabe Flateman, and Luke Sherwin, all in their mid-20s, believed that the \$14 billion mattress industry, with its seemingly endless product variations, complicated delivery and return process, and high prices, was ripe for disruption. The trio of entrepreneurs decided to launch a business, Casper, in New York City that simplifies the process of buying a mattress. Casper produces only one mattress model that comes in six sizes and is priced from \$500 to \$950. Customers receive a 100-day trial period with every mattress. If a customer is dissatisfied at any time during the generous trial period, Casper picks up the mattress at no charge and provides a full refund. (Casper’s return rate is extremely low, and the company donates returned mattresses to local charities.) Living in a large city where space is limited, the trio of entrepreneurs

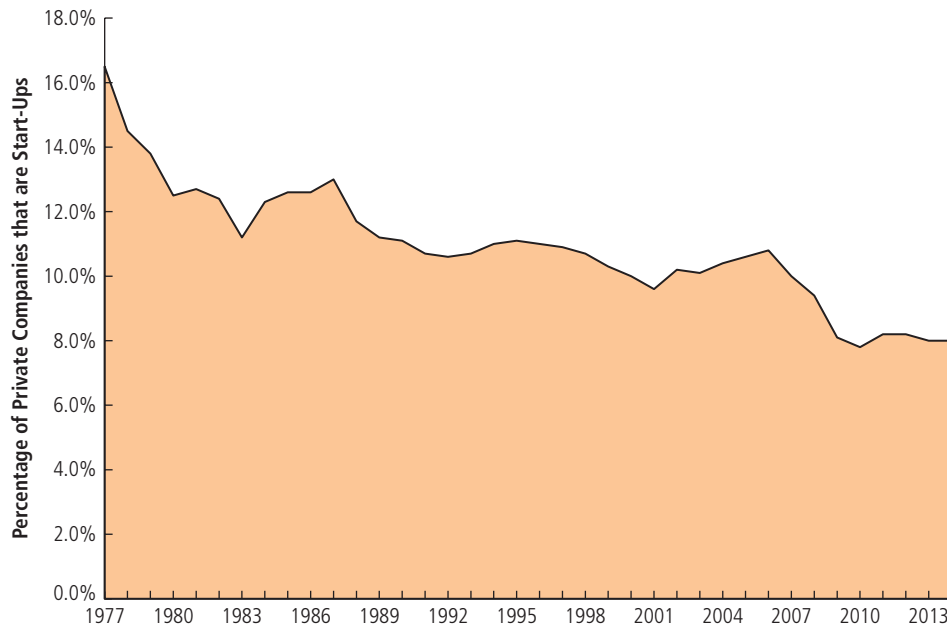


FIGURE 1.2
Percentage of Start-up Companies in the United States

Source: Business Dynamics Statistics Data Tables: Firm Age, U.S. Department of Commerce, U.S. Census Bureau, 2017, www.census.gov/ces/dataproducts/bds/data_firm.html.

focused their creative energy on packaging their company's mattresses for easy, compact shipping, which is free to customers. They developed a process for compressing a mattress so that it fits into a box roughly the size of a dorm refrigerator, which cost only one-tenth of what it costs to ship a full-size mattress. (Videos of "unboxing" a Casper mattress and watching it expand to its full size in less than a minute have become YouTube sensations.) By eliminating customers' pain points when buying mattresses, the entrepreneurs' have built a business model that works; Casper generated sales of \$1 million in its first *month*. In its first full year of operation, sales were \$20 million, and the company, now with 120 employees, has attracted \$70 million in venture capital financing. Casper's founders are now focusing on other sleep products and use feedback from 15,000 customers who take part in the product development process. Casper recently invested 16 months of research, testing, and feedback from customers in developing a dual-layer pillow and followed a similar process to develop sheets that provide the perfect balance of softness and breathability.²⁰ ■

Unfortunately, in the United States, the percentage of private companies that are start-up businesses (companies that are less than one year old), the primary source of the economy's healthy churn, has been declining since the late 1970s (see Figure 1.2). Although many entrepreneurs fail, some more than once, those who succeed earn the satisfaction of creating value for their customers and wealth for themselves—all while working at something that they love to do. Some of them create companies that change the world.

Researchers have invested a great deal of time and effort over the past few decades trying to paint a clear picture of "the entrepreneurial personality." Not surprisingly, the desire for autonomy is the single most important factor motivating entrepreneurs to start businesses (see Table 1.2). Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success.

We now turn to a brief summary of the entrepreneurial profile:²¹

1. **Desire for responsibility.** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals. Deborah Sullivan, a lifelong serial entrepreneur, realized at the age of 16 that she did not want to spend her life working for others. "You're stuck by all of these different rules [when you work for someone else]," she says. "I wanted to create something for myself." Sullivan has been an entrepreneur since she was 22 years old, when she launched a hair salon and spa in Atlanta, Georgia. In 2012, at the age of 60, Sullivan started Consign Werks, a consignment shop in Greenville, South Carolina, which she says has been the most gratifying of her entrepreneurial ventures, perhaps

TABLE 1.2 Why Entrepreneurs Start Businesses

Noam Wasserman and Timothy Butler of the Harvard Business School surveyed nearly 2,000 entrepreneurs about their motivations for starting their businesses, analyzed the results by gender and age, and compared them to thousands of nonentrepreneurs. The primary motivator for entrepreneurs is autonomy, but security and a congenial work environment top the list for nonentrepreneurs. Entrepreneurs' source of motivation shifts slightly as they age, more so for women than for men. The following tables summarize the researchers' findings:

Men by Age

20s	30s	40s+
Autonomy	Autonomy	Autonomy
Power and influence	Power and influence	Power and influence
Managing people	Managing people	Altruism
Financial gain	Financial gain	Variety

Women by Age

20s	30s	40s+
Autonomy	Autonomy	Autonomy
Power and influence	Power and influence	Intellectual challenge
Managing people	Variety	Variety
Altruism	Altruism	Altruism

Source: Adapted from Leigh Buchanan, "The Motivation Matrix," *Inc.*, March 2012, pp. 60–62.

because she knew almost nothing about the business until she spent months researching and learning everything she could about consignment shops.²²

2. **Preference for moderate risk.** Entrepreneurs are not wild risk takers but are instead *calculated* risk takers. Lee Lin, who left his job at a large investment bank to start RentHop, an online service that helps renters find the ideal apartment in New York City, says that entrepreneurs who risk everything typically do not stay in business very long. Lin says that to minimize risk, he manages his company's finances carefully and focuses on profitable growth opportunities.²³ A study of the founders of the businesses listed as *Inc.* magazine's fastest-growing companies found no correlation between risk tolerance and entrepreneurship. Researcher and former *Inc.* 500 chief executive officer Keith McFarland says that the belief that entrepreneurs are big risk takers just isn't true.²⁴ Unlike "high-rolling, river-boat" gamblers, entrepreneurs rarely gamble. Their goals may appear to be high—even impossible—in others' eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable.

Entrepreneurs usually spot opportunities in areas that reflect their passions, knowledge, backgrounds, or experiences, which increases their probability of success. Entrepreneurship is not like playing roulette, where chance determines whether one wins or loses. Instead, entrepreneurship involves recognizing and understanding opportunities in the market and taking calculated risks to capitalize on those opportunities by using their knowledge, skills, and abilities. Successful entrepreneurs do everything they can to stack the odds of winning in their favor. In other words, successful entrepreneurs are not as much risk *takers* as they are risk *eliminators*, systematically removing as many obstacles to the successful launch of their ventures as possible. Some of the most successful ways of eliminating risks include conducting a feasibility study for an idea, building and verifying a viable business model, and creating a sound business plan, which are the topics of Chapters 4 and 5.

3. **Willingness to break the rules.** Entrepreneurs have a different mindset from "adaptors," people who are conformists, abide by traditional rules, and thrive in a traditional corporate environment. Research shows that entrepreneurs are innovators who are willing to bend or

break the rules to disrupt business as usual.²⁵ The willingness of these mavericks to step outside the boundaries of traditional thinking is the source of their ability to innovate.

4. **Self-reliance.** Entrepreneurs must fill multiple roles to make their companies successful, especially in the early days of a start-up. Because their resources usually are limited, they end up performing many jobs themselves, even those that they know little about. Yet, entrepreneurs demonstrate a high level of self-reliance and do not shy away from the responsibility for making their businesses succeed. Perhaps that is why many entrepreneurs persist in building businesses even when others ridicule their ideas as follies.
5. **Confidence in their ability to succeed.** Entrepreneurs typically have an abundance of confidence in their ability to succeed and are confident that they chose the correct career path. They believe that they can accomplish just about anything! Entrepreneurs' high levels of optimism may explain why some of the most successful entrepreneurs have failed in business—often more than once—before finally succeeding. Milton Hershey, founder of one of the world's largest and most successful chocolate makers, started four candy businesses, all of which failed, before he launched the chocolate business that would make him famous.



ENTREPRENEURIAL PROFILE: Kathryn Minshew, Alex Cavoulacos, and Melissa McCreery:

The Muse At 24, Kathryn Minshew left her job at an elite management consulting firm to cofound PYP Media, a media company and career website aimed at young women. She and her cofounders ultimately split up, and Minshew lost her life savings, \$20,000. Undaunted, Minshew, her co-founder Alexandra Cavoulacos and Melissa McCreery launched The Muse, a career-oriented website that provides free advice on topics ranging from interviewing skills to writing cover letters to negotiating a raise, job listings, explorations of various career paths, behind-the-scenes tours of companies that are hiring, one-on-one coaching services, and other helpful features. Minshew says that she and her cofounders survived the early days of their startup with a steady diet of ramen noodles and hope. The founders pitched The Muse to 148 potential investors before landing a spot in – and a capital investment from – Y Combinator, the prestigious business accelerator in Silicon Valley. So far, Minshew and Cavoulacos (McCreery has since left the company to earn a PhD) have raised \$28.7 million in financing, and The Muse attracts more than 6 million users each month. Looking back, Minshew says that PYP Media's failure was the best thing that ever happened to her because it set the stage for The Muse's success.²⁶ Like Minshew, smart entrepreneurs recognize that their failures can be the source of some of the lessons that lead them to their greatest successes. ■



Courtesy of The Muse

6. **Determination.** Some people call this characteristic “grit,” the ability to focus intently on achieving a singular, long-term goal. It entails a combination of passion and perseverance. Studies show that grit is a reliable predictor of achievement and success, whether the goal involves launching a successful business, winning the Scripps National Spelling Bee, or excelling in professional sports.²⁷ (One recent study concludes that top performance in the National Football League's Combine, in which players who are entering the league's draft perform short physical and mental tasks, has no “consistent statistical relationship” to subsequent performance in the league.) Bob Mankoff, an aspiring cartoonist, demonstrated grit by submitting 2,000 cartoons to *The New Yorker* before the magazine ever accepted one. Mankoff went on to have a successful career as a cartoonist and is now the cartoon editor of *The New Yorker*.²⁸

Successful entrepreneurs demonstrate high levels of determination, especially in the face of challenging circumstances. Research by Robert Fairlie of the University of California, Santa Cruz, shows that the Great Recession, which began in late 2007, spawned a surge in entrepreneurship and that the types of businesses entrepreneurs started were

similar to those they start in prosperous times.²⁹ Perhaps that explains why 57 percent of the *Fortune* 500 companies were launched in either a recession, a “bear” market, or both.³⁰



James Ransom/Food52



ENTREPRENEURIAL PROFILE: Amanda Hesser:

Food52 Amanda Hesser took a circuitous route to entrepreneurship, working as a baker, a chef, and a leading food editor for *The New York Times* before launching her first business, a Web platform called Seawinkle that allowed users to consolidate their digital histories in one place. The business never gained traction, and Hesser decided to shut it down. Unfazed by the failure of her first venture, Hesser partnered with Merrill Stubbs to launch Food52, a Web site that provides a gathering place for foodies and includes recipes, captivating articles about food and its proper preparation, and food-related products. Like Seawinkle, Food52 struggled in its infancy and borrowed money from Stubbs’s mother and Hesser’s husband to stay afloat. Hesser and Stubbs persevered, however, eventually raising \$9 million in capital from top-tier investors. Food52 employs 52 people, generates sales of more than \$6 million annually, and is growing at nearly 900 percent a year.³¹ ■

7. ***Desire for immediate feedback.*** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback. Few things in life provide more meaningful feedback than an entrepreneur’s business. Entrepreneurs have many ways, from sales and profits to the number of likes on Facebook and the number of followers on Instagram or Twitter, by which they measure their companies’ success.
8. ***High level of energy.*** Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a start-up company. Long hours and hard work are the rule rather than the exception, and the pace can be grueling. According to a survey by Bank of America, 72 percent of small business owners work more than 40 hours per week.³² Another survey by Sage Software reports that 37 percent of business owners work more hours per week than they did just five years ago.³³ The phenomenon is not limited to the United States. A survey of British entrepreneurs reports that business owners there work an average of 52 hours per week, 63 percent more than the average worker.³⁴ Will Schroter, an entrepreneur who has launched numerous companies, including Go Big Network, an online community for entrepreneurs, says that he works at 1:30 in the morning because he is the founder of a start-up, and start-up founders often don’t have time to sleep because their work is never-ending. He laughs, saying that he can catch up on his sleep when his company has grown and matured and has levels of managers to handle the immense workload that he now manages himself.³⁵
9. ***Competitiveness.*** Entrepreneurs tend to exhibit competitive behavior, often early in life. They enjoy competitive games and sports and always want to keep score.
10. ***Future orientation.*** Entrepreneurs have a well-defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. Ever vigilant for new business opportunities, entrepreneurs *observe* the same events other people do, but they *see* something different. Dr. Rodney Perkins, an ear surgeon and medical entrepreneur, has started 16 health and life science companies, 3 of which have made initial public offerings, over the course of his career. Together, his companies are worth several billions of dollars. Now 80, Perkins, the quintessential entrepreneur, continues to look for the next opportunity. His most recent company, Soundhawk, based in Cupertino, California, markets an affordable smart listening system that integrates the latest advances in hearing science with the convenience of

modern wireless and mobile technology to help users hear better by filtering out background noise and amplifying only important sounds.³⁶

Entrepreneurs see potential where most others see only problems or nothing at all, a characteristic that often makes them the objects of ridicule (at least until their ideas become huge successes). Whereas traditional managers are concerned with managing available *resources*, entrepreneurs are more interested in spotting and capitalizing on *opportunities*. In the United States, 84 percent of those engaged in entrepreneurial activity are **opportunity entrepreneurs**, people who start businesses because they spot an opportunity in the marketplace, compared to **necessity entrepreneurs**, those who start businesses because they cannot find work any other way.³⁷



ENTREPRENEURIAL PROFILE: Morgan Hermand-Waiche: AdoreMe While attending business school, Morgan Hermand-Waiche wanted to surprise his girlfriend with a gift of fine lingerie but was surprised at the discrepancy between the prices of fine lingerie and his college student budget. Spotting an opportunity, Hermand-Waiche began researching the intimate apparel business. Using his experience and network of contacts at his family's fashion business in France, Hermand-Waiche developed a line of stylish, comfortable bras that he could sell to young women at an affordable price point. Because bras are difficult to produce (they typically contain 60 or more components), manufacturers he talked to would fill only large orders of 1 million units or more. Hermand-Waiche spent two years raising \$11.5 million in investment capital before launching his e-commerce business, AdoreMe. Hermand-Waiche has since expanded the product line to include panties, lounge-wear, sleepwear, and bathing suits. AdoreMe now generates more than \$43 million in annual sales and is opening stores in select markets across the United States.³⁸ ■

Serial entrepreneurs, those who repeatedly start businesses and grow them to a sustainable size before striking out again, push this characteristic to the maximum. The majority of serial entrepreneurs are *leapfroggers*, people who start a company, manage its growth until they get bored, and then sell it to start another. A few are *jugglers* (or *parallel entrepreneurs*), people who start and manage several companies at once. Serial entrepreneurs instinctively know that the process of creating a company takes time, and many choose to pursue several ideas at the same time.³⁹ *The Entrepreneur State of Mind* study reports that 54 percent of business owners are serial entrepreneurs.⁴⁰ “The personality of the serial entrepreneur is almost like a curse,” admits one entrepreneurial addict. “You see opportunities every day.”⁴¹ Serial entrepreneur Scott Painter has started 37 companies, not all of which have succeeded, including Pricelock, Advertise.com, and TrueCar. He started his first company, an auto detailing business, at age 14 and has been launching businesses ever since.⁴²

It's almost as if serial entrepreneurs are addicted to launching businesses. “Starting a company is a very imaginative, innovative, energy-driven, fun process,” says Dick Kouri, who has started 12 companies in his career and now teaches entrepreneurship at the University of North Carolina. “Serial entrepreneurs can't wait to do it again.”⁴³

11. **Skill at organizing.** Building a company “from scratch” is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put together the right people to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their visions into reality. “Great entrepreneurship is in the execution,” says Eric Paley, an entrepreneur-turned-venture-capitalist.⁴⁴
12. **Value of achievement over money.** One of the most common misconceptions about entrepreneurs is that they are driven wholly by the desire to make money. To the contrary, *achievement* seems to be entrepreneurs' primary motivating force; money is simply a way of “keeping score” of accomplishments—a symbol of achievement. What drives entrepreneurs goes much deeper than just the desire for wealth. Economist Joseph Schumpeter claimed that entrepreneurs have “the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself.” Entrepreneurs, he says, experience “the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity.”⁴⁵

opportunity entrepreneurs

entrepreneurs who start businesses because they spot an opportunity in the marketplace.

necessity entrepreneurs

entrepreneurs who start businesses because they cannot find work any other way.

serial entrepreneurs

entrepreneurs who repeatedly start businesses and grow them to a sustainable size before striking out again.

Other characteristics that entrepreneurs tend to exhibit include the following:

- **High degree of commitment.** Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. That requires commitment and fortitude. Phil Karlin, a former commercial lobster fisherman, invested his entire life savings to start North Fork Smoked Fish, a company in Greenport, New York, that sells smoked fish and seafood and fish patés made from fish caught fresh off the coast of Long Island to shoppers as well as some of New York City’s top restaurants. At 54, Karlin recognizes the risk he has taken, but his experience coupled with the quality and uniqueness of the company’s products gives him confidence that he will succeed.⁴⁶
- **Tolerance for ambiguity.** Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations, the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhidé says that entrepreneurs exhibit a willingness to jump into ventures even when they cannot visualize what the ultimate outcome may be.⁴⁷
- **Creativity.** One of the hallmarks of entrepreneurs is creativity. They constantly come up with new product or service ideas, unique ways to market their businesses, and innovative business models. Their minds are constantly at work developing unique business ideas. Jennifer Lewis, a professor of engineering and applied sciences, is the cofounder and CEO of Voxel8, a company that specializes in 3-D printing technology capable of producing finished electronic devices. Rather than produce components ready for assembly like traditional 3-D printers do, Voxel8’s process uses materials such as conductive inks, flexible silicones, and high-strength epoxies to print embedded conductors, wires, and batteries into finished functional parts that require no assembly. Voxel8 recently landed \$12 million in venture capital to continue developing and marketing its innovative technology.⁴⁸ You will learn more about the creative process and how to stimulate entrepreneurial creativity in Chapter 3.
- **Flexibility.** One hallmark of true entrepreneurs is their ability to adapt to the changing needs and preferences of their customers and the changing demands of the business environment. In this rapidly changing global economy, rigidity often leads to failure. Successful entrepreneurs learn to be masters of improvisation, reshaping and transforming their businesses as conditions demand. Research by Saras Sarasvathy, a professor at the University of Virginia’s Darden School of Business, shows that entrepreneurs excel at effectual reasoning, which does not begin with a specific goal. Instead, effectual thinkers are like explorers setting out on voyages into uncharted waters. Like explorers, entrepreneurs set goals, but their goals are flexible. Sarasvathy compares entrepreneurs to iron chefs, who prepare sumptuous meals when handed a hodgepodge of ingredients and given the task of using their creativity to come up with an appetizing menu. Corporate CEOs, on the other hand, develop a plan to prepare a specific dish and then create a process for making that dish in the most efficient, expeditious fashion.⁴⁹
- **Resourceful.** Entrepreneurs excel at getting the most out of the resources that are available—however limited they may be. They are the MacGyvers of the business world, able to accomplish almost any task using their street smarts, despite having only minimal resources. (*MacGyver* was a television show that ran from 1985 to 1992 and featured a secret agent whose extensive knowledge of science enabled him to develop innovative, spontaneous solutions to the catastrophic situations he often faced. For instance, MacGyver once used a lens from a pair of binoculars to reflect a laser beam back to its source and destroy the device.)

Entrepreneurs rarely have “enough” resources; however, they know how to maximize the resources they have. They are skilled at **bootstrapping**, a strategy that

bootstrapping

a strategy that involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.

involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.



ENTREPRENEURIAL PROFILE: Sara Blakely: Spanx

In 1998, Sara Blakely was a door-to-door fax salesperson. Tired of dealing with pantyhose that bunched up, she developed a slimming version of what she called *shapewear*, footless pantyhose designed to lie smoothly under a woman's clothing. She invested her life savings of \$5,000 to create a company, Spanx, to market her invention. Her Atlanta apartment was the company's headquarters, and her bathroom was the order fulfillment center. Blakeley knew that she should file for a patent for her shapewear products but did not have enough money to hire a patent attorney, so she spent many evenings in the library at nearby Georgia Tech University, researching patent law. She wrote her own patent application (successfully) and spent weekends driving more than five hours to North Carolina, calling on hosiery mills, trying to convince one of them to manufacture her product. After a "show and tell" session with a Neiman Marcus buyer, Blakely landed her product in seven of the retailer's stores. Then Oprah Winfrey touted Spanx on her list of favorite things, and the company's sales took off. Today, the Spanx line includes more than 200 items, and because Blakely bootstrapped her company, which is valued at more than \$1 billion, she still owns 100 percent of it. Spanx made Blakely the youngest self-made female billionaire in the world (and she has pledged to give away most of her wealth).⁵⁰ ■



Mike McGregor/Contour/Getty Images

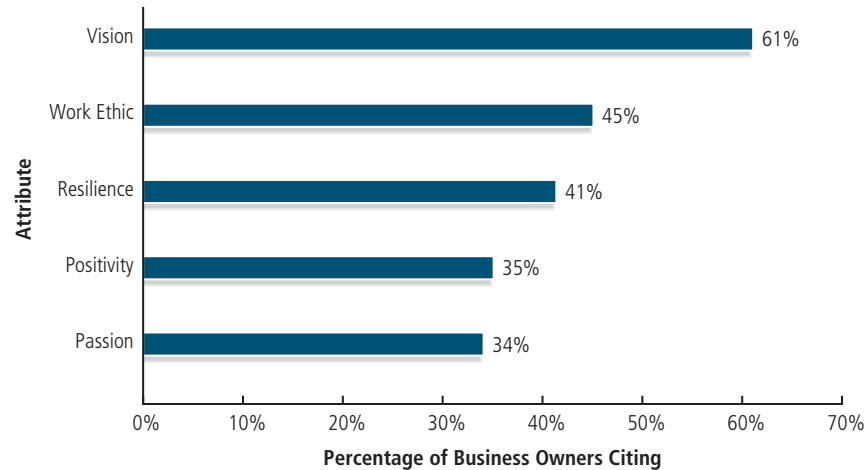
- **Willingness to work hard.** Entrepreneurs work hard to build their companies, and there are no shortcuts around the workload. In his book *Outliers: The Story of Success*, Malcolm Gladwell observes that the secret to success in business (or sports, music, art, or any other field) is to invest at least 10,000 hours practicing and honing one's skills. For instance, Mark Cuban, billionaire owner of the Dallas Mavericks of the National Basketball Association and founder of Broadcast.com, the leading provider of multimedia and streaming on the Internet (which he sold to Yahoo! for \$5.7 billion), says that he worked for seven years without taking a day off to launch his first business, Micro-Solutions, a computer systems integrator. Cuban spent his days making sales calls, and at night and on weekends he studied and practiced to learn everything he could about computers.⁵¹ Entrepreneurs capitalize on opportunities through sheer hard work. A great idea may come to an entrepreneur in a flash, but building a successful business from a great idea takes time and lots of hard work.⁵²
- **Tenacity.** Obstacles, obstructions, and defeat typically do not dissuade entrepreneurs from doggedly pursuing their visions. They simply keep trying. Hurricane Sandy nearly wiped out Jackie Summers' company, Jack from Brooklyn, which produces a unique artisanal alcoholic beverage called *sorel* in an old warehouse in Brooklyn's historic Red Hook district. Despite the loss of product, equipment, and sales, Summers persevered and rebuilt his business. Summers's spirit of tenacity, willingness to concentrate on a single insurmountable task each day, and accomplishment of each task allowed him to recover from the devastating loss.⁵³ Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that success is "a feat not of intellect but of will."

What conclusion can we draw from the volumes of research conducted on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether they will succeed. Indeed, *diversity* seems to be a central characteristic of entrepreneurs. One astute observer of the entrepreneurial personality explains, "Business owners are a culture unto themselves—strong, individualistic people who scorn convention—and nowadays, they're driving the global economy."⁵⁴ Indeed, entrepreneurs tend to be nonconformists, a characteristic that seems to be central to their views of the world and to their success.

FIGURE 1.3

Most Important Qualities of an Entrepreneur

Source: Ryan Westwood, “What Traits Do We Need to Succeed as Entrepreneurs?” *Forbes*, September 4, 2015, www.forbes.com/sites/ryanwestwood/2015/09/04/what-traits-do-we-need-to-succeed-as-entrepreneurs/#4d7f537f8ff4.



As you can see from the examples in this chapter, *anyone*, regardless of age, race, gender, color, national origin, or any other characteristic, can become an entrepreneur (although not everyone should). There are no limitations on this form of economic expression. Entrepreneurship is not a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn. It has become a very common vocation. The editors of *Inc.* magazine claim, “Entrepreneurship is more mundane than it’s sometimes portrayed. . . . You don’t need to be a person of mythical proportions to be very, very successful in building a company.”⁵⁵ Figure 1.3 summarizes the qualities that company founders say are most important to entrepreneurs.

LO3A

Describe the benefits of entrepreneurship.

The Benefits of Entrepreneurship

Surveys show that owners of small businesses believe they work harder, earn more money, and are more satisfied than if they worked for someone else. Before launching any business venture, every potential entrepreneur should consider the benefits of small business ownership.

Opportunity to Create Your Own Destiny

Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them. Entrepreneurs want to “call the shots” in their lives, and they use their businesses to make that desire a reality. Numerous studies of entrepreneurs in several countries report that the primary incentive for starting their businesses is “being my own boss.” “Owning your own business means you have some say in deciding what your destiny is going to be,” says Kathy Mills, founder of Strategic Communications, a highly successful information technology company in Louisville, Kentucky.⁵⁶

Opportunity to Make a Difference

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Known as **social entrepreneurs**, these business builders seek innovative solutions to some of society’s most vexing problems. They use their skills not only to create profitable business ventures but also to achieve social and environmental goals for society as a whole. Their businesses often have a triple bottom line that encompasses economic, social, and environmental objectives. These entrepreneurs see their businesses as mechanisms for achieving social goals that are important to them as individuals. Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve Earth’s limited resources, these entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

social entrepreneurs

entrepreneurs who use their skills not only to create profitable businesses but also to achieve economic, social, and environmental goals for the common good.



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Making the Most of an Opportunity

The most important trait of an entrepreneur is the ability to spot an opportunity and bring it to fruition. Successful entrepreneurs view every event or situation as a business opportunity and are continually thinking of ways to make these ideas a success. Consider the following examples.

Rise Mom: Not Renting the Heart Anymore!

Sihah Waris is the first female graduate of the prestigious Founder Institute in Pakistan, which offers an entrepreneur training and startup launch program to help aspiring entrepreneurs build technology companies. Sihah already had a degree in business management and information technology when she joined the program.

Sihah saw that many educated and talented women in Pakistan are not part of the workforce; indeed, according to labor surveys in 2017, only 22.4 percent of it are women. Most educated women in Pakistan cite the difficulty of managing their careers while taking care of their infants as their reason for leaving the workforce. Sihah believes that even those mothers who decide to continue working do so under tremendous stress; they are always worried about how their child is doing. She came across many such women within her circle of friends and relatives who would frequently call home or the daycare center to check on their child.

Sihah wanted to help these women and empower them through technology. Adding her previously acquired entrepreneurial skills to the mix, she came up with the idea of Rise Mom.

Rise Mom is a website and a mobile software application that mothers can download to keep track of their children. It has tie-ups with several daycare centers where cameras are installed. The Rise Mom service enables mothers to view the live video feed of their child. These mothers feel connected with the feeding, sleeping, or playing child even when they are in the office. Access to the website account and the software application is free, but mothers pay for the time they use this service.

Rise Mom has also become an online community for mothers. It provides a blog and a forum for mothers to exchange ideas on parenting issues and share their experience in raising children. Mothers can also use its service to find daycare centers in the city and book an appointment to visit them. They can evaluate several daycare centers before choosing the one that suits them.

Rise Mom currently operates out of an office in Islamabad and has plans to open offices in Lahore and Karachi very soon. As an online business, Rise Mom has a quickly expanding reach, with inquiries from other cities pouring in. The company's target is to have at least one Rise Mom certified daycare center in every city in Pakistan.

Glowork: The Saudi Women's Ambassador

Four years ago, 28-year-old Khalid Al Khudair left a comfortable job as an auditor at KPMG and set up Glowork, a company that focuses on solving women's unemployment in Saudi Arabia. Saudi Arabia has one of the world's lowest representations of women in the workforce. There are many legal and cultural reasons for this; for example, Saudi segregation law requires that genders do not mix at the workplace, and compliance with this law requires that businesses must create segregated workspaces for women. As this costs

money, it discourages most companies from hiring women. Saudi regulations also make a variety of professional occupations unsuitable for women, and this further limits women's ability to get jobs.

Khalid was always aware of this, but when his sister returned from Canada after completing her education and could not get a job, it touched him personally. He felt motivated to change perceptions of women in the workforce and to create meaningful job opportunities for them. The result was Glowork, a platform for job creation for women.

Glowork is an online portal where women register themselves to upload profiles that are made available to local and international companies operating in Saudi Arabia. These companies have partnered with Glowork and are ready to employ women. Glowork also built a database of more than 1.2 million women using the government's unemployment records.

Within a couple of years, the company was able to arrange jobs for more than 36,000 women. In 2017, Glowork organized a job fair that was attended by more than 40,000 women. The company offers a range of services to its customers: virtual offices, mobile applications, website subscriptions, click-through advertisements, increased interactions through social networking, HR consultancy services, and career advisory services.

Glowork has been recognized internationally by global bodies such as the International Labour Organization, the World Bank, and the United Nations. The Saudi government has also recognized Khalid's contribution, especially his virtual office solution, which helps create opportunities for those in rural areas, promotes the hiring of those with special needs, and fits perfectly with Saudi culture and tradition. As a result, the government frequently consults the company for advice on legislation related to women working in specific sectors.

Since 2017, Saudi Arabia has offered new opportunities for women, from the right to drive and run their businesses, to the freedom to attend sports events and exercise in gyms. Khalid is capitalizing on this opportunity, as Glowork can now arrange for many new types of jobs for women in sectors that were earlier not open to female employment.

1. What benefits do these entrepreneurs gain from owning their businesses? What risks did these entrepreneurs take when they started their companies?
2. Explain how these entrepreneurs exhibit the entrepreneurial spirit.
3. How do both Sihah and Khalid display entrepreneurial skills that do not only focus on the profitability of the businesses but also on other goals? Explain your answer.

Sources: Khalid Al-Khudair "The Saudi Diversity Don," *Arab News*, April 14, 2018; Ed Attwood "Putting Saudi Women First: Glowork's Khalid Alkhudair," *Arabian Business*, June 5, 2015; www.arabianbusiness.com/putting-saudi-women-first-glowork-s-khalid-alkhudair-595050.html; "Get to Know All about Us," Risemom, risemom.com/about-us; "Sihah Waris—The Rising Woman," at <http://www.startup.pk/2016/02/29/sihah-waris-the-rising-woman/>; The World Bank, "Labor Force, Female (% of Total Labor Force)," data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS?locations=PK; Rehman Malik, "Women in Pakistan Workforce," *The Nation*, October 22, 2017, nation.com.pk/22-Oct-2017/women-in-pakistan-s-workforce.



Courtesy of Katherine Kirsch, Chief Marketing Officer, Sisu Global Health Inc.



ENTREPRENEURIAL PROFILE: Carolyn Yarina: CentriCycle

As part of a class project in a freshman engineering class at the University of Michigan, Carolyn Yarina discovered that one of the greatest needs of rural health workers in developing nations is a centrifuge that could operate without electricity. By the end of the semester, Yarina and a team of students designed a human-powered centrifuge made from bicycle parts called the CentriCycle. The project stirred Yarina's interest in entrepreneurship, and she began taking courses in that field, including one on social entrepreneurship that enabled her to go to India. Soon, Yarina and fellow student Katie Kirsch teamed up with University of Michigan graduate Gillian Henker, who was developing Hemafuse, an auto-transfusion pump for blood, to create Sisu Global Health, a socially conscious, for-profit business that focuses on medical products designed to meet the needs of healthcare professionals in developing countries. After field tests, the entrepreneurs redesigned the CentriCycle as a hand-operated device, but their goal

remains the same: to use their business to improve the quality of healthcare in developing nations. Yarina, CEO of Sisu Global Health, says that she never expected to be the head of an entrepreneurial venture, but she now realizes that entrepreneurship involves more than merely making money; it involves making a positive impact on the world.⁵⁷ ■

Yarina, Kirsch, and Henker are just two of millions of social entrepreneurs who have started for-profit businesses with a broader goal of making the world a better place to live.

Opportunity to Reach Your Full Potential

Too many people find their work boring, unchallenging, and unexciting. But not entrepreneurs! To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision, not limits artificially created by an organization (e.g., the "glass ceiling").

Owning a business gives them a sense of empowerment. While Elizabeth Elting was in college, she worked in the translation industry, where she saw plenty of room for improvement. After she met Phil Shawe at New York University's Stern School of Business, the pair decided to start TransPerfect Translations to provide timely, accurate translation services to companies around the globe. Launched from a dorm room, TransPerfect Translations now employs more than 2,000 people in 80 offices on six continents and generates annual sales of more than \$350 million. Elting and Shawe have financed the companies' growth without any external financing. "We like not having to answer to other people, to spend time explaining exactly where we are to investors," says Elting. "We like it that it's just the two of us. There's nothing else we'd rather be doing every day."⁵⁸

Opportunity to Reap Impressive Profits

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. A recent survey by online lender OnDeck reports that 65 percent of small business owners believe that they are in a better financial position running their own businesses than working for a company in the same field.⁵⁹ Several studies, including one by the Institute for the Study of Labor, confirm this belief; the median salary for entrepreneurs is 18 percent higher than that for employed workers.⁶⁰ Entrepreneurs are not constrained by the boundaries that corporate hierarchies impose on their employees; they are free to create value by making the best use of their experience, skills, abilities, and ideas and, as a result, reap the financial benefits of their creative efforts. Most entrepreneurs never become superrich, but many of them do become quite wealthy. Indeed, nearly 75 percent of those on the *Forbes* list of the 400 richest Americans are first-generation entrepreneurs (and most of the others are part of successful family businesses)!⁶¹ In addition, the net worth of the entrepreneurs in the *Forbes* list of the 40 richest entrepreneurs under



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Decoding the DNA of the Entrepreneur

Management consulting firm Ernst & Young has developed the following model of an entrepreneur.

Nucleus

At the center of the model lie the entrepreneur's complementary characteristics of an opportunistic mindset and an attitude of tolerance of risk and failure.

Opportunistic mindset. One of the hallmarks of entrepreneurs is their ability to spot opportunities where others do not. They know that although disruptions create problems, they also create opportunities for those who are prepared to capitalize on them. Grace and Seung Paik and their three children ate many meals at restaurants while their house was being remodeled. Like most other young children, the little Paiks often grew restless, crumpled up their placemats, and wanted to run around the restaurant. To keep her children occupied while dining out, Seung created reusable placemats with chalkboards on one side so that the children could draw and doodle. When the food arrived, they simply flipped the mats over and had traditional placemats. When other parents began asking Seung where they could get similar placemats, she decided to launch a business selling them through local boutiques. Seung has expanded the

company's product line to include smocks, aprons, tote bags, chalk, baby bibs, and other items. Her company, Jaq Jaq Bird, has been featured on HGTV, CNBC, and Rachael Ray TV shows as well as on the Web site Daily Candy. It now sells its products through major retailers, including Nordstrom, Target, and The Container Store.

Tolerance of risk and failure. Most people are risk averse. Most entrepreneurs don't take extraordinary risks, but they accept risk as a natural part of achieving big goals. Mark Coker, CEO of Smashwords, a publisher of e-books, says that as an entrepreneur, he cannot afford to make too many mistakes; otherwise, his business will fail. However, he admits that if he is not making enough mistakes, that means he is not taking enough risks, and the business will fail. Keri Ferry was working long days in a private equity firm when she was inspired by retail models offering high-quality items at low prices directly to consumers. Ferry quit her job and launched 25 Bedford, a direct-to-consumer e-tail collection of quality mix-and-match professional separates aimed at young professional women like herself. Each piece in the collection, which is made in New York City's garment district, is simple, elegant, and designed to go with every other piece, maximizing the number of clothing combinations



(continued)

You Be the Consultant *(continued)*

a woman has. As an entrepreneur, Ferry, who financed 25 Bedford with money from family and friends, says that every morning when she makes out her to-do list, she realizes that she does not know how to do any of the items but she loves figuring things out. She also admits that her journey has required a willingness to take some risks.

Inner Ring

The inner ring of the model shows six characteristics that are integral parts of the entrepreneurial personality.

Drive, tenacity, and persistence. To bring their business ideas to life, entrepreneurs must demonstrate drive, tenacity, and persistence. Entrepreneurs must overcome countless obstacles on their way to building successful businesses.

Architect of own vision; passionate and focused. As you have learned in this chapter, entrepreneurs enjoy being in control of their own destinies, and they are passionate, even fanatical, about their business ideas. David Walsh, a former CIA operative and founder of Prescient Edge, a security integration and technology development business in McLean, Virginia, says that being solely responsible for every facet of his business can be a challenge, but it also means that there are no limits on his ability to create value. Jo Malone founded a highly successful cosmetics company at her kitchen table in London with four plastic mixing jugs for fragrances that she named after herself and ultimately sold to Estée Lauder. After a successful battle with cancer, Malone started a second company, Jo Loves, that sells a line of bath and body products, including unique fragrances, in a shop on London's Elizabeth Street. Malone's passion for her business and its products is driving her company's rapid growth. Malone says that successful entrepreneurs need three qualities: creativity, resilience, and passion.

Build an ecosystem of finance, people, and know-how. Smart entrepreneurs know that they cannot do everything themselves and build a team of professionals to nurture and protect the business. While attending the University of South Carolina, Allen Stephenson dreamed of starting a business. Having operated a successful lawn care business in high school, Stephenson had a head start on the road to entrepreneurship. His inspiration came one day as a result of a semester he spent abroad in Italy, where he saw firsthand fine clothing made with attention to detail; he took a pair of scissors to his collection of polo shirts, cut away what he considered to be the best features of each one, and stitched them back together into a model "Frankenstein" shirt. He spent the next year working with several textile industry veterans, perfecting his design for the perfect polo shirt and having samples made by 11 factories in four countries. Stephenson launched Southern Tide, ordered 5,500 shirts, and began calling on independent men's shops to sell them. Most shop owners declined, which prompted him to start giving the owners a few shirts to wear or to give to their best customers. The handouts accelerated sales quickly, and Stephenson made an important and selfless decision to bring in an experienced CEO, Jim Twining. "I was sure [the business] was going to work if I just kept working at it and getting the right people together," he says. "I knew it wouldn't work with what and who I alone knew at the time." Twining led Southern Tide in

a \$1.8 million round of equity financing and developed a strategic plan to guide its growth. Today, Southern Tide's product line has grown well beyond the perfect polo shirt to include pants, T-shirts, hats, belts, shoes, swimwear, and more and is sold in nearly 600 stores in 43 states and on its Web site. Many publications, including *Inc.* and *Forbes*, have recognized Stephenson's Southern Tide as one of the fastest-growing small companies in the United States.

Seek out market niches and gaps. Entrepreneurs are adept at finding lucrative niches and gaps in the market that large businesses often overlook. After the real estate market collapsed, David Campbell left the industry and started Boxman Studios, a company based in Charlotte, North Carolina, that is focused on a unique market niche: transforming shipping containers into portable, upscale, turn-key hospitality suites aimed at companies participating in special events and marketing promotions or businesses establishing temporary pop-up shops. With annual sales of more than \$4 million, Boxman Studios counts among its customers many small companies as well as major corporations such as Red Bull, Google, Razorfish, Ford, and Delta Air Lines.

Live what you believe; build success, culture, and values. As you have seen, entrepreneurs create company cultures that reflect their values and belief systems. "You live what you believe," says Turner Davila, founder of Katcon, an automotive supplier in Santa Catarina, Mexico. Entrepreneurs often build businesses that seek to achieve financial, social, and environmental goals that make their communities—and the world—better places to live.

Be a nonconformist and a team player. Entrepreneurs tend to be nonconformists, choosing to do things their own way. Just as many traditional managers would find the life of an entrepreneur unsettling, so too would entrepreneurs find the boundaries, rules, and traditions of corporate life stifling and boring. Yet successful entrepreneurs recognize the importance of being team players. They understand that accomplishing big goals requires a broad set of skills that no one person has. Sisters Sophie LaMontagne and Kallinis Berman were very close growing up but went their separate ways after college. LaMontagne became a biotech expert, and Berman worked in the fashion industry. In 2008, the sisters reunited to realize a dream that they had had since childhood: owning a bakery together. "We quit our jobs, borrowed our grandmother's cake recipes, and took a leap of faith," says LaMontagne. Today, the sisters are at the helm of Georgetown Cupcake, a bakery that has grown from a two-person shop outside of Washington, DC, to a 350-person operation with stores in New York City, Boston, Atlanta, and Los Angeles.

Outer Ring

The model's outer ring includes many of the entrepreneurial traits discussed in this chapter, including resilience, teamwork, innovation, passion, leadership, integrity, quality, customer focus, flexibility, and vision.

1. How do the characteristics at the model's nucleus—opportunistic mindset and tolerance of risk and failure—fit together in the entrepreneur's mind?

(continued)

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2. Work with a team of your classmates to interview at least one entrepreneur. Does he or she fit the model described here? Explain, giving specific examples from your interview.

Sources: Based on “Barbara Haislip, “No More Restless Children at Restaurants?” *Wall Street Journal*, May 2, 2016, p. R3; “The Inc. 500,” *Inc.*, September 2014, p. 194; Alev Aktar, “Chic Staples,” *Entrepreneur*, September 2014, p. 22; “The Inc. 500,” *Inc.*, September 2014, p. 181; Dinah Eng, “The Sweet Smell of Jo Malone’s

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age 40 ranges from \$50 billion (Mark Zuckerberg, founder of Facebook) to \$270 million (Kyle Vogt, co-founder of Justin.tv, Twitch, and Cruise Automation).⁶² People who own their own businesses are four times more likely to be millionaires than those who are employed by others. According to Russ Alan Prince and Lewis Schiff, authors of *The Middle Class Millionaire*, more than 80 percent of middle-class millionaires, those people with a net worth between \$1 million and \$10 million, own their own businesses or are part of professional partnerships. (They also work an average of 70 hours a week.)⁶³ Indeed, the typical millionaire’s business is not a glamorous, high-tech enterprise; more often, it is something much less glamorous—scrap metal, welding, auctioneering, garbage collection, and the like.



ENTREPRENEURIAL PROFILE: Evan Spiegel and Bobby Murphy: Snapchat

Evan Spiegel and Bobby Murphy met while attending Stanford University, where as freshmen they launched a business called FutureFreshmen, a business that never took off. In their junior year, they came up with the idea for a photo-sharing application they called Picaboo in which photos shared with friends would vanish from electronic devices and servers after a short time. The entrepreneurs changed the app’s name to Snapchat, which grew slowly at first and then exploded as millions of people began using it. In 2013, Spiegel and Murphy rejected an offer from Facebook to purchase Snapchat for \$3 billion. Today, Spiegel, whose net worth is \$2.1 billion, and Murphy, whose net worth is \$1.8 billion, own 15 percent of Snapchat, which is valued at \$16 billion.⁶⁴ ■

Opportunity to Contribute to Society and Be Recognized for Your Efforts

Playing a vital role in their local business systems and knowing that their work has a significant impact on the nation’s economy is yet another reward for entrepreneurs. Often, small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive from the customers and the communities they have served faithfully over the years. A recent Gallup survey reports that 67 percent of adults have confidence in small businesses, compared to just 21 percent who have confidence in big businesses and just 8 percent who have confidence in Congress.⁶⁵ Another survey by the Public Affairs Council reports that 68 percent of adults prefer doing business with a small local company that charges somewhat higher prices than a large national company that offers lower prices.⁶⁶

Opportunity to Do What You Enjoy and Have Fun at It

A common sentiment among small business owners is that their work *really* isn’t work. In fact, a survey by consulting firm Deloitte reports that 60 percent of business owners say they do not plan to retire from their businesses unless they are forced to because of health reasons!⁶⁷ Most successful entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. Many of them have made their avocations (hobbies) their vocations (work) and are glad they did! These entrepreneurs are living the advice Harvey McKay offers: “Find a job doing what you love, and you’ll never have to work a day in your life.”

The journey rather than the destination is the entrepreneur’s greatest reward. “Rather than have money be your primary motivator,” says Tony Hsieh, CEO of online shoe retailer Zappos, a company that Hsieh sold to Amazon for \$1.2 billion, “think about what you would be so passionate about doing that you’d be happy doing it for 10 years, even if you never made any money

from it. *That's* what you should be doing. Your passion is what's going to get you through the hard times. Your passion is going to be contagious and rub off onto employees and have a ripple effect on customers and business partners as well.”⁶⁸



ENTREPRENEURIAL PROFILE: Lily Wycoff: Lily Pottery The first time Lily Wycoff worked with ceramics was in a high school art class, and immediately she was hooked. What she did not realize at the time was the role that her love for art and ceramics would play in her career. After studying art at Bob Jones University in Greenville, South Carolina, Wycoff dreamed of starting her own business but decided to play it safe and took a job in marketing. In her spare time, she still practiced her art, making pottery using a wheel and kiln at her home. In 2007, Wycoff partnered with two other artists to hold a show, which prompted her to make ceramic jewelry for the first time. The simple clay pendants on leather strands she made sold out quickly, and Wycoff knew that the potential for a business existed. She quit her marketing job and opened a studio in Greenville with her longtime friend and fellow artist Barb Blair. Today, Wycoff owns Lily Pottery and has two locations from which she sells jewelry made from ceramics, metal, and other materials as well as clothing and home accessories. Although her employees now make the individual pieces of jewelry, Wycoff creates all the designs and oversees every aspect of the process. Through Lily Pottery, Wycoff's vocation is merely an extension of her avocation, and she enjoys making a living doing what she loves.⁶⁹ ■

LO3B

Describe the drawbacks of entrepreneurship.

The Potential Drawbacks of Entrepreneurship

Entrepreneurship is not a suitable career path for the timid. Individuals who prefer the security of a steady paycheck, a comprehensive benefits package, a two-week paid vacation, and the support of a corporate staff probably should not go into business for themselves. Owning a business has many benefits and provides many opportunities, but anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks. “Building a start-up is incredibly hard, stressful, chaotic, and—more often than not—results in failure,” says entrepreneur Eric Ries. “So why become an entrepreneur? Three reasons: change the world, make customers' lives better, and create an organization of lasting value. If you want to do only one of these things, there are better options. Only start-ups combine all three.”⁷⁰ Let's explore the “dark side” of entrepreneurship.

Uncertainty of Income

Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. Although the mean and median incomes for entrepreneurs are higher than those for employees, so is the *variability* of entrepreneurs' incomes. In other words, some entrepreneurs earn far more through their companies than they could working for someone else, but other entrepreneurs' businesses barely earn enough to provide them with an adequate income. In the early days of a start-up, a business often cannot provide an attractive salary for its owner and meet all its financial obligations, and the entrepreneur may have to live on savings or a spouse's income. The regularity of income that comes with working for someone else is absent because the owner is always the last one to be paid. A recent survey by Citibank reports that 54 percent of small business owners have gone without a paycheck to help their businesses survive.⁷¹

Risk of Losing Your Entire Investment

Business failure can lead to financial ruin for an entrepreneur, and the small business failure rate is relatively high. According to research by the Bureau of Labor Statistics, 34 percent of new businesses fail within 2 years, and 52 percent shut down within 5 years. Within 10 years, 66 percent of new businesses have folded.⁷² A failed business can be not only financially but also emotionally devastating. According to the Global Entrepreneurship Monitor, fear of failure prevents about 30 percent of adults in the United States from attempting to launch a business. Fear of failure equals entrepreneurial paralysis.⁷³ To Craig Dubitsky, founder of Hello, an oral-care-product manufacturer in Montclair, New Jersey, being scared is simply part of being an entrepreneur. However, he says, what is even scarier than launching a business is the regret associated with *not* bringing a business idea to life. Entrepreneurs simply conquer their fear and go “all in.”⁷⁴

Before launching their businesses, entrepreneurs should ask themselves whether they can cope financially and psychologically with the consequences of failure. They should

consider the risk–reward trade-off before putting their financial and mental well-being at risk:

- What is the worst that could happen if I open my business and it fails?
- How likely is the worst to happen?
- What can I do to lower the risk of my business failing?
- If my business were to fail, what is my contingency plan for coping?

Just weeks after Jim Snediker’s online flash sale business, Left of Trend, failed, he launched with four friends another business, Stock Mfg. Company, a company that manufactures premium men’s casual clothing in a historic Chicago factory and sells directly to customers through its Web site and periodic pop-up shops across the United States.⁷⁵

Long Hours and Hard Work

Business start-ups usually demand long hours and hard work from their owners. The average small business owner works 51 hours a week, compared to the 40.2 hours per week the typical U.S. production employee works.⁷⁶ Entrepreneurship is not a 9-to-5 job. A survey by OnDeck reports that 9 out of 10 business owners perform at least some work on weekends, and 80 percent report continuing to work in the evenings after leaving their businesses.⁷⁷ Adam Warren, founder of Syinc.tv and Sportyourself, companies that allows users to incorporate links to retailers’ Web sites for the products that appear in their online photographs and receive payment when someone purchases a tagged item, says that his workday typically starts at 6:30 A.M. and does not end until 10 P.M. or later. “I’m thinking about the business all the time, but I don’t see it as work. If you are passionate about your work, it’s what you want to be doing anyway.”⁷⁸

In many start-ups, six- or seven-day workweeks with no paid vacations are the *norm*. A recent survey by Manta reports that only 43 percent of small business owners plan to take a summer vacation of at least one week. The primary reason entrepreneurs don’t take vacations? They have no one to cover their workload.⁷⁹ The demands of owning a business make achieving a balance between work and life difficult for entrepreneurs. Sleep researcher James Maas of Cornell University estimates that entrepreneurs lose 700 hours of sleep in the year they launch their companies, which is equivalent to the amount of sleep that a parent loses in the first year of a baby’s life.⁸⁰ Because they often must do everything themselves, owners experience intense, draining workdays. “I’m the owner, manager, secretary, and janitor,” says Cynthia Malcolm, who owns a salon called the Hand Candy Mind and Body Escape in Cheviot, Ohio.⁸¹ Many business owners start down the path of entrepreneurship thinking that they will own a business only to discover later that the business owns them!

Lower Quality of Life Until the Business Gets Established

The long hours and hard work needed to launch a company can take their toll on the remainder of an entrepreneur’s life. Nearly three out of four (72 percent) business owners say that they have made significant personal sacrifices in their personal lives for their businesses. The most common regret: not spending enough time with their loved ones. (Interestingly, not starting their businesses sooner was second.)⁸² Business owners often find that their roles as husbands and wives or fathers and mothers take a backseat to their roles as company founders. Marriages and friendships are too often casualties of small business ownership.



ENTREPRENEURIAL PROFILE: Tim Askew: Corporate Rain International Tim Askew, founder of Corporate Rain International, a provider of sales outsourcing services based in New Rochelle, New York, compares being married and an entrepreneur to standing with one foot atop two trains going in the same direction but moving farther apart. Askew and his wife of 16 years divorced not long after he started his business. Looking back, Askew admits that his first love was his company. He was so focused on building a successful business that he rarely joined his family on vacations, and when he was with his family, he was so preoccupied with thoughts of his company that he was mentally and emotionally absent.⁸³ ■

High Levels of Stress

Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one. Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck and benefits, and have mortgaged everything they own to get into business. Most start-ups take months, sometimes years, before they generate positive cash flow, which means their founders must continue to feed them cash during that stressful time. Rescue One Financial, a financial services company based in Irvine, California, generates more than \$32 million in annual sales and is profitable, but in the early days, founder Bradley Smith had to borrow from his retirement account, max out a bank line of credit, borrow money from his father, and even sell his Rolex watch to keep the company from folding. Looking back, he says he was a psychological wreck, but his perseverance paid off in the form of a fast-growing, highly successful business.⁸⁴

Business failure often means total financial ruin for entrepreneurs and their families, and that creates intense levels of stress and anxiety. Sometimes entrepreneurs unnecessarily bear the burden of managing alone because they cannot bring themselves to delegate authority and responsibility to others in the company, even though their employees are capable.

Complete Responsibility

It's great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisers. When there is no one to ask, the pressure can build quickly. The realization that the decisions they make are the cause of their company's success or failure has a devastating effect on some people. Small business owners realize quickly that *they* are the business.

Discouragement

Launching a business is a substantial undertaking that requires a great deal of dedication, discipline, and tenacity. Along the way to building a successful business, entrepreneurs run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions. Successful entrepreneurs know that every business encounters rough spots along the way, and they wade through difficult times with lots of hard work and an abundant reserve of optimism.

Despite the challenges that starting and running a business pose, entrepreneurs are very satisfied with their career choices. A recent Gallup poll survey reports that 84 percent of small business owners say that if they were choosing a career again, they would still become small business owners.⁸⁵ Many entrepreneurs are so happy with their work that they want to continue it indefinitely. In fact, 62 percent of entrepreneurs polled in a recent survey say that they never intend to fully retire, choosing instead to work either full- or part-time, and 4 percent say that they intend to start a new business.⁸⁶

LO4

Explain the forces that are driving the growth of entrepreneurship.

Behind the Boom: What's Feeding the Entrepreneurial Fire

What forces are driving this entrepreneurial trend in our economy? Which factors have led to this age of entrepreneurship? Some of the most significant ones include the following:

- **Entrepreneurs as heroes.** An intangible but very important factor is the attitude that Americans have toward entrepreneurs. As a nation, we have raised them to hero status and have held out their accomplishments as models to follow. Business founders such as Kevin Plank (Under Armour), Mark Zuckerberg (Facebook), Oprah Winfrey (Harpo Productions and OWN [the Oprah Winfrey Network]), Jeff Bezos (Amazon), Robert Johnson (Black Entertainment Television), and Steve Jobs (Apple) are to entrepreneurship what Stephen Curry, Michael Phelps, and Tom Brady are to sports. The media reinforce entrepreneurs' hero status with television shows such as *Shark Tank* and *Dragons' Den*, both of which feature entrepreneurs who pitch their ideas to a panel of tough business experts who have the capital and the connections to make a budding business successful. More than 10 million

people in 170 countries on six continents participate in 35,000 activities during Global Entrepreneurship Week, a celebration of entrepreneurship that is sponsored by the Kauffman Foundation.⁸⁷

- **Entrepreneurial education.** Colleges and universities have discovered that entrepreneurship is an extremely popular course of study. Disillusioned with corporate America's downsized job offerings and less promising career paths, a rapidly growing number of students see owning a business as their best career option. Growing numbers of students enroll in college knowing that they want to start their own companies rather than consider entrepreneurship as a possibility later in life; indeed, many are starting companies while they are in college. More than 400,000 students are enrolled in entrepreneurship courses, and 491 colleges and universities offer majors in entrepreneurship.⁸⁸ Many colleges and universities have difficulty meeting the demand for courses in entrepreneurship and small business. A recent survey by CreativeLive demonstrates the importance of entrepreneurship education; 34 percent of employed adults who want to start their own businesses say that not knowing where to start the process is a major barrier to their entrepreneurial dreams.⁸⁹



ENTREPRENEURIAL PROFILE: Gabe Jacobs, Amadou Crookes, and Mario Gomez-Hall: Cymbal

In their senior year at Tufts University, Gabe Jacobs, Amadou Crookes, and Mario Gomez-Hall started a business, Cymbal, built around a music app they created to connect the digital music experience with social media. (Gomez-Hall and Crookes turned down job offers at Microsoft and Google to focus on building the company.) They describe Cymbal as "music discovery powered by friends, not algorithms" because, like Instagram, it includes a home feed, personal profile, followers, likes, comments, hashtags, and tags. A user's home feed becomes a living playlist that his or her friends help develop by sharing their favorite songs of the moment. The result, the cofounders say, is the soundtrack of your life. Within a few months, more than 17,000 users downloaded Cymbal, clearing the path for Jacobs, Crookes, and Gomez-Hall to raise \$1.1 million in venture capital to fuel the company's growth.⁹⁰ ■

- **Demographic factors.** Globally, the rate of entrepreneurial activity is highest among people between the ages of 25 and 44 (see Figure 1.4). In the United States, the number of people in that age range currently is more than 84 million (26.4 percent of the U.S. population), which provides a strong demographic base for entrepreneurship.
- **Shift to a service economy.** The service sector accounts for 82.5 percent of the jobs and 80.1 percent of the private sector gross domestic product (GDP) in the United States, both

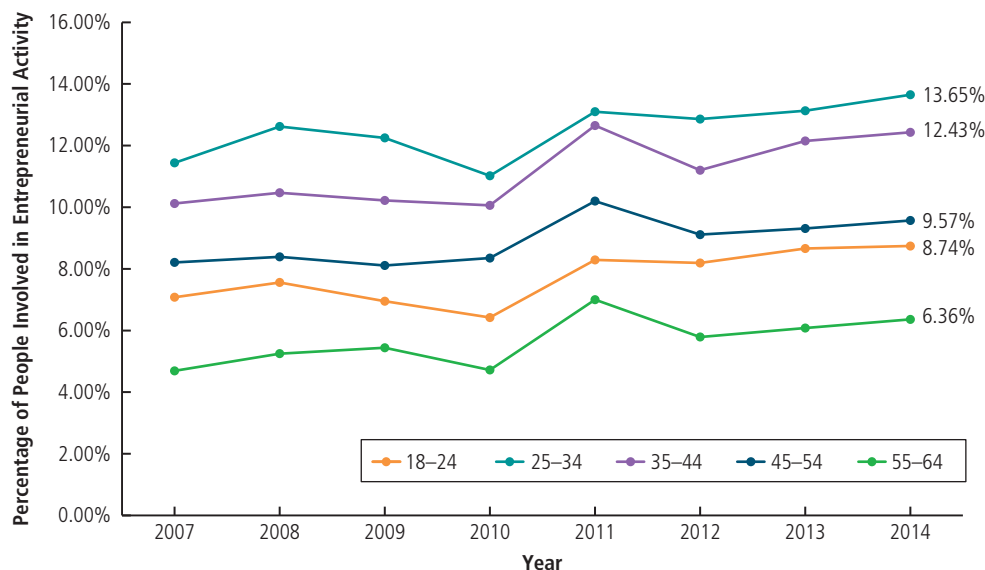


FIGURE 1.4
Global Entrepreneurial Activity by Age Group

Source: Based on Zoltán J. Ács, László Szerb, and Erko Autio, *Global Entrepreneurship Index, 2016*, Global Entrepreneurship and Development Institute, p. 2.

of which represent a sharp rise from just a decade ago.⁹¹ Because of their relatively low start-up costs, service businesses have become very popular among entrepreneurs. The booming service sector continues to provide many business opportunities, from educational services and computer maintenance to pet waste removal and smart phone repair.

- **Technology advancements.** With the help of modern technology such as portable computers and tablets, smart phones, copiers, 3-D printers, cloud storage, and productivity, communication, and social media apps, even one person working at home can look like a big business. At one time, the high cost of such technological wizardry made it impossible for small businesses to compete with larger companies that could afford the technology. Today, however, powerful computers, tablets, smart phones, and communication equipment are priced within the budgets of even the smallest businesses and have drastically reduced the cost of launching a business. Noting how technology has made testing an idea and starting a business much easier, David Kappos, head of the U.S. Patent and Trademark Office, says, “The distance between an idea and the marketplace has decreased dramatically.”⁹² With modern technology, entrepreneurs can run their companies from their homes—or almost anywhere—very effectively and look like any *Fortune* 500 company to customers and clients. Edith Elliott cofounded Noora Health, a company started at Stanford University that teaches patients and their family members simple healthcare skills that improve clinical outcomes and reduce readmissions after hospital visits. She splits her time between Stanford, California, where the company’s headquarters are located, Boston, Massachusetts, and Bangalore, India.⁹³
- **Independent lifestyle.** Entrepreneurship fits the way Americans want to live—with an independent and self-sustaining lifestyle. People want the freedom to choose where they live, the hours they work, and what they do. Although financial security remains an important goal for most entrepreneurs, many place top priority on lifestyle issues, such as more time with family and friends, more leisure time, and more control over work-related stress.
- **Outsourcing.** Entrepreneurs have discovered that they do not have to do everything themselves. Because of advances in technology, entrepreneurs can outsource many of the operations of their companies and retain only those in which they have a competitive advantage. Modern entrepreneurs use the “gig economy” to purchase the services they need on demand, eliminating the necessity of hiring staff to perform those duties. Doing so enhances their flexibility and adaptability to ever-changing market and competitive conditions.
- **The Internet, cloud computing, and mobile marketing.** The proliferation of the Internet, the vast network that links computers around the globe and opens up oceans of information to its users, has spawned thousands of entrepreneurial ventures since its beginning in 1993. **Cloud computing**, Internet-based subscription or pay-per-use software services that allow business owners to use a variety of business applications, from database management and inventory control to customer relationship management and accounting, has reduced business start-up and operating costs. Fast-growing small companies can substitute cloud computing applications for networks of computers and large office spaces, which allows entrepreneurs to build their companies without incurring high overhead costs.

cloud computing

Internet-based subscription or pay-per-use software services that allow business owners to use a variety of business applications, from database management and inventory control to customer relationship management and accounting.

Online retail sales, which currently account for 11 percent of total retail sales, are forecast to continue to grow rapidly (see Figure 1.5), creating many opportunities for Web-savvy entrepreneurs.⁹⁴ Apparel, accessories, books, music, travel services, event tickets, and electronic devices are among the best-selling items on the Internet, but entrepreneurs are learning that they can use this powerful tool to sell just about anything, including soil samples from Roswell, New Mexico, where a UFO allegedly crashed in 1947 (complete with a certificate of authenticity)!⁹⁵ In fact, entrepreneurs are using the Web to sell services such as a matching service for people and dogs in need of a forever home (BarkBuddy), a service that rents upscale port-a-johns for swanky events (ElizaJ), and products such as customized tea blends (Design A Tea) and travel-size kits of individually packaged products that come in hundreds of variations (Minimus).⁹⁶



FIGURE 1.5

U.S. Online Retail Sales

Source: Based on data from Forrester Research, 2016.

Currently, about 54 percent of small businesses have Web sites, double the number that had Web sites in 1997, and 24 percent of business owners without Web sites say that they plan to build them in the near future.⁹⁷ Yet, 22 percent of small business owners say that they are not likely to launch a Web site. The most common reasons? A Web site is not relevant to their businesses, and the cost of creating and maintaining a site is too high.⁹⁸ Many entrepreneurs see the power of **mobile computing** and are putting it to use, but some small businesses have been slow to adopt the technology. More than 50 percent of Web searches are conducted on mobile devices, but 32 percent of small business Web sites are not mobile friendly.⁹⁹ Business owners whose Web sites are not mobile friendly are sacrificing sales; mobile e-commerce sales make up 30 percent of total e-commerce retail sales.¹⁰⁰ “It’s almost as bad not to have a mobile-friendly Web site as it is not to have a site at all,” says Max Elman, founder of Razorfrog Web Design.¹⁰¹

mobile computing

connecting wirelessly to a centrally located computing system via a small, portable communication device.



ENTREPRENEURIAL PROFILE: Antonio Swad: Pizza Patrón Pizza Patrón, a pizza chain of nearly 100 locations with a Latino flair founded in 1986 by Antonio Swad, recently updated its Web site with a responsive design that allows it to configure properly on devices of any size, including tablets and smart phones. The company, which is based in Dallas, Texas, made the move in response to customers’ preference for placing pizza orders using mobile devices. Placing food orders from mobile devices is common, with 72 percent of mobile users having placed food orders via their smart phone or tablet.¹⁰² Since making the change, traffic to Pizza Patrón’s Web site is up 50 percent, and more than 75 percent of visits to the site were from users on mobile devices.¹⁰³ ■

- **International opportunities.** No longer are small businesses limited to pursuing customers within their own borders. The shift to a global economy has opened the door to tremendous business opportunities for entrepreneurs willing to reach across the globe. Although the United States is an attractive market for entrepreneurs, approximately 95 percent of the world’s population and more than 70 percent of its purchasing power lie outside U.S. borders.¹⁰⁴ The emergence of potential markets across the globe and crumbling barriers to international business because of trade agreements have opened the world to entrepreneurs who are looking for new customers. Whereas companies once had to grow into global markets, today small businesses can have a global scope from their inception. Called **micromultinationals**, these small companies focus more on serving customers’ needs than on the countries in which their customers live. More than 297,000 small businesses export goods and services. In fact, small businesses make up 98 percent of all businesses engaged in exporting, yet they account for only 34 percent of the nation’s export sales.¹⁰⁵

micromultinationals

small companies that operate globally from their inception.

Many small companies that could export do not take advantage of export opportunities, often because their owners don't know how or where to start an export initiative. Although regional unrest and recessions remain challenges to international trade, global opportunities for small businesses have a long-term positive outlook.

Although going global can be fraught with dangers and problems, many entrepreneurs are discovering that selling their products and services in foreign markets is really not so difficult. Small companies that have expanded successfully into foreign markets tend to rely on the following strategies:

- Researching foreign markets thoroughly
- Focusing on a single country initially
- Utilizing government resources designed to help small companies establish an international presence
- Forging alliances with local partners



ENTREPRENEURIAL PROFILE: Jonathan Mercado: Blue Orange Pottery

In 2011, Jonathan Mercado, president of Blue Orange Pottery, a family business in Laredo, Texas, that makes an expansive line of innovative home and garden décor, decided to expand the company's sales efforts beyond the domestic small boutique shops and large retailers that carried its products. Working with the International Trade Center in San Antonio, Blue Orange Pottery now exports to Canada, Switzerland, Australia, and Germany and is looking for new countries to target. Since beginning its export initiative, Blue Orange Pottery's sales have increased 30 percent.¹⁰⁶ ■

LO5

Explain the cultural diversity of entrepreneurship.

The Cultural Diversity of Entrepreneurship

As we have seen, virtually anyone has the potential to become an entrepreneur. Indeed, diversity is a hallmark of entrepreneurship. We now explore the diverse mix of people who make up the rich fabric of entrepreneurship.

Young Entrepreneurs

Young people are enthusiastically embracing entrepreneurship as a career choice. Indeed, nearly half of all entrepreneurs globally are between the ages of 25 and 44.¹⁰⁷ A Gallup survey reports that 40 percent of students in grades 5 through 12 say that they plan to start their own businesses—and 38 percent said that their goal is to invent something that changes the world. (The percentage of minority students who expressed a desire for a career in entrepreneurship, 50 percent, was higher than for white students, 37 percent.)¹⁰⁸ Although entrepreneurial activity tends to increase with age, many members of the Millennial generation (or Generation Y, those born between 1981 and 2000) show high levels of interest in entrepreneurship. Disenchanted with their prospects in corporate America and willing to take a chance at controlling their own destinies, scores of young people are choosing entrepreneurship as their initial career path. People between the ages of 15 and 29, more than 65 million strong, are deciding that owning their own companies is the best way to create job security and to achieve the balance between work and life that they seek.



Courtesy of Are you Kidding?



ENTREPRENEURIAL PROFILE: Sebastian Martinez: Are You Kidding?

At age 5, Sebastian Martinez had a passion for wacky socks that he turned into a business, Are You Kidding?, that designs and markets colorful, funky socks. With the help of his older brother Brandon, 7, who is the company's director of sales, Are You Kidding? now generates annual sales of \$15,000 through its Web site. Now 7 and 9, the Martinez brothers make sure the company lives up to its social responsibility, donating a portion of each sale to the American Cancer Society. The company recently donated \$3,000 to the charity. Because of young people such as the Martinezes, the future of entrepreneurship looks very bright.¹⁰⁹ ■



You Be the Consultant

College: The Ideal Place to Launch a Business

For growing numbers of students, college is not just a time of learning, partying, and growing into young adulthood; it is fast becoming a place for building a business. Today, more than 2,300 colleges and universities offer courses in entrepreneurship and small business management, and many of them have trouble meeting the demand for these classes. Today, entrepreneurship has become a mainstream activity on college campuses around the globe. Greater numbers of students are pursuing careers in entrepreneurship and see their college experience as an opportunity to get an early start not only by studying entrepreneurship but also by putting what they learn into practice. Bill Aulet, head of the Martin Trust Center for MIT Entrepreneurship, says that faculty members who teach entrepreneurship must nurture the spirit of a pirate in their students while teaching them how to execute their start-up plans with the precision of a Navy SEAL. In addition to regular classroom courses, colleges increasingly are building an extra dimension in their entrepreneurship programs, including internships with start-ups, consulting jobs with small businesses, mentoring relationships with other entrepreneurs, networking opportunities with potential investors, and participation in business plan competitions. Allan R. Cohen, the dean of the graduate program at Babson College, says that entrepreneurial education is a contact sport, and many colleges are adding boot camp–like courses to their curricula.

As the following examples prove, many college students expect to apply the entrepreneurial skills they are learning in their classes and the abundant resources available to them by starting businesses while they are still in college. They also are a testament to college students' creativity and work ethic.

Cavebox

Like many other college students, Storm Anderson, 22, and Samuel George, 27, led busy lives, participating in many on- and off-campus activities at Indiana University. Their hectic schedules meant that they didn't have much time for shopping, and they often ran out of their personal care items. The young entrepreneurs say they had neither the time nor the inclination to keep track of their stock of toothpaste and realized that other young men felt the same way. In early 2014, Anderson and George launched Cavebox, a service aimed at 18- to 30-year-old men that ships one- or two-month supplies of personal hygiene products for as little as \$25 so that men never have to leave their caves again to shop for personal care items. Customers can customize their Caveboxes, which include body, oral, skin, and hair care, along with other items, with their favorite brands, and shipping is free for boxes that cost \$30 or more. The company's bulk purchases allow it to keep prices affordable. Anderson and George also offer a travel-size bag called the Cavebag for the man-on-the-go.

ProfilePasser

Many high school athletes dream of being recruited by a bevy of colleges, but the college recruiting process is extremely inefficient,

and coaches often overlook talented athletes, who get only a handful of scholarship offers. That was the position that Samantha Weber found herself in during her last year of high school. Although things worked out well for Weber, who enrolled in Grove City College in Grove City, Pennsylvania, where she played varsity soccer for four years, the student-athlete decided to do something to help improve the recruiting process. During her senior year at Grove City College, while playing soccer and taking a full schedule of classes, Weber, just 21, created an athletic recruiting app, ProfilePasser, that connects high school athletes and college coaches at showcase tournaments. Student-athletes create their own profiles using the app, and when college coaches check in at a tournament, they have access to every player's profile and can use a search function to find athletes who fit a particular set of characteristics. ProfilePasser was one of only nine start-ups recently accepted into AlphaLab, Pittsburgh's leading business accelerator. Weber already has raised more than \$25,000 in private financing and has attracted a "who's who" group of advisors, including her older sister, Alexa Andrzejewski, founder of Foodspotting, a company that OpenTable recently bought for \$10 million.

FiscalNote

Students Jonathan Chen (University of Maryland), Timothy Hwang (Princeton University), and Gerald Yao (Emory University), all 21, created a company, FiscalNote, that uses artificial intelligence and big data to unlock the massive amounts of data created by governments and courts in all 50 states, the District of Columbia, and Congress. FiscalNote's algorithms and statistical analysis tools allow clients to identify meaningful trends in government data and to predict with 90 percent accuracy whether proposed legislation will become law. The young entrepreneurs already have raised \$1.2 million in equity capital from several high-profile investors.

A study by researchers at Babson College shows that students who take at least one entrepreneurship course are more likely to actually become entrepreneurs than those who do not. College can be one of the best places to start a business, but doing so requires discipline, good time management, and a willingness to make mistakes and learn from them. The recipe for success is the same as for entrepreneurs everywhere: Try something. Fail some. Learn something. Try again. Repeat.

1. One venture capitalist says that entrepreneurship can't be taught in a regular classroom any more than surfing can. His view is that students should get their feet wet in the real world of entrepreneurship. What do you think?
2. In addition to the normal obstacles of starting a business, what other barriers do collegiate entrepreneurs face?
3. What advantages do collegiate entrepreneurs have when launching a business?

(continued)

You Be the Consultant *(continued)*

4. What advice would you offer a fellow college student who is about to start a business?
5. Work with a team of your classmates to develop ideas about what your college or university could do to create a culture that supports entrepreneurship on your campus or in your community.

Sources: Based on Diana Ransom, "America's Coolest College Start-ups 2014," *Inc.*, 2014, www.inc.com/diana-ransom/coolest-college-startups-2014.html; "About Us," Cavebox, 2014, <http://thecavebox.com/pages/about-us>; Emily Niklas, "Student's Recruiter App Helps Athletes," *The Collegian*, November 1, 2013, pp. 1, 10; "About Our Company," FiscalNote, 2014, www.fiscalnote.com/about; Bill Aulet, "Teaching Entrepreneurship Is in the Start-up Phase," *Wall Street Journal*, September 12, 2013, p. A17; Jason Dailey, "Born or Made?" *Entrepreneur*, October 2013, pp. 65–72; Stewart Thornhill, "The Wrong Way to Judge an Entrepreneurship Course," *Bloomberg Businessweek*, February 5, 2014, www.businessweek.com/articles/2014-02-05/the-wrong-way-to-judge-an-entrepreneurship-course.

Women Entrepreneurs

Despite years of legislative effort, women still face discrimination in the workforce. However, small business has been a leader in offering women opportunities for economic expression through entrepreneurship. Increasing numbers of women are discovering that the best way to break the "glass ceiling" that prevents them from rising to the top of many organizations is to start their own companies. Women entrepreneurs have even broken through the comic strip barrier. Blondie Bumstead, long a typical suburban housewife married to Dagwood, now owns her own catering business with her best friend and neighbor, Tootsie Woodley!

In the United States, the number of women-owned businesses is growing 1.5 times faster than the national average for all U.S. businesses.¹¹⁰ Women now own 31.1 percent of all privately held businesses in the United States, but their companies generate just 12 percent of business sales.¹¹¹ Although women-owned business are smaller and far less likely to attract equity capital investments than those that men start, they are just as likely to survive as businesses owned by men.¹¹² In addition, their impact is anything but small. The more than 11.3 million women-owned companies in the United States employ more than 9 million workers and generate sales of nearly \$1.6 trillion a year (see Figure 1.6)!¹¹³

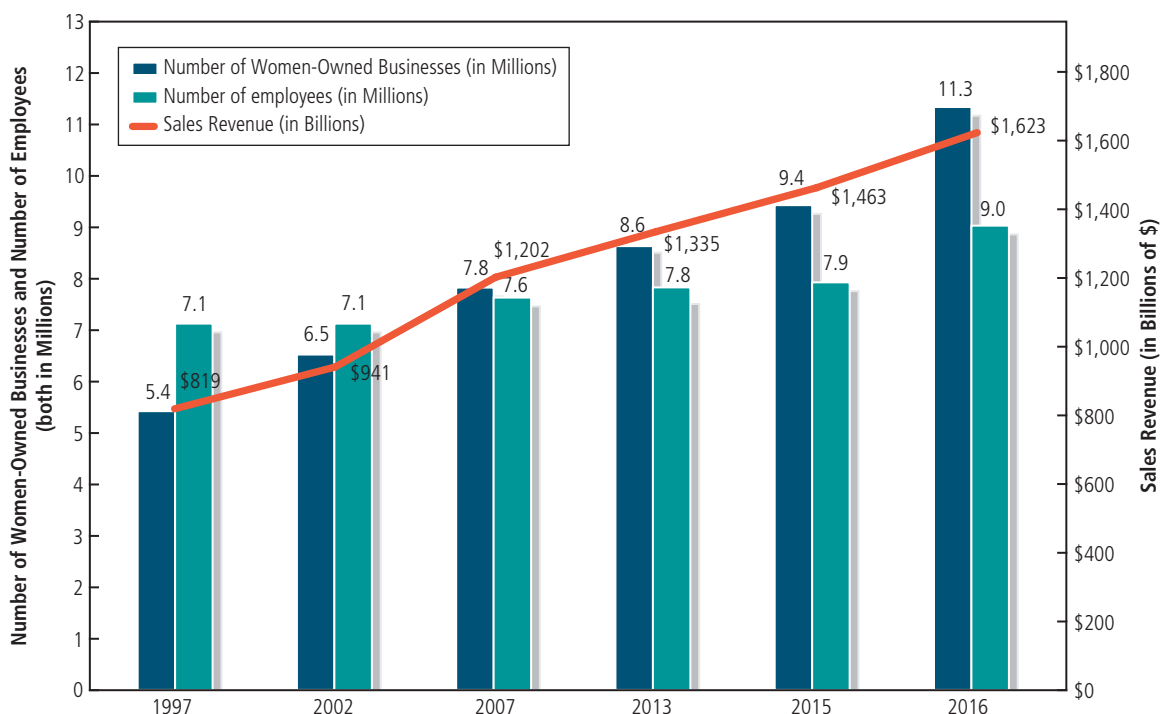


FIGURE 1.6
Characteristics of Women-Owned Businesses

Source: Based on data from the 2016 State of Women-Owned Businesses Report, American Express OPEN, 2016, p. 3.



ENTREPRENEURIAL PROFILE: Heather Tate McCartney: UV Couture After Heather Tate McCartney's father was diagnosed with melanoma, an aggressive form of skin cancer, she became alarmed because she also enjoyed spending time in the sun. She used sunscreen, but research revealed that most people do not apply sunscreen properly or often enough to be effective. McCartney began swimming in T-shirts and wrapping herself in towels to block the sun's harmful ultraviolet (UV) rays. The look was less than fashionable, so she came up with a line of summer clothing called UV Couture that offers an ultraviolet protection factor of 50, which blocks 99 percent of the sun's harmful rays. (Regular clothing blocks only 6 percent of the harmful UV rays.) Today, UV Couture, based in Ontario, Canada, sells a clothing line that includes shirts, cover-ups, jackets, dresses, skirts, leggings, hoodies, and other items priced from \$39 to \$165 on its Web site and through retailers.¹¹⁴ ■

Minority Enterprises

Like women, minorities also are choosing entrepreneurship more often than ever before. Hispanics, African Americans, and Asians are most likely to become entrepreneurs. Hispanics own 12.0 percent of all businesses in the United States, African-Americans own 9.4 percent, and Asians own 6.9 percent.¹¹⁵ Companies started by Asian entrepreneurs have a significantly higher success rate than those started by other minority entrepreneurs.¹¹⁶ Hispanics represent the fastest-growing segment of the U.S. population, and Hispanic entrepreneurs represent the largest and fastest-growing segment of minority-owned businesses in the United States (see Figure 1.7). More than 3.3 million Hispanic-owned companies employ more than 1.9 million people and generate more than \$468 billion in annual sales.¹¹⁷ The most recent Index of Startup Activity by the Kauffman Foundation shows that Hispanics are 59 percent more likely to start a business than whites.¹¹⁸

Minority entrepreneurs see owning their own businesses as an ideal way to battle discrimination, and minority-owned companies have come a long way in the last decade. Minority entrepreneurs own 29 percent of all businesses in the United States, generate \$1 trillion in annual

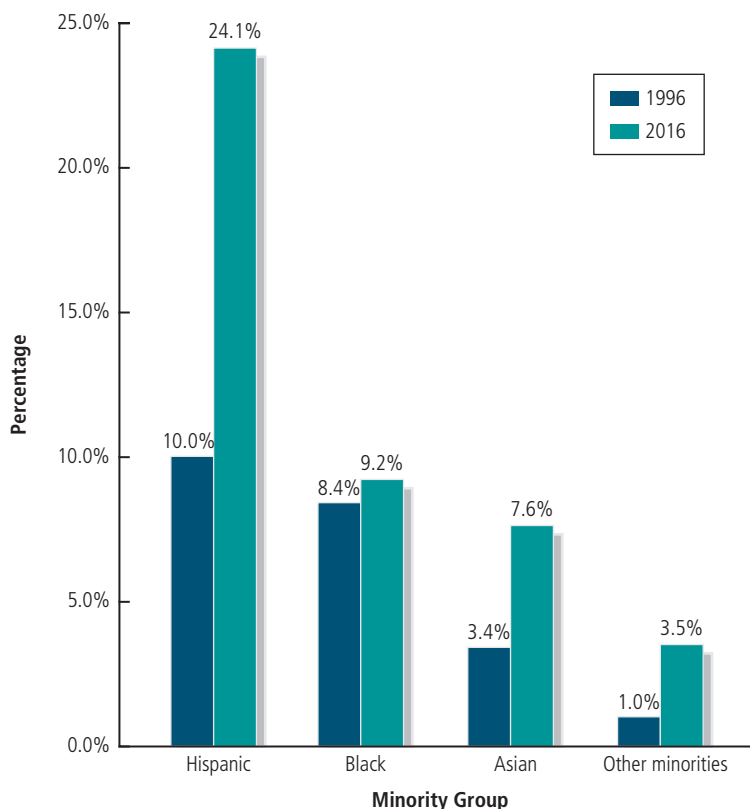


FIGURE 1.7
Percentage of New Entrepreneurs in the U.S. by Minority Group, 1996 and 2016

Source: Based on data from Robert Fairlie, Arnobio Morelix, and Inara Tareque, The Kauffman Index of Startup Activity, Kauffman Foundation, August 2017, p. 31.

revenues, and are twice as likely to export as non-minority entrepreneurs. Minority entrepreneurs start their businesses for the same reason that most entrepreneurs do: to control their own destinies.¹¹⁹ The future is promising for this new generation of minority entrepreneurs, who are better educated, have more business experience, have more entrepreneurial role models, and are better prepared for business ownership than their predecessors.



ENTREPRENEURIAL PROFILE: Conchita Espinosa: Fru-Veg Distributors After working several years in the produce industry, Conchita Espinosa launched Fru-Veg Distributors, a distributor of fruits and vegetables that it imports from leading growers in Central and South America and Europe, with whom the company has had relationships for decades. Fru-Veg, based in Miami, Florida, has an office in Philadelphia and markets a wide variety of produce—ranging from apples and asparagus to stone fruit and tomatoes—to retail chains across the United States and Canada. Espinosa’s company recently experienced a growth spurt, with sales increasing from \$2.2 million to more than \$40 million in just four years, landing it a spot on *Hispanic Business* magazine’s list of the 100 fastest-growing Hispanic businesses in the United States.¹²⁰ ■

Immigrant Entrepreneurs

The United States, which has long been a melting pot of diverse cultures, is the leading destination in the world for immigrants, who are drawn by the promise of economic freedom and prosperity. The immigrant population in the United States is more diverse than in the past, with people coming from a larger number of countries. In 1960, 75 percent of the foreign-born population came from Europe; today, most immigrants come from Mexico, and just 12 percent of the immigrant population emigrates from Europe.¹²¹ Immigrant entrepreneurs have created some of the most iconic U.S. companies since they began arriving in the nineteenth century, when Andrew Carnegie, whose family came to the United States from Scotland, became one of the wealthiest people of his era after launching the steel company that bore his name. One hundred fifty years later, Sergey Brin, a Russian immigrant, cofounded Google with his friend Larry Page.¹²²

Unlike the unskilled “huddled masses” of the past, today’s 41.3 million immigrants, which make up 13 percent of the U.S. population, arrive with more education and experience and often a desire to start a business of their own.¹²³ In 1992, immigrants owned just 9 percent of businesses in the United States; today, immigrant entrepreneurs own 18 percent of businesses in the United States. Their companies generate \$776 billion in annual revenues, employ 4.7 million workers, and pay \$126 billion in wages.¹²⁴ Immigrants or their children started more than 40 percent of *Fortune* 500 companies.¹²⁵ Although many immigrants come to the United States with few assets, their dedication and desire to succeed enable them to achieve their entrepreneurial dreams. An entrepreneurial propensity is common among immigrants, who are nearly twice as likely to start a business as native-born U.S. citizens.¹²⁶



ENTREPRENEURIAL PROFILE: Derek Cha: SweetFrog Premium Frozen Yogurt Derek Cha immigrated to California from his native South Korea as a 12-year-old and quickly learned the value of hard work, delivering newspapers, helping his father with cleaning work after school, and landing his first job at age 16 at McDonald’s. Cha attended college for a year and a half before leaving to help manage his father’s art framing business. They built the venture into a company with 80 locations before it became a victim of the Great Recession. A year later, still in the midst of the recession, Cha, his wife Annah, and their two children moved to Richmond, Virginia, where he opened a small yogurt shop he named SweetFrog Premium Frozen Yogurt. Today, Cha’s SweetFrog is a franchised operation with more than 350 locations (70 of which Cha operates himself) in 25 states and Puerto Rico that employs 800 workers and generates annual sales of \$34 million.¹²⁷ ■

Part-Time Entrepreneurs

Starting a part-time business is a popular gateway to entrepreneurship. Part-time entrepreneurs have the best of both worlds: They can ease into business for themselves without sacrificing the security of a steady paycheck and benefits. The Internet (and particularly eBay) and mobile communication devices make establishing and running a part-time business very easy; many

part-time entrepreneurs run online businesses from a spare bedroom in their homes or from wherever they are.



ENTREPRENEURIAL PROFILE: Will Waldron, Matt Sandler, and Five of Their Friends: Two Fingers Brewing Company

Will Waldron, Matt Sandler, and five of their friends were working for an advertising agency, Karmarama, that moved into a building in Farringdon, London, which once had housed a bar (that was still in place). The team of young men decided to use the bar to raise money for a nonprofit organization in Great Britain that fights prostate cancer. That idea quickly morphed into brewing beer, which, with the blessing of their employer, led them to start a part-time microbrewery they named the Two Fingers Brewing Company. More than 500 guests showed up for their launch party, and the part-time entrepreneurs quickly sold out of beer. Today, the entrepreneurial team continues to hold their jobs with Karmarama and to operate Two Fingers Brewing Company part time out of the bar in the advertising company's workspace. They have refined their supply chain to ensure consistency and top quality and have expanded their distribution channel to include major chain stores, including Tesco, Morrisons, and Ocado. Ten pence for every bottle of Aurelio Golden Artisan Beer ("A beer for mankind") sold goes to Prostate Cancer UK. The team of entrepreneurs plans to continue working in advertising and running their brewery part-time for the foreseeable future.¹²⁸ ■

A major advantage of going into business part-time is the lower risk in case the venture flops. Many part-timers are "testing the entrepreneurial waters" to see whether their business ideas will work, whether there is sufficient demand for their products and services, and whether they enjoy being self-employed. As they grow, many successful part-time enterprises absorb more of the entrepreneurs' time until they become full-time businesses. Starting part-time businesses on a small scale means that entrepreneurs can finance their companies themselves, allowing them to retain complete ownership.

Home-Based Businesses

Home-based businesses are booming! An entrepreneur starts a home-based business on average every 11 seconds.¹²⁹ Fifty-two percent of all small businesses are home based, and 75 percent of them have full-time employees.¹³⁰ Home-based businesses are an important economic force; they generate \$427 billion a year in sales.¹³¹ Many now-famous companies started as home-based businesses, including Apple Inc., Mary Kay Cosmetics, and Hershey Inc.¹³² Several factors make the home the first choice location for many entrepreneurs:

- Operating a business from home keeps start-up and operating costs to a minimum. In fact, 51 percent of home-based entrepreneurs start their businesses with less than \$5,000 in capital.¹³³
- Home-based companies allow owners to maintain flexible life and work styles. Many home-based entrepreneurs relish being part of the "open-collar workforce." Women own 58 percent of all home-based businesses, compared to 31 percent of all small businesses.¹³⁴
- Technology, which is transforming many ordinary homes into "electronic cottages," allows entrepreneurs to run a wide variety of businesses from their homes.
- Many entrepreneurs use the Internet to operate e-commerce businesses from their homes that literally span the globe. They also rely heavily on social media to promote their home-based businesses.

In the past, home-based businesses tended to be rather mundane cottage industries, such as making crafts or sewing. Today's home-based businesses are more diverse; modern "homepreneurs" are more likely to be running high-tech or service companies with annual sales of hundreds of thousands of dollars. Twenty percent of home-based businesses generate between \$100,000 and \$500,000 in annual revenue.¹³⁵



ENTREPRENEURIAL PROFILE: Ryan Kuhlman and Lauren Tafuri: Preppi

After Ryan Kuhlman and Lauren Tafuri experienced a small earthquake in Los Angeles, they realized the importance of having a kit of emergency supplies, so they began to assemble one for themselves. When they asked their friends what items were in their emergency kits, Kuhlman and

Tafari discovered just how few people had made any preparation at all for emergencies—and spotted a business opportunity. They researched recommendations for items to include in an emergency kit from the Red Cross and other disaster response organizations. As part of a feasibility analysis to test the viability of their new product, Kuhlman and Tafari used Photoshop to create a mockup of their emergency kit, which they named The Prepster, posted it on Instagram, and asked for feedback. The response led the budding entrepreneurs to launch a company, Preppi, from their downtown Los Angeles loft to market their stylish, chic emergency kit that contains nearly 170 items, including a tent, a blanket, a flashlight, a hand-crank radio/solar-powered phone charger, various personal grooming items, and even a deck of playing cards. The Prepster kits come in a variety of configurations, and prices start at \$145 for an essentials version designed to last just 72 hours and go to \$445 for a two-person, three-day survival kit. Kuhlman and Tafari started their business by making only three kits, but after coverage from several major media outlets and celebrity blogs, sales have increased rapidly for the home-based business. The entrepreneurs are working on deals to distribute The Prepster through shops in New York City and Japan.¹³⁶ ■

family-owned business

a business that includes two or more members of a family who have financial control of the company.

Family Businesses

A **family-owned business** is a business that includes two or more members of a family who have financial control of the company. Family businesses are an integral part of the global economy. More than 80 percent of all companies in the world are family owned, and their contributions to the global economy are significant. Family-owned businesses account for 70 to 90 percent of global GDP. In the United States alone, family businesses make up 90 percent of all businesses, create 64 percent of the nation's gross domestic product, employ 62 percent of the private sector workforce, and account for 65 percent of all wages paid. Not all family-owned businesses are small, however; 33 percent of *Fortune* 500 companies are family businesses. Family-owned companies such as Wal-Mart, Ford, Mars, Cargill, and Winn-Dixie employ thousands of people and generate billions of dollars in annual revenue.¹³⁷ Family firms also create 78 percent of the U.S. economy's net new jobs and are responsible for many famous products, including Heinz ketchup, Levi's jeans, and classic toys such as the Slinky, the Radio Flyer wagon, and the Wiffle Ball.¹³⁸

"When it works right," says one writer, "nothing succeeds like a family firm. The roots run deep, embedded in family values. The flash of the fast buck is replaced with long-term plans. Tradition counts."¹³⁹ Indeed, the life span of the typical family business is 24 years.¹⁴⁰ Despite their magnitude, family businesses face a major threat, a threat from within: management succession, passing the baton from one generation to the next. In a recent survey by PriceWaterhouseCoopers, only 16 percent of family business owners around the globe say that they have a thorough, documented succession plan in place.¹⁴¹ Lack of succession planning explains why only 30 percent of family businesses survive to the second generation, just 12 percent make it to the third generation, and only 3 percent survive into the fourth generation and beyond. Business periodicals are full of stories describing bitter feuds among family members that have crippled or destroyed once thriving businesses. The co-owner of one family business explains the challenges of operating a family business this way: "The best part is working with family. The worst part is working with family."¹⁴² To avoid the senseless destruction of thriving family businesses, owners should do the following:

- Work to build positive relationships among family members both at and away from work
- Demonstrate respect for other family members' abilities and talents
- Separate responsibilities in the company based on each person's interests, abilities, and talents
- Develop plans for minimizing the potentially devastating effects of estate taxes
- Develop plans for management succession long before retirement looms before them



ENTREPRENEURIAL PROFILE: Bobby Schlesinger: The Obadon Hotel Group

Bobby Schlesinger and his brothers are the third generation of family members to operate The Obadon Hotel Group, a portfolio of luxury hotels scattered along the Florida coast. Schlesinger's grandfather, Gilbert, started the family business in the 1950s, when he began buying hotels and

real estate along the East Coast. Schlesinger's father, Richard, stepped into the family business and in 2002 purchased the Brazilian Hotel, a Palm Beach landmark famous for luxury since the 1920s. After a \$35 million upgrade, much of it designed by Schlesinger's mother, Leslie, the Brazilian became the centerpiece of the family's hotel business. Both of Schlesinger's older brothers joined the family business, but after graduating from college, Schlesinger worked in banking and as a sports agent. "It's not easy to be in a family business," explains his father. Then Schlesinger realized the treasure that the family business represented and stepped in to manage the daily operations of Obadon's four luxury hotels. "I went into [the family business] because there would be nothing that I would care about more, nothing I would work harder for, than to preserve the hard work that two generations of my family had done before me," he says.¹⁴³ ■

Copreneurs

Copreneurs are entrepreneurial couples who work together as co-owners of their businesses. Nearly 4 million couples operate businesses together in the United States, but unlike the traditional "Mom & Pop" (Pop as "boss" and Mom as "subordinate"), copreneurs divide their business responsibilities on the basis of their skills, experience, and abilities rather than on gender. Managing a small business with a spouse may appear to be a recipe for divorce, but most copreneurs say it's not. "There is nothing like sharing an intense, life-changing experience with someone to bring you closer," says Caterina Fake, who with her husband Sewart Butterfield launched Flickr, a photo-sharing Web site. "Late nights, early mornings, laughter, terror, white-knuckle meetings with people you desperately need to give you money, getting your first check from a paying user—how can you beat it?"¹⁴⁴ Successful copreneurs learn to build the foundation for a successful working relationship before they ever launch their companies. Some of the characteristics they rely on include the following:

- An assessment of whether their personalities will mesh—or conflict—in a business setting
- Mutual respect for each other and one another's talents
- Compatible business and life goals—a common vision
- Similar work ethic
- A view that they are full and equal partners, not a superior and a subordinate
- Complementary business skills that each acknowledges and appreciates and that lead to a unique business identity for each spouse
- The ability to keep lines of communication open, talking and listening to each other about personal as well as business issues
- A clear division of roles and authority, ideally based on each partner's skills and abilities, to minimize conflict and power struggles
- The ability to encourage each other and to lift up a disillusioned partner
- Separate work spaces that allow them to escape when the need arises
- Boundaries between their business life and their personal life so that one doesn't consume the other
- A sense of humor
- The realization that not every couple can work together

Although copreneuring isn't for everyone, it works extremely well for many couples and often leads to successful businesses. "Both spouses are working for a common purpose but also focusing on their unique talents," says a family business counselor. "With all these skills put together, one plus one equals more than two."¹⁴⁵



ENTREPRENEURIAL PROFILE: Brook Harvey-Taylor and Billy Taylor: Pacifica As a teenager, Brook Harvey-Taylor was fascinated by fragrances and began mixing her own using essential oils she bought at a local food cooperative in Bozeman, Montana, that her mother started. Years later, she moved to Oregon to study aromatherapy and met her future husband,

copreneurs

entrepreneurial couples who work together as co-owners of their businesses.

Billy Taylor, a photographer and filmmaker. While driving home from a surfing trip, the couple decided to start a business making all-natural scented candles using their own capital and money borrowed from family members. As their company grew, the copreneurs expanded into perfumes and fragrances, again using the all-natural philosophy on which they founded their company. Today, their business, Pacifica, employs 110 workers, generates sales of more than \$40 million, and produces a full line of innovative, vegan, cruelty-free beauty products, including cosmetics, skin care items, perfumes, and others. The U.S. Small Business Administration recently honored the copreneurs by naming them the National Small Business Persons of the Year.¹⁴⁶ ■

Corporate Castoffs

Concentrating on shedding the excess bulk that took away their flexibility and speed, many large American corporations have been downsizing in an attempt to regain their competitive edge. For decades, one major corporation after another has announced layoffs—and not just among blue-collar workers. According to placement firm Challenger, Gray, and Christmas, from 2002 to 2017, corporations laid off an average of 68,711 employees per month.¹⁴⁷ Executives and line workers alike have experienced job cuts. Many of these corporate castoffs are deciding that the best defense against future job insecurity is an entrepreneurial offense. Some 20 percent of discharged corporate managers have become entrepreneurs, and many of those left behind in corporate America would like to join them. Given their experience in the corporate structure and their management skills, a significant number of castoffs buy franchises, which gives them the opportunity to exercise their entrepreneurial muscles within the corporate-style structure to which they are accustomed. After Kendall Titchener, 28, was laid off from her job as the social media and digital director at Cenovus Energy Inc. in Calgary, Canada, she immediately put together a business plan and launched Pixelated Pinto, a boutique digital marketing agency that targets start-up companies with its services. Titchener says that she never suspected that her job was at risk but is extremely pleased with her new career as an entrepreneur.¹⁴⁸

Encore Entrepreneurs

The dramatic downsizing of corporate America, particularly during the Great Recession, has created another effect among the employees left after restructuring: a trust gap. The result of this trust gap is a growing number of dropouts from the corporate structure who then become entrepreneurs. One recent survey reports that 47 percent of working Millennials would like to leave their jobs in corporate America.¹⁴⁹ These entrepreneurs, known as **encore entrepreneurs**, may see their workdays grow longer and their incomes shrink, but those who strike out on their own often find their work more rewarding and more satisfying because they are doing what they enjoy and are in control. For corporate dropouts, the issue is not money; it is the opportunity to pursue their own vision and passion and to change the world, even if in only a small way.

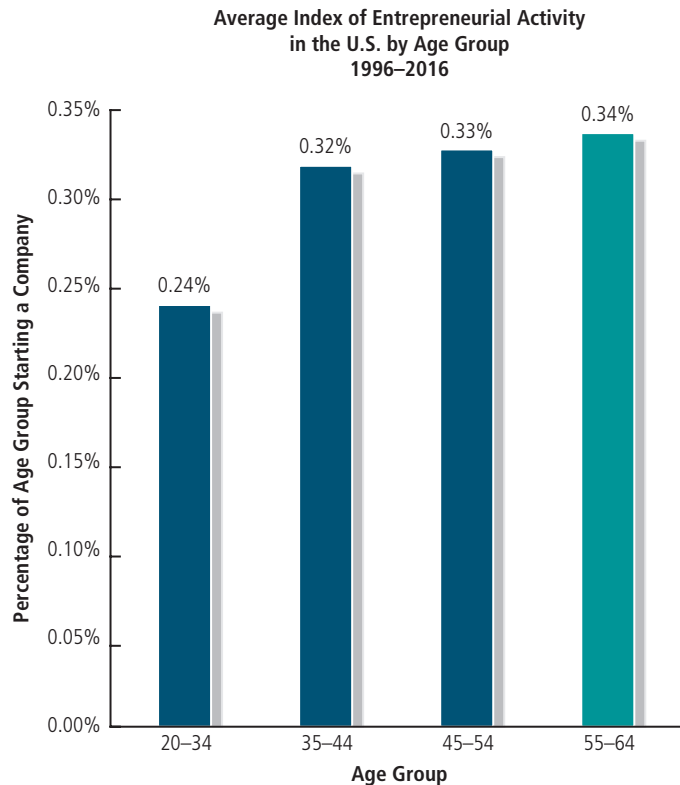
encore entrepreneurs
people who drop out of the corporate world to become entrepreneurs.



ENTREPRENEURIAL PROFILE: Adam Herscher and Sean Anderson: Hasmetrics

After working for technology giant Microsoft in Redmond, Washington, for nine years after graduating from college, Adam Herscher grew weary of managing major new products for years only to have many of them canceled before they were released. Eventually, he realized that something was missing from his work life and that he was no longer engaged in his work. Herscher, who had dreamed of having his own business, took the bold step of walking away from a comfortable but unrewarding corporate management job that paid \$254,895 annually to cofound with Sean Anderson, another Microsoft dropout, Hasmetrics, a small company (now with four employees) that provides unique customer experience management software, or as Herscher calls it, “customer happiness software.” Herscher admits that most of his friends thought he was insane for leaving his high-paying corporate job, but he says it was the best decision of his life and encourages other would-be entrepreneurs caught in unrewarding corporate jobs to take the leap of faith into entrepreneurship.¹⁵⁰ ■

Because they have college degrees, a working knowledge of business, and years of management experience, both corporate dropouts and castoffs may ultimately increase the small business survival rate. Although a college degree is not a prerequisite for entrepreneurial success, better-trained, more experienced entrepreneurs are more likely to succeed. Currently, nearly 72 percent of business owners in the United States have at least some college education (and 39 percent of business owners have earned a bachelor’s degree or higher).¹⁵¹

**FIGURE 1.8****Entrepreneurial Activity in the U.S. by Age Group**

Source: Based on data from Robert W. Fairlie, and Inara Tareque, 2017 Kauffman Index of Startup Activity, Kauffman Foundation, 2017, p. 34.

Retiring Baby Boomers

Self-employment rates tend to rise with age, and life spans are longer than ever before. Members of the Baby Boom Generation (born between 1946 and 1964) are retiring, but many of them are not idle; instead, they are launching businesses of their own. In fact, people 55 and older have demonstrated the greatest increase in entrepreneurial activity over the last 25 years of any age group. A study by the Kauffman Foundation shows that the average level of entrepreneurial activity over the last 21 years among people aged 55 to 64 actually is higher than that among people of any other age group (see Figure 1.8).¹⁵² The trend shows no sign of slowing. A recent survey reports that 72 percent of 50-plus pre-retirees plan to work in some capacity in retirement.¹⁵³ The main reason that retirees give for starting their own post-retirement businesses is that they want to work on their own terms. One advantage that older entrepreneurs have is wisdom that has been forged by experience. Because people are living longer and healthier than ever before, many entrepreneurs start their entrepreneurial ventures late in life. At age 65, Colonel Harland Sanders, for example, began franchising the fried chicken business that he had started three years earlier, a company that became Kentucky Fried Chicken (now known as KFC).

To finance their businesses, most retirees use some of their invested “nest eggs,” some of them through **rollovers-as-business-start-ups (ROBS)**, a system that allows entrepreneurs to tap their retirement funds to start businesses without incurring taxes or penalties. Others rely on the same sources of funds as younger entrepreneurs, including banks, private investors, and others.



ENTREPRENEURIAL PROFILE: Marvin and Leslie Gay: Painting with a Twist At 71, Marvin Gay, a retired accountant, and his wife, Leslie, 61, used \$70,000 of their savings to open a Painting with a Twist franchise, a business that combines art instruction with bring-your-own wine parties, in St. Petersburg, Florida. Their first business was so successful that the couple opened a second location 18 months later, and, within a year, both locations were generating \$750,000 in annual revenue and were profitable. The Gays are about to open a third Painting with a Twist location and once again will finance it from their savings. The Gays say that the real delight they get from their retirement business is watching customers enjoy learning to paint while sipping wine and hearing their boisterous laughter.¹⁵⁴ ■

rollovers-as-business-start-ups (ROBS)

a system that allows entrepreneurs to tap their retirement funds to start businesses without incurring taxes or penalties.



Hands On . . . How To

Launch a Successful Business While You Are Still in College

Collegiate entrepreneurs are becoming increasingly common as colleges and universities offer more courses and a greater variety of courses in the areas of entrepreneurship and small business management. Launching a business while in college offers many advantages, including access to research and valuable advice, but starting an entrepreneurial career also poses challenges, including a lack of financial resources, business experience, and time. What are some of the most common myths that prevent young people (not just college students) from launching businesses?

- ***I don't have enough money to launch a business.*** One of the greatest benefits of the shift in the United States to a service economy is that service businesses usually are very inexpensive to start. One young entrepreneur worked with a friend to launch a Web development company while in high school, and their total start-up cost was just \$80.
- ***I don't have enough time.*** Many companies that have grown into very successful, mature businesses were started by entrepreneurs in their spare time. Everyone has the same 24 hours in a day. What matters is what you do with those hours.
- ***I'm not smart enough to start a company.*** SAT scores and grades have little correlation to one's ability to launch a successful business. Quite a few successful entrepreneurs, including Michael Dell (Dell Inc.), Richard Branson (Virgin), Walt Disney (Disney), Mark Zuckerberg (Facebook), and Debbi Fields (Mrs. Fields Cookies), dropped out of college to start their businesses.
- ***I'm not majoring in business.*** Success in entrepreneurship is not limited to students who earn business degrees. *Anyone* has the potential to be a successful entrepreneur. At the University of Miami, only 20 percent of the students who have participated in The Launch Pad, the school's start-up accelerator, have been business majors.
- ***I'm not creative enough to come up with a good idea for a business.*** As you will learn in Chapter 3, *everyone* has the potential to be creative. Some of the most successful businesses were created when an entrepreneur recognized a simple need that people had and created a business to meet that need.
- ***I don't have any experience.*** Neither did Bill Gates (Microsoft) and Michael Dell (Dell Inc.) when they launched their companies, and things worked out pretty well for both of them. Business experience can be an important factor in a company's success, but every entrepreneur has to start somewhere to gain that experience.
- ***I might fail.*** Failure is a possibility. In fact, the survival rate of new companies after five years is 48 percent. Ask yourself this: What is the worst that can happen if I launch a business and it fails? Entrepreneurs do not allow the fear of failure to stop them from trying to realize their dreams.

If you want to become a successful collegiate entrepreneur, what can you do to increase the chances of your success? The following tips will help.

Recognize That Starting a Business at an Early Age May Be to Your Advantage

Young people tend to be highly creative, and that can provide a company with a competitive advantage. In addition, young people often accomplish things simply because they don't know that they are not supposed to be able to do them!

Build a Business Plan

One of the best ways to reduce the probability that your business will fail is to create a business plan. Doing so forces you to ask and then answer some tough questions about your idea and your proposed venture. "It's all about 'derisking' your idea," says Gregg Fairbrothers, who teaches entrepreneurship at Dartmouth's Tuck School of Business. "Identifying, unblinkingly, what could go wrong and taking whatever steps necessary to slash the odds that it will."

Use All of the Resources That Are Available to You

Many colleges and universities now offer courses in entrepreneurship and small business management and have faculty members who are experts in the field. In many cases, the people who are teaching these classes are veteran entrepreneurs themselves with tremendous reservoirs of knowledge and experience. Some colleges provide special dorms for budding entrepreneurs that serve as business incubators. Smart collegiate entrepreneurs tap into the pool of resources that their campuses offer.

Don't Go It Alone

Research at MIT's Sloan School of Business suggests that starting a business with cofounders increases the company's probability of success. Each additional founder up to four increases the likelihood that a start-up will succeed. Another study reports that solo entrepreneurs take 3.6 times as long to launch as teams of two or more cofounders. Cofounders bring complementary skill sets to the venture, share the burden of the huge volume of work required to launch, and provide an important support system when things get tough. Senthil Natarajan hoped to play baseball in college, but in his senior year of high school, he suffered four injuries to his pitching arm in just two months, ending his baseball career. While attending Rice University, Natarajan met Alex Dzeda, a fellow engineering student, and the duo came up with the idea for a wearable device that measures stress and muscle fatigue in a pitcher's arm, analyzes his or her throwing motion, and relays the information to a mobile device via Bluetooth. The young entrepreneurs pitched their idea in a business plan competition at Rice University and won first place. Then they competed in a national business plan competition with their patent-pending device and took third place. *Forbes* magazine recently named their company, Ziel Solutions, one of the 15 most innovative college start-ups in the United States.

(continued)

Hands On . . . How To

Find a Mentor

Most young entrepreneurs have not had the opportunity to gain a wealth of business experience, but they do have access to mentors who do. While a student at Chapman University in Orange, California, Mike Brown won the top prize at the annual Global Student Entrepreneur Awards for his company, ModBargains.com, a business that sells aftermarket products for modifying cars and trucks. Brown says that his first boss, who owns several businesses, served as his mentor. ModBargains.com, which Brown started with fellow car enthusiast Ron Hay, now has more than 4,000 products available and has surpassed annual sales of \$1 million. Brown is now a volunteer entrepreneur-in-residence at Chapman University, where he mentors college students with entrepreneurial aspirations.

Learn to Be a “Bootstrapper”

Learning to start and manage a company with few resources is good training for any entrepreneur. In the early days of their start-ups, many successful entrepreneurs find creative ways to finance their businesses and to keep their operating expenses as low as possible. Because they lack the deep pockets of their larger rivals, entrepreneurs must use their creativity, ingenuity, and street smarts to market their companies effectively.

Manage Your Time Wisely

Taking college classes and running a business places a large workload on any collegiate entrepreneur, one that demands good time

management skills. The most successful entrepreneurs recognize the importance of controlling their schedules (as much as possible) and working as efficiently as they can.

Remember to Have Fun

College is supposed to be one of the best times of your life! Starting and running a business also can be one of the most rewarding experiences of your life. Doing both can double the fun, but it also can create a great deal of stress. Balance is the key.

Sources: Based on Matt Hunckler, “Meet Fifteen of the Brightest College Entrepreneurs and Their Innovative Startups,” *Forbes*, January 14, 2016, www.forbes.com/sites/matthunckler/2016/01/14/15-brightest-college-entrepreneurs/#683e29c92802; Colleen Taylor, “For Start-Ups Pitching VCs, Three Is the Magic Number,” *Gigaom*, May 13, 2011, <http://gigaom.com/2011/05/13/multiple-founder-startups/>; “No Entrepreneur Is an Island: Cofounders Help Start-Ups Succeed,” Nevada Institute for Renewable Energy and Commercialization, January 21, 2013, <http://nirec.org/no-entrepreneur-is-an-island-co-founders-help-startups-succeed/>; Michael Hughes, “Top 10 Articles to Help Entrepreneurs Find a Cofounder,” CoFounders Lab, May 31, 2012, <http://blog.cofounderslab.com/founders/how-to-find-a-co-founder/>; Millie Kerr, “Fashion’s Final Frontier,” *Entrepreneur*, May 2013, p. 78; Claire Martin, “Rolling Up Their Sleeves, as a Team,” *New York Times*, May 18, 2013, www.nytimes.com/2013/05/19/business/at-ministry-of-supply-teamwork-in-making-high-tech-apparel.html?pagewanted=all&_r=0; Adam Bluestein and Amy Barrett, “Revitalize the American Dream: Bring on the Entrepreneurs!” *Inc.*, July/August 2010, pp. 76–88; David Whitford, “Can You Learn to Be an Entrepreneur?” *Fortune*, March 22, 2010, p. 66; Robert Sherman, “Student Entrepreneur Shares Hard-Won Lessons at YoungMoney.com,” *Orange Entrepreneur*, Syracuse University, Fall 2007, p. 5; Daniel Jimenez, “The Best College Entrepreneurs of 2006,” *Young Money*, July 2007, www.youngmoney.com/entrepreneur/student_entrepreneurs/070126; Michael Simmons, “Why Starting a Business Now May Be the Best Way to Achieve Your Dreams,” *Young Money*, July 2003, www.youngmoney.com/entrepreneur/student_entrepreneurs/031010_01; and Scott Reeves, “How to Swing with Guerrilla Marketing,” *Forbes*, June 8, 2006, www.forbes.com/2006/06/08/entrepreneurs-marketing-harley-davidson-cx_sr_0608askanexpert.html.

The Power of “Small” Business

Since 1982, the number of small businesses in the United States has increased 49 percent. Of the 28.8 million businesses in the United States, approximately 28.7 million, or 99.7 percent, are considered small. Although there is no universal definition of a small business (the U.S. Small Business Administration has more than 800 definitions of a small business, based on industry categories), a common delineation of a **small business** is one that employs fewer than 100 people. They thrive in virtually every industry, although the majority of small companies are concentrated in the service, construction, and retail industries (see Figure 1.9). Although they may be small businesses, their contributions to the economy are anything but small. For example, small companies employ 56.8 million people, or 48.0 percent of the nation’s private sector workforce, even though they possess less than one-fourth of total business assets. Almost 90 percent of businesses with paid employees are small, employing fewer than 20 workers, but small companies account for 43 percent of total private payroll in the United States. Although nearly 80 percent of small companies have no employees other than the founder, the 20 percent that do have employees actually create more jobs than do big businesses. Small businesses created 63 percent of the net new jobs in the United States between 1993 and 2013.¹⁵⁵ The ability to create jobs is not distributed evenly across the small business sector, however. Research shows that the top-performing 5 percent of small companies create 67 percent of the net new jobs in the economy, and they do so across all industry sectors, not just in “hot” industries, such as high-tech. These young, job-creating small companies are known as **gazelles**, businesses that grow at 20 percent or more per year for four years and have at least \$100,000 in annual sales. Nearly 85 percent of these high-impact companies are located in urban areas. Not surprisingly, cities with high levels of entrepreneurial activity boast higher levels of job creation than those that are

LO6

Describe the important role that small businesses play in our nation’s economy.

small business

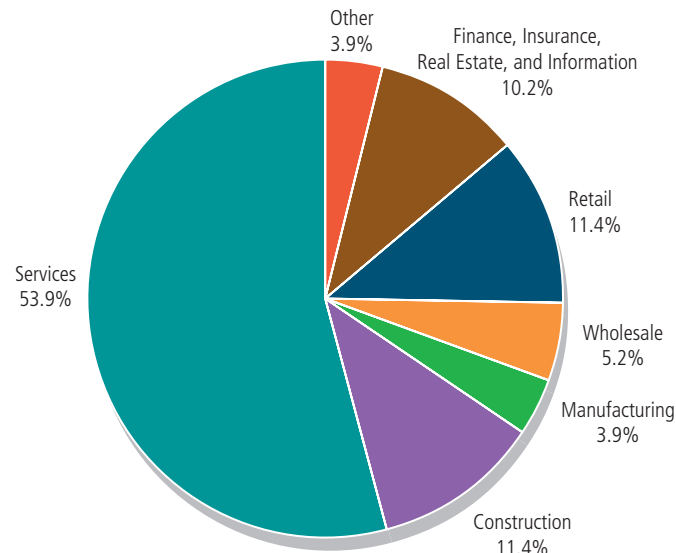
a business that employs fewer than 100 people.

gazelles

small companies that are growing at 20 percent or more per year with at least \$100,000 in annual sales; they create 70 percent of net new jobs in the economy.

FIGURE 1.9
Small Businesses
by Industry

Source: Based on data from “Statistics of U.S. Businesses, U.S. and States, NAICS Sectors, Small Employment Sizes,” United States Census Bureau, 2013, www.census.gov/econ/susb/.



home to heavier concentrations of existing businesses.¹⁵⁶ “Mice” are small companies that never grow much and don’t create many jobs. The majority of small companies are mice.¹⁵⁷ In fact, 75 percent of small business owners say that they are not seeking rapid growth for their businesses and want to keep them small.¹⁵⁸

Small businesses also produce 48.5 percent of the U.S. private GDP and account for 47 percent of business sales.¹⁵⁹ In fact, the U.S. small business sector is the world’s third-largest “economy,” trailing only the economies of the United States and China. Small companies make up 97.7 percent of exporting companies and account for 34 percent of the value of all exports.¹⁶⁰ One business writer describes the United States as “an entrepreneurial economy, a system built on nimble, low-overhead small companies with fluid workforces, rather than the massive conglomerates that upheld the economy for decades.”¹⁶¹

Small companies also are incubators of new ideas, products, and services. Small firms actually create 16 times more patents per employee than large companies.¹⁶² Traditionally, small businesses have played a vital role in innovation, and they continue to do so today. Many important inventions trace their roots to an entrepreneur, including the zipper, FM radio, the laser, the brassiere, air-conditioning, the escalator, the lightbulb, the personal computer, and the automatic transmission.

LO7

Put failure into the proper perspective.

Putting Failure into Perspective

Because of their limited resources, inexperienced management, and lack of financial stability, small businesses suffer relatively high mortality rates. As you learned earlier in this chapter, two years after start-up, 34 percent of small companies have failed, and after five years, 52 percent have failed.¹⁶³ Figure 1.10 shows the failure rate for small businesses over time, clear evidence of the constant “churn” that exists as entrepreneurs create new businesses and others close. New companies that replace old ones with better ideas, market approaches, and products actually are a sign of a healthy entrepreneurial economy.

Because they are building businesses in an environment filled with uncertainty and shaped by rapid change, entrepreneurs recognize that failure is likely to be part of their lives, but they are not paralyzed by that fear. “The excitement of building a new business from scratch is greater than the fear of failure,” says one entrepreneur who failed in business several times before finally succeeding.¹⁶⁴ Entrepreneurs use their failures as a rallying point and as a means of refocusing their business ventures for success. They see failure for what it really is: an opportunity to learn what does not work! Successful entrepreneurs have the attitude that failures are simply stepping-stones along the path to success. Author J. K. Rowling was a penniless, unemployed,

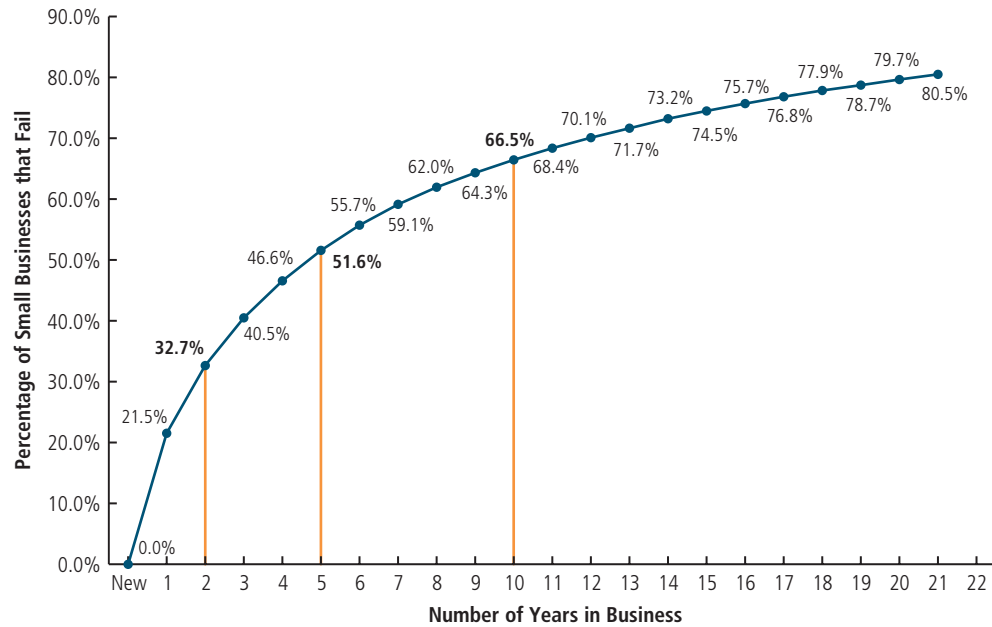


FIGURE 1.10
Small Business Failure Rate

Source: Based on data from “Survival Rates of Establishments, by Year Started and Number of Years Since Starting, 1994–2016,” Business Employment Dynamics, U.S. Bureau of Labor Statistics, www.bls.gov/bdm/entrepreneurship/bdm_chart3.htm.

single parent when she penned a book about a boy wizard and his adventures. She submitted her manuscript to 12 publishers, all of whom rejected it. Rowling persisted, however, and a small London publisher, Bloomsbury, finally decided to take a chance on *Harry Potter and the Philosopher’s Stone* after a glowing review from the CEO’s young daughter. The seven-book Harry Potter series went on to sell more than 450 million copies worldwide, making Rowling the first billionaire author.¹⁶⁵ Basketball legend Michael Jordan displayed the same attitude. “I’ve missed more than 9,000 shots in my career,” he says. “I lost almost 300 games. Twenty-six times, I’ve been trusted to take the game-winning shot and *missed*. I’ve failed over and over and over again in my life. And that is why I succeed.”¹⁶⁶

Failure is a natural part of the creative process. The only people who never fail are those who never do anything or never attempt anything new. Baseball fans know that Babe Ruth held the record for career home runs (714) for many years, but how many know that he also held the record for strikeouts (1,330)? Successful entrepreneurs know that hitting an entrepreneurial home run requires a few strikeouts along the way, and they are willing to accept them. In an address at Harvard University’s graduation, author J. K. Rowling told students, “You might never fail on the scale I did, but some failure in life is inevitable. It is impossible to live without failing at something, unless you live so cautiously that you might as well not have lived at all—in which case, you fail by default.”¹⁶⁷ Although entrepreneurs don’t always succeed, they are not willing to fail by default. Failure is an inevitable part of being an entrepreneur, and true entrepreneurs don’t quit when they fail. One entrepreneur whose business burned through \$800 million of investors’ money before folding says, “If you’re an entrepreneur, you don’t give up when times get tough.”¹⁶⁸

One hallmark of successful entrepreneurs is the ability to fail *intelligently*, learning why they failed so that they can avoid making the same mistake again. They fail quickly, and often spectacularly, but the key is that they take away valuable lessons from their failures. James Dyson, whose company makes one of the best-selling vacuum cleaners in the world, made 5,127 prototypes of his bagless vacuum cleaner before he hit on one that worked. “There were 5,126 failures,” he says, “but I learned from each one. That’s how I came up with a solution. So I don’t mind failure.”¹⁶⁹ Like Dyson, other entrepreneurs know that business success depends on their ability not to avoid making mistakes but rather to be open to the lessons that each mistake teaches. They learn from their failures and use them as fuel to push themselves closer to their ultimate target. “Failure can teach not only what one is doing wrong but also how to do it right the next time,” says one business writer. “It can be a useful, even transformational, force

for better business practices. It is best not to shove it under the rug because it is, at some point, inevitable.”¹⁷⁰ Entrepreneurs are less worried about what they might lose if they try something and fail than about what they might lose if they fail to try.

Entrepreneurial success requires both persistence and resilience, the ability to bounce back from failure. Thomas Edison, who earned 1,093 patents (a record that still stands), discovered about 1,800 ways not to build a lightbulb before hitting on a design that worked. “Results!” Edison once exclaimed. “I have gotten a lot of results. I know several thousand things that won’t work.”¹⁷¹ Walt Disney was fired from a newspaper job because, according to his boss, he “lacked imagination and had no good ideas.” Disney also went bankrupt several times before he created Disneyland. R. H. Macy failed in business seven times before his retail store in New York City became a success. In the spirit of true entrepreneurship, these visionary business leaders refused to give up in the face of failure; they simply kept trying until they achieved success. When it comes to failure, entrepreneurs’ motto seems to be “Failure is temporary; quitting is permanent.”



ENTREPRENEURIAL PROFILE: Julie Wainwright: The RealReal In 2000, Julie Wainwright was CEO of Pets.com, an online seller of pet food and supplies, when it crashed magnificently after burning through \$147 million of investors’ capital in 20 months and failing to find a business model that worked. In 2011, at age 54, Wainwright, undaunted by Pets.com’s failure, launched The RealReal, an upscale consignment Web site that allows people to sell their like-new designer goods from companies such as Chanel, Gucci, Hermes, Louis Vuitton, Balenciaga, and others online. The RealReal, which receives about 130,000 designer items per month, verifies the authenticity of each item it lists for sale, so that buyers are assured of getting genuine designer products rather than fakes (which is a real problem for many other consignment Web sites). Wainwright has attracted \$83 million in funding for The RealReal, which generates sales of more than \$200 million annually and is now profitable.¹⁷² ■

LO8

Explain how an entrepreneur can avoid becoming another failure statistic.

How to Avoid the Pitfalls

Although failure can be a valuable part of the entrepreneurial process, no one sets out to fail in business. Now we must examine the ways to avoid becoming another failure statistic and gain insight into what makes a successful business.

Know Your Business in Depth

We have already emphasized the need for the right type of experience in the business you plan to start. Get the best education in your business area you possibly can *before* you set out on your own. Become a serious student of your industry. Read everything you can—trade journals, business periodicals, books, and research reports—relating to your industry and learn what it takes to succeed in it. Personal contact with suppliers, customers, trade associations, and others in the same industry is another excellent way to get that knowledge. Smart entrepreneurs join industry trade associations and attend trade shows to pick up valuable information and to make key contacts before they open their doors for business.

Build a Viable Business Model—And Test It

Before launching a business, an entrepreneur should define the business model on which he or she plans to build a company and test it, preferably with actual customers or potential customers, to verify that it can be successful. Does real market demand for the proposed product or service actually exist? Validating an idea before investing significant time and money to develop it is foolhardy. Grand assumptions about capturing market share and “hockey stick” revenue growth that never materialize have been the downfall of many start-up businesses. Creating a successful business model requires entrepreneurs to identify all of the model’s vital components, including the resources, partners, and activities they must assemble; the customer segments they are targeting; the channels they will use to reach them; the value proposition they offer customers; and the sources of revenue and accompanying costs they will incur. We will discuss a useful tool for defining a viable business model, the Business Model Canvas, and the process of testing it in Chapter 4.



ENTREPRENEURIAL PROFILE: Parker Moore, Jon Rice, and Jonathon Peterson: Tux on Trux

While participating in a Startup Weekend at the University of South Carolina's Darla Moore School of Business, Parker Moore recalled the convoluted, time-consuming experience of renting a tuxedo for his high school senior prom and decided that he had a better idea for providing tuxedo rentals. He partnered with friends Jon Rice and Jonathon Peterson to pitch the idea for Tux on Trux, a business that brings tuxedos to young men for special events. Tux on Trux schedules fitting sessions at a convenient location, such as a high school gym or a fraternity house, and then returns a week later to distribute the tuxedos. After the event is over, Tux on Trux meets its customers at the same location to pick up the tuxedos. The business model provides greater convenience for customers and allows the entrepreneurs to eliminate the significant overhead costs associated with maintaining a physical store. As a result, Tux on Trux is able to rent tuxedos at rates that are well below those of traditional rental shops, just \$80 for a basic black tuxedo to \$189 for more upscale models with all of the accoutrements. To test their business model, the young entrepreneurs set up a pilot program at a nearby high school. The test was successful, so they began marketing Tux on Trux to other high schools and, as an afterthought, pitched their service to the fraternities at their university. To their surprise, the service was even more popular among college students than among high school students. With a refined business model, the trio's business went from idea to market test to launch to profitability in just three months. The young entrepreneurs have expanded their service to cater to wedding parties as well and use social media as an essential marketing tool.¹⁷³ ■

Use Lean Start-up Principles

Entrepreneurs are accustomed to accomplishing big goals with few resources and often rely on the principles of the lean start-up. Whereas some entrepreneurs ask “*Can* we build this product or provide this service?” those who follow lean start-up principles ask “*Should* we build this product?” and “Can we build a viable business around this product or service?” The first step is to identify a customer need or a pain point and build a **minimum viable product (or service)** to address it. Getting the minimum viable product (or service) into customers' hands is an essential part of validating an idea because it produces valuable feedback that entrepreneurs use to improve and refine the product or service and the business model. The lean approach views an entrepreneur's idea and business model as hypotheses to be tested by subjecting them to potential customers for feedback. The goal is to minimize waste and maximize the customer's value proposition. Customer feedback tells entrepreneurs whether they are pulling the right levers and pushing the right buttons on their business models.

minimum viable product (or service)

the simplest version of a product or service that allows entrepreneurs to validate a business idea by producing valuable feedback that entrepreneurs use to improve and refine the product or service and the business model.

Know When to Pivot

Following lean start-up principles means that entrepreneurs often must make pivots in their business models and plans. A pivot is a course correction in which an entrepreneur keeps a company fixed on the original vision but changes the direction in which the company is moving. Successful entrepreneurs often start their companies with one product, service, market, or model in mind and then change course once market realities redirect them.



ENTREPRENEURIAL PROFILE: Alex White, Samir Rayani, and David Hoffman: Next Big Sound

While Alex White, Samir Rayani, and David Hoffman were students at Northwestern University, they cofounded Next Big Sound, a Web site where people could create fantasy record labels and sign up-and-coming artists. Despite much media coverage, the company's revenue was small. The young entrepreneurs were on the verge of shutting down their business when they made a pivot and refocused Next Big Sound on tracking major social media to measure the popularity of artists and bands with a simple real-time dashboard. They focused their new business model on providing analytics for record labels, music producers, and artists themselves. Next Big Sound has attracted \$7.9 million in financing, has thousands of customers in the music industry, has generated millions of dollars in sales, and recently began offering a similar service to book publishers through Next Big Book.¹⁷⁴ ■

Develop a Solid Business Plan

If an entrepreneur's business model passes the feasibility test, the next step is to prepare a business plan. A business plan explains *how* an entrepreneur intends to implement the business model. Without a sound business plan, a company merely drifts along without any real direction

and often stalls out when it faces its first challenge. Yet entrepreneurs, who tend to be people of action, often jump right into a business venture without taking time to prepare a written plan outlining the essence of the business. Not only does a plan provide a pathway to success, but it also creates a benchmark against which an entrepreneur can measure actual company performance. Building a successful business begins with implementing a sound business plan with laser-like focus. One study of small businesses reports that the founders of top-performing companies were 78 percent more likely to have created a formal business plan before launching than founders of companies in the bottom tier.¹⁷⁵

A business plan allows entrepreneurs to replace sometimes faulty assumptions with facts before making the decision to go into business. The planning process forces entrepreneurs to ask and then answer some difficult, challenging, and crucial questions about target customers, market potential, the competition, the cost of doing business, pricing, realistic revenue forecasts, and other matters. A study by Palo Alto Software concludes that entrepreneurs who prepare business plans achieve greater success in acquiring capital for their businesses (through both loans and investments) and in growing their companies than those who do not.¹⁷⁶ We will discuss the process of developing a business plan in Chapter 5.



ENTREPRENEURIAL PROFILE: Frank Mobley: Immedion At 43, Frank Mobley bowed to his independent streak, left a well-paying steady job with a successful data solutions business, and started his own data support and security company, Immedion. Building on his experience in the telecommunications and data solutions industries, Mobley saw a growing need among midsize companies for reliable servers that could store data securely and keep companies' Web sites up and running under any circumstances. He spent two months writing a business plan, which was all he had to convince investors to put up the \$2.5 million he needed to launch Immedion. Mobley was able to use the business plan to sell his idea to investors, including friends, family members, and even his former employers. When Mobley started his company in Greenville, South Carolina, he had one data center and no clients. Today, Immedion has five data centers and more than 300 clients, and is growing rapidly. The company recently expanded into the Midwest by acquiring Appica, a provider of cloud and data center services in Cincinnati, Ohio.¹⁷⁷ ■

Manage Financial Resources

The best defense against financial problems is to develop a practical information system and then use that information to make business decisions. No entrepreneur can maintain control over a business unless he or she is able to judge its financial health.

The first step in managing financial resources effectively is to have adequate start-up capital. Too many entrepreneurs start their businesses undercapitalized. Wise entrepreneurs follow the old axiom "Estimate how much capital you need to get the business going and then double that figure" because launching a business almost always costs more (and takes longer) than any entrepreneur expects. Jake Burton, founder of Burton Snowboards, a company that dominates the snowboard industry with 58 percent market share, made that mistake when he started his now-successful company in 1977, straight out of college. "I lost [my start-up capital] before I knew what had happened," he says. "I underestimated the cost and time it would take to get the business going."¹⁷⁸

The most valuable financial resource to any small business is *cash*. Although earning a profit is essential to its long-term survival, a business must have an adequate supply of cash to pay its bills and obligations. Some entrepreneurs count on growing sales to supply their company's cash needs, but this almost never happens. Growing companies usually consume more cash than they generate, and the faster they grow, the more cash they gobble up! Business history is littered with failed companies whose founders had no idea how much cash their businesses were generating and were spending cash as if they were certain there was "plenty more where that came from." Four years after former professional baseball player Curt Schilling launched 38 Studios, a company that he started to produce massive multiplayer online games, the company ran short of cash and defaulted on a \$1.1 million interest payment that was part of a \$75 million guaranteed loan. The company soon folded, 400 people lost their jobs, lenders lost \$110 million, and Schilling himself lost \$50 million.¹⁷⁹ We will discuss cash management techniques in Chapter 13.

Understand Financial Statements

Every business owner must depend on records and financial statements to know the condition of his or her business. All too often, entrepreneurs use these only for tax purposes and not as vital management control devices. To truly understand what is going on in the business, an owner must have at least a basic understanding of accounting and finance.

When analyzed and interpreted properly, these financial statements are reliable indicators of a small firm's health. They can be quite helpful in signaling potential problems. For example, declining sales, slipping profits, rising debt, and deteriorating working capital are all symptoms of potentially lethal problems that require immediate attention. We will discuss financial statement analysis in Chapter 12.

Build the Right Team

One of the most important steps to creating a successful start-up is assembling the right entrepreneurial team to refine the business model and implement the business plan. Entrepreneurship is increasingly becoming a team sport. One study of small businesses reports that top-performing companies are 59 percent more likely to have multiple founders than businesses in the bottom tier.¹⁸⁰ Another study suggests that companies started by two to four cofounders are more likely to succeed than those started by a single founder. (Three founders appears to be the “sweet spot.”) Each additional cofounder up to four increases the odds of a company's success.¹⁸¹

Learn to Manage People Effectively

No matter what kind of business you launch, you must learn to manage people. Every business depends on a foundation of well-trained, motivated employees. No business owner can do everything alone. The people an entrepreneur hires ultimately determine the heights to which the company can climb—or the depths to which it can plunge. Attracting and retaining a corps of quality employees is no easy task, however, and is a challenge for every small business owner. In a recent talent shortage survey, Manpower Group reports that 40 percent of global employers (and 46 percent of employers in the United States) say they have difficulty filling vacant jobs, which represents a nine-year high.¹⁸²

Entrepreneurs quickly learn that treating their employees with respect and compassion usually translates into their employees treating customers in the same fashion. Successful entrepreneurs value their employees and constantly find ways to show it. The Muse, the career-oriented Web site started by Kathryn Minshew, Alex Cavoulacos, and Melissa McCreery, is growing so quickly that the company must hire many new employees from the outside; however, Minshew and Cavoulacos emphasize promoting from within and rewarding employees with meaningful assignments. The Muse uses a team-based approach, and Minshew says that managers push employees to grow and look for chances to help employees learn new skills and develop new talents. Mark Wasmund started with The Muse as an account executive, and one year later was promoted to the company's West Coast sales manager position, managing 16 account executives.¹⁸³ We will discuss the techniques of managing and motivating people effectively in Chapter 17.

Set Your Business Apart from the Competition

The formula for almost certain business failure involves becoming a “me-too business”—merely copying whatever the competition is doing. Most successful entrepreneurs find a way to differentiate their companies from competitors even if they sell similar products or services. This is especially important for small companies going up against larger, more powerful rivals with greater financial resources. Ideally, the basis for differentiating a company from its competitors is founded in what it does best. For small companies, that basis often is customer service, convenience, speed, quality, or whatever else is important to attracting and keeping satisfied customers. We will discuss the strategies for creating a unique footprint in the marketplace in Chapters 5 and 9.

Maintain a Positive Attitude

Achieving business success requires an entrepreneur to maintain a positive mental attitude toward business and the discipline to stick with it. Successful entrepreneurs recognize that their most valuable resource is their time, and they learn to manage it effectively to make themselves

and their companies more productive. None of this, of course, is possible without passion—passion for their businesses, their products or services, their customers, and their communities. Passion enables a failed business owner to get back up, try again, and make it to the top! One business writer says that growing a successful business requires entrepreneurs to have great faith in themselves and their ideas, great doubt concerning the challenges and inevitable obstacles they will face as they build their businesses, and great effort—lots of hard work—to make their dreams become reality.¹⁸⁴

LO9

Discover how the skills of entrepreneurship, including critical thinking and problem solving, written and oral communication, teamwork and collaboration, leadership, creativity, and ethics and social responsibility, apply to every career and every avenue of life.

Developing Skills for Your Career

If you're not an entrepreneurship or business major, you may be thinking that this course is not relevant to you. We assure you that it is. Whether you plan to pursue a career in entrepreneurship or some other field, the lessons you learn in this course will help you because the principles of entrepreneurship apply to *every* avenue of life. Whether you choose to start your own business or work for someone else in either a for-profit or non-profit organization, the skills you will learn in this course with the help of this book will be extremely valuable to you. Recent surveys show that employers value the following skill sets in the people they want to hire, and, as you will discover, this course and this book will help you develop and enhance your abilities in the following areas.

Critical Thinking and Problem Solving

Every successful entrepreneur must engage in critical thinking and problem solving. Launching a running a successful company is a perpetual exercise in these areas. In this book, you can hone your critical thinking and problem solving skills by tackling the “You Be the Consultant” and the “Beyond the Classroom” features that appear in every chapter. In addition, if one of your course requirements is to prepare a business plan, you will learn firsthand how to think critically and solve problems.

Written and Oral Communication

Successful entrepreneurs are good communicators. As part of their search for capital, they must create well-written, coherent business plans and pitch their ideas to potential lenders and investors. Chapter 5, *Crafting a Business Plan and Building a Solid Strategic Plan*, teaches you how to write a plan that not only will help you build a successful business but also convince potential lenders and investors to put up financing for it. This chapter also explains how to make a successful business plan presentation. If you develop a business plan (and perhaps participate in a business plan competition), you will learn important written and oral communication skills.

Teamwork and Collaboration

Research shows that businesses started by multiple founders have higher success rates than those started by solo entrepreneurs. Even if you choose to start a business by yourself, you will learn very quickly that you must rely on the help of other people to build it. In other words, you will learn the power of teamwork and collaboration. Chapter 17, *Building a New Venture Team and Planning for the Next Generation*, will help you learn these skills.

Leadership

One of an entrepreneur's most important skills is *leadership*. Effective leaders create a vision for their companies, convince other people to believe in and commit to it, develop a plan to implement the vision, and sustain the effort to accomplish it. In Chapter 17, *Building a New Venture Team and Planning for the Next Generation*, you will also learn the behaviors of successful leaders. Building a company will test and improve your leadership skills.

Creativity

Whatever their business, employers are seeking creative talent. In Chapter 3, *Creativity and Innovation: Keys to Entrepreneurial Success*, you will learn about the creative process and how to enhance both your personal creativity and the creativity of the people in your company.

Throughout this book and course, you will experience the incredible creativity that entrepreneurs demonstrate. Sometimes their ideas are so innovative that people call them “crazy.” Many of those entrepreneurs whom people mocked and called “crazy” built successful businesses that changed the world.

Ethics and Social Responsibility

Employers seek employees whom they are confident will do the right thing when faced with an ethical dilemma. A company’s reputation is critical to its success, but it also is quite fragile. One employee acting in an unethical fashion can destroy a company’s good reputation. In Chapter 2, *Ethics and Social Responsibility: Doing the Right Thing*, you will learn basic principles of ethics and social responsibility. Often, entrepreneurs and employees fall into ethical traps that are cloaked in the garb of mundane decisions. This chapter will help you avoid these traps by making you aware of the issues and how to address them.

Throughout your career, you may choose to use these skills in your own business or in someone else’s business or non-profit organization; either way, they are essential to your success. Moreover, it is only through the aggregate of your educational experience that you will have the opportunity to develop many of these skills that employers have identified as critical to success in the workplace. As you can see, in this course, and specifically in this book, you will have the opportunity to develop and practice these skills.

Conclusion


As you can see, entrepreneurship lies at the heart of this nation’s free enterprise system; small companies truly are the backbone of our economy. Their contributions are as many and as diverse as the businesses themselves. Indeed, diversity is one of the strengths of the U.S. small business sector. Although there are no secrets to becoming a successful entrepreneur, there are steps that entrepreneurs can take to enhance the probability of their success. The remainder of this book will explore those steps and how to apply them to the process of launching a successful business with an emphasis on building a sound business plan.

- Chapter 2, “Ethics and Social Responsibility: Doing the Right Thing,” describes a framework for making ethical decisions and ensuring that a business lives up to its social responsibility. Chapter 3, “Creativity and Innovation: Keys to Entrepreneurial Success,” explores the creative process that lies at the heart of entrepreneurship and offers practical tips on how you can stimulate your own creativity and that of your employees.
- Section II, “The Entrepreneurial Journey Begins” (Chapters 4 to 8), discusses the classic start-up questions every entrepreneur faces, particularly conducting a feasibility analysis, creating a business model, developing a strategy, building a business plan, choosing a form of ownership, and alternative methods for becoming a business owner (franchising and buying an existing business).
- Section III, “Launching the Business” (Chapters 9 to 14), focuses first on creating an effective bootstrap marketing plan for a small company. These chapters address creating an effective e-commerce strategy and establishing pricing and credit strategies. This section also explains how to develop the financial component of a business plan, including creating projected financial statements and forecasting cash flow. These chapters also offer existing business owners practical financial management tools and explain how to find the sources of funding, both debt and equity, necessary to launch a business. Finally, this section includes a chapter on selecting the right location and designing an appropriate layout for a business.
- Section IV, “Putting the Business Plan to Work: Sources of Funds” (Chapters 15 to 17), explains how to find the sources of funding, both debt and equity, necessary to launch a business and how to penetrate global markets successfully. This section also provides useful techniques for assembling a strong new venture team and leading its members to

success and discusses the importance of creating a management succession plan to ensure that a company successfully makes the transition to the next generation of owners.

As you can see, the journey down the road of entrepreneurship will be a fascinating and exciting one. Let's get started!

MyLab Entrepreneurship

If your instructor is using MyLab Entrepreneurship, go to www.pearson.com/mylab/entrepreneurship to complete the problems marked with this icon .

Chapter Summary by Learning Objective

1. Define the role of the entrepreneur in business in the United States and around the world.

- Entrepreneurship is thriving in the United States, but the current wave of entrepreneurship is not limited to the United States; many nations around the globe are seeing similar growth in their small business sectors. A variety of competitive, economic, and demographic shifts have created a world in which "small is beautiful."
- Capitalist societies depend on entrepreneurs to provide the drive and risk taking necessary for the system to supply people with the goods and services they need.

2. Describe the entrepreneurial profile.

- Entrepreneurs have some common characteristics, including a desire for responsibility, a preference for moderate risk, confidence in their ability to succeed, desire for immediate feedback, a high energy level, a future orientation, skill at organizing, and a value of achievement over money. In a phrase, they are tenacious high achievers.

3-A. Describe the benefits of entrepreneurship.

- Driven by their personal characteristics, entrepreneurs establish and manage small businesses to gain control over their lives, make a difference in the world, become self-fulfilled, reap unlimited profits, contribute to society, and do what they enjoy doing.

3-B. Describe the drawbacks of entrepreneurship.

- Entrepreneurs also face certain disadvantages, including uncertainty of income, the risk of losing their investments (and more), long hours and hard work, a lower quality of life until the business gets established, high stress levels, and complete decision-making responsibility.

4. Explain the forces that are driving the growth of entrepreneurship.

- Several factors are driving the boom in entrepreneurship, including the portrayal of entrepreneurs

as heroes, better entrepreneurial education, economic and demographic factors, a shift to a service economy, technological advances, more independent lifestyles, and increased international opportunities.

5. Explain the cultural diversity of entrepreneurship.

- Several groups are leading the nation's drive toward entrepreneurship: young people, women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate castoffs, corporate dropouts, social entrepreneurs, and retired Baby Boomers.

6. Describe the important role that small businesses play in our nation's economy.

- The small business sector's contributions are many. Small businesses make up 99.7 percent of all businesses, employ 51 percent of the private sector workforce, have created two-thirds to three-fourths of the net new jobs in the economy, produce 51 percent of the country's private GDP, and account for 47 percent of all business sales.

7. Put failure into the proper perspective.

- Entrepreneurs recognize that failure is a natural part of the creative process. Successful entrepreneurs have the attitude that failures are simply stepping-stones along the path to success, and they refuse to be paralyzed by a fear of failure.

8. Explain how an entrepreneur can avoid becoming another failure statistic.

- Entrepreneurs can employ several general tactics to avoid these pitfalls. They should know their businesses in depth, prepare a solid business plan, manage financial resources effectively, understand financial statements, learn to manage people, set their businesses apart from the competition, and maintain a positive attitude.

MyLab Entrepreneurship

If your instructor is using MyLab Entrepreneurship, go to www.pearson.com/mylab/entrepreneurship for the following Assisted-graded writing questions:

1. Briefly describe the role of the following groups in entrepreneurship: young people, women, minorities, immigrants, part-timers, home-based business owners, family business owners, copreneurs, corporate castoffs, corporate dropouts, social entrepreneurs, and retired Baby Boomers.
2. What contributions do small businesses make to our economy?

Discussion Questions

- ★ 1-1. What forces have led to the boom in entrepreneurship in the United States and around the globe?
- 1-2. What is an entrepreneur? Give a brief description of the entrepreneurial profile.
- ★ 1-3. Coming up with great business ideas may seem easy, but only a true entrepreneur capitalizes on them to turn them into reality. Why are they considered an important agent of change in this global economy?
- 1-4. What are the major benefits of business ownership?
- 1-5. Which of the potential drawbacks to business ownership are most critical?
- 1-6. Describe the small business failure rate.
- 1-7. One hallmark of successful entrepreneurs is the ability to “fail intelligently.” How can an entrepreneur do so?
- 1-8. Identify the different types of entrepreneurs.
- 1-9. How can a small business owner avoid the common pitfalls that often lead to business failures?
- 1-10. Assuming that they are aware of all the aspects of their business, how can small business owners study a business in depth?
- 1-11. Who are serial entrepreneurs?
- 1-12. How does cloud computing allow an entrepreneur to build their company without incurring high overhead costs?
- 1-13. What might be one of the main reasons for youngsters to be involved in business?
- 1-14. If one is planning to venture into business, what is the most crucial ingredient for preparing for a successful business?

Beyond the Classroom . . .

- 1-15. Choose an entrepreneur in your community and interview him or her. What’s the “story” behind the business?
- 1-16. How well does the entrepreneur fit the entrepreneurial profile described in this chapter?
- 1-17. What advantages and disadvantages does the entrepreneur see in owning a business?
- 1-18. What advice would he or she offer to someone considering launching a business?
- 1-19. Select one of the categories under the section “The Cultural Diversity of Entrepreneurship” in this chapter and research it in more detail. Find examples of business owners in that category and prepare a brief report for your class.
- 1-20. Search through recent business publications or their Web sites (especially those focusing on small companies, such as *Inc.* and *Entrepreneur*) and find an example of an entrepreneur, past or present, who exhibits the entrepreneurial spirit of striving for success in the face of failure. Prepare a brief report for your class.

Endnotes

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2

Ethics and Social Responsibility: Doing the Right Thing



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Learning Objectives

On completion of this chapter, you will be able to:

1. Define business ethics and describe the three levels of ethical standards.
2. Determine who is responsible for ethical behavior and why ethical lapses occur.
3. Explain how to establish and maintain high ethical standards.
4. Explain the difference between social entrepreneurs and traditional entrepreneurs.
5. Define social responsibility.
6. Understand the nature of business's responsibility to the environment.
7. Describe business's responsibility to employees.
8. Explain business's responsibility to customers.
9. Discuss business's responsibility to investors.
10. Describe business's responsibility to the community.

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Business ethics involves the moral values and behavioral standards that businesspeople draw on as they make decisions and solve problems. It originates in a commitment to do what is right. Ethical behavior—doing what is “right” as opposed to what is “wrong”—starts with the entrepreneur. The entrepreneur’s personal values begin to shape the business from day one. Entrepreneurs’ personal values and beliefs influence the way they lead their companies and are apparent in every decision they make, every policy they write, and every action they take. In addition, the entrepreneurs’ values set the tone for the culture that will guide the ethical actions of every employee they bring into their business. Entrepreneurs who succeed in the long term have a solid base of personal values and beliefs that they articulate to their employees, put into practice in ways that others can observe, and demonstrate throughout the culture of the organization. Values-based leaders do more than merely follow rules and regulations; their consciences dictate that they do what is right.

For many entrepreneurs, the ability to determine the values and ethics that shape how business will be conducted is a major motivation to launching a venture. For example, Blake Jones spent several years working as an engineer in Nepal and Egypt. Jones found the caste system in Nepal and the rigid social structure of Egypt appalling. When he returned to the United States, Jones joined with two partners to form a company, Namasté Solar, built on their shared value of the importance of full participation of all employees in the governance of the business. To bring these values to life, Jones and his partners structured Namasté Solar as an employee-owned cooperative. The company Web site describes its business model as follows: “The cooperative model more closely matches our democratic ideals and more equitably distributes the risk/reward equation of our employee-owners.”¹ Namasté Solar designs and installs residential and commercial solar electric systems in Colorado. Seventy percent of the employees are owners of the company, with each owning one share valued at \$5,000. Each employee-owner has an equal vote in important issues facing the company. “A 22-year-old recent college grad who is an apprentice installing solar panels on rooftops has the same vote as I have,” says Jones. “I regularly don’t get my way.”²

The values and morals that entrepreneurs draw on to guide their ethical behaviors come from a variety of sources, including their family upbringing, their faith traditions, mentors who have shaped their lives, and the communities they grew up in. Bringing their personal values into their decision making and actions in their businesses helps ensure that entrepreneurs will act with integrity. Acting with integrity means that entrepreneurs do what is right no matter what the circumstances.

In some cases, ethical dilemmas are apparent. Entrepreneurs must be keenly aware of the ethical entrapments awaiting them and know that society will hold them accountable for their actions. More often, however, ethical issues are less obvious, cloaked in the garb of mundane decisions and everyday routine. Because they can easily catch entrepreneurs off guard and unprepared, these ethical “sleepers” are most likely to ensnare business owners, soiling their reputations and those of their companies. Repeated enough times, these unethical acts can become habits that shape the moral character of the entrepreneur. To make proper ethical choices, entrepreneurs must first be aware that a situation with ethical implications exists.

Complicating the issue even more is that, in some ethical dilemmas, no clear-cut right or wrong answers exist. There is no direct conflict between good and evil, right and wrong, or truth and falsehood. Instead, there is only the issue of conflicting interests among a company’s **stakeholders**, the various groups and individuals who affect and are affected by a business. These conflicts force entrepreneurs to identify their stakeholders and to consider the ways in which entrepreneurs will deal with them (see Figure 2.1). For instance, when the founders of a local coffee shop make business decisions, they must consider the impact of those decisions on many stakeholders, including the team of employees who work there, the farmers and companies that supply the business with raw materials, the union that represents employees in collective bargaining, the government agencies that regulate a multitude of activities, the banks that provide the business with financing, the founding partners and other external investors who helped fund the start-up, the general public the business serves, the community in which the company operates, the customers who buy the company’s products, and their families. When making decisions, entrepreneurs often must balance the needs and demands of a company’s stakeholders, knowing that whatever the final decision is, not all groups will be satisfied.

stakeholders

the various groups and individuals who affect and are affected by a business.

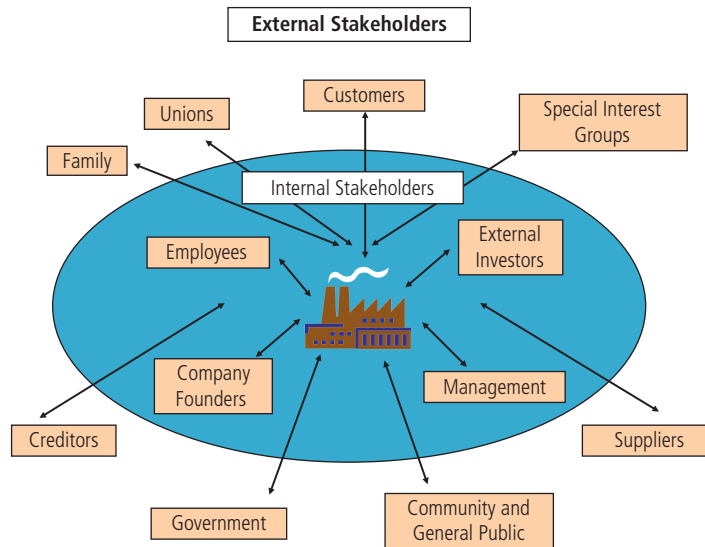


FIGURE 2.1

Key Stakeholders

Ethical leaders approach their organizational responsibilities with added dimensions of thought and action. They link ethical behaviors to organizational outcomes and incorporate social responsibility into daily decisions. They establish ethical behavior and concern for the environment as an integral part of organizational training and eventually as part of company culture. How does a commitment to “doing the right thing” apply to employees, customers, and other stakeholders, and how does it affect an entrepreneur’s daily decision making? Large technology companies such as Apple, Google, Yahoo!, Facebook, Microsoft, and Verizon have been facing an ethical dilemma as they attempt to comply with the National Security Administration’s request for information. The NSA operates a program known as Prism, which gathers telephone and Internet data to capture information about foreign nationals living in America. The NSA gets this information from technology companies that provide Internet and telephone services to consumers and businesses. Technology companies gain significant revenue from the data they gather from their users. For example, although Google offers many of its products such as Gmail and the Google search engine free to most users, these products generate significant revenue from the information Google amasses from its users’ Internet searches and e-mails. Google sells the data to advertisers, which then use it to target ads to specific consumers. Although their customers generally are aware that data mining is commonly a part of having access to technologies at no cost, there is an implied understanding that this data will be protected beyond Google’s internal use. However, Google and other large technology companies have a duty to share information from their customers that is tied to national security concerns with the federal government under the Cybersecurity Information Sharing Act.³ As evidenced by this example, balancing the demands of various stakeholders to make ethical decisions is no easy task.

Business operates as an institution in our often complex and ever-evolving society. Therefore, every entrepreneur is expected to behave in ways that are compatible with the value system of society. It is society that imposes the rules of conduct for all business owners, in the form of ethical standards of behavior and responsibilities to act in ways that benefit the long-term interest of all. Society expects business owners to strive to earn a profit on their investment. Ethics and social responsibility simply set behavioral boundaries for decision makers. **Ethics** is a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue. **Social responsibility** involves how an organization responds to the needs of the many elements in society, including shareholders, lenders, employees, consumers, governmental agencies, and the environment. Because business is allowed to operate in society, it has an obligation to behave in ways that benefit all of society.

ethics

a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue.

social responsibility

how an organization responds to the needs of the many elements in society.

LO1

Define business ethics and describe three levels of ethical standards.

business ethics

the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders.

An Ethical Perspective

Business ethics consists of the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders. Business ethics is a sensitive and highly complex issue, but it is not a new one. In 560 BC, the Greek philosopher Chilon claimed that a merchant does better to take a loss than to make a dishonest profit.⁴ Maintaining an ethical perspective is essential to creating and protecting a company's reputation, but it is no easy task. Ethical dilemmas lurk in the decisions—even the most mundane ones—that entrepreneurs make every day. Succumbing to unethical temptations ultimately can destroy a company's reputation, one of the most precious and most fragile possessions of any business.

Building a reputation for ethical behavior typically takes a long time; unfortunately, destroying that reputation requires practically no time at all, and the effects linger for some time. The Web hosting company GoDaddy became known for running sexually suggestive advertisements, a practice that resulted in the company having a poor reputation among women in the tech industry. As a result, the company had difficulty recruiting female employees and interns. GoDaddy addressed its poor reputation through intensive public relations initiatives and employee training on bias in the workplace. After two years of intensive efforts, GoDaddy was able to triple the number of female workers in the company.⁵



ENTREPRENEURIAL PROFILE: Brian Whitfield, Edwin Todd, and Marsha Whitfield: Sommet Group

Brian Whitfield and his father-in-law, Edwin Todd, founded Sommet Group to provide business services, including payroll, human resources, employee benefits, and staffing, to small- and medium-sized companies. Outsourcing these functions allowed its clients to focus on growing their businesses. Marsha Whitfield, Brian's wife and Edwin Todd's daughter, served as vice president of payroll for the company. To help build brand awareness, the Sommet Group entered into a multi-year naming rights agreement in 2007 with the Nashville Predators of the National Hockey League. The company was seeking to become a nationally known provider of outsourced business services. The home arena for the Predators became known as the Sommet Center. However, soon the empire being built by the family-owned business began to unravel. In 2009, just two years after signing the agreement, the Nashville Predators sued the Sommet Group to revoke the naming rights, alleging nonpayment of the agreed-upon naming rights fees. In July 2010 the FBI raided Sommet Group's headquarters, looking for evidence of fraud. In 2011 federal agents also raided the home of Brian and Marsha Whitfield, seeking additional evidence. That same year Marsha filed for divorce. On March 1, 2012, the Whitfields and Todd were indicted in federal court on 15 criminal counts, including wire fraud, conspiracy, theft from an ERISA plan, and money laundering charges. The Whitfields allegedly stole more than \$650,000 from an employee pension plan to help pay for the arena naming rights obligations, to buy a houseboat, and to build a pool at their home. The indictment also alleged that the Whitfields failed to report almost \$80 million of gross wages paid on behalf of Sommet clients, leading to an underpayment of more than \$20 million in income taxes. In July 2013, two former executives of Sommet reached a plea deal with federal prosecutors. Edwin Todd agreed to plead guilty to one count of conspiracy. Marsha Whitfield agreed to testify against her former husband Brian Whitfield and pleaded guilty to one count of conspiracy and one count of wire fraud.⁶ ■

Three Levels of Ethical Standards

As displayed in Figure 2.2, there are three levels of ethical standards:

1. *The law*, which defines for society as a whole those actions that are permissible and those that are not. The law is the narrowest level of ethical standards. The law merely establishes the minimum standard of behavior. Actions that are legal, however, may not be ethical. Simply obeying the law is insufficient as a guide for ethical behavior; ethical behavior requires more. Few ethical issues are so simple and one dimensional that the law can serve as the acid test for making a decision.
2. *Organizational policies and procedures*, which serve as specific guidelines for people as they make daily decisions. Policies and procedures include a broader definition of ethical standards that go beyond what is defined by the law. Many colleges and universities

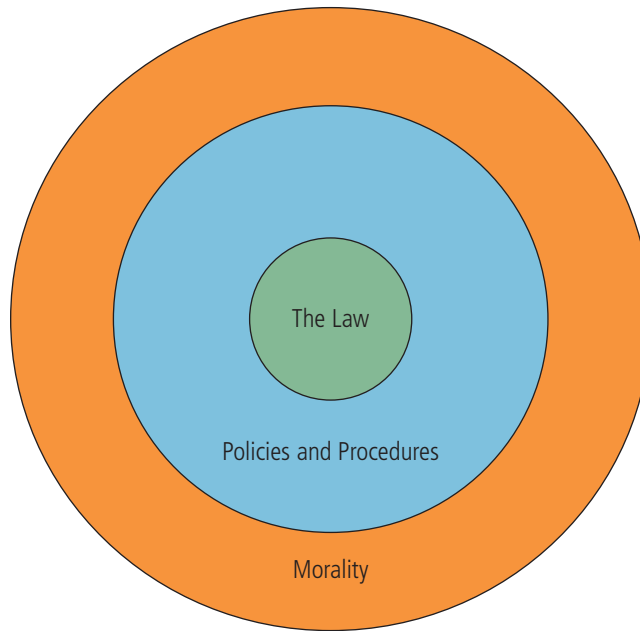


FIGURE 2.2

Three Levels of Ethical Standards

have created honor codes, and companies rely on policies covering everything from sexual harassment and gift giving to hiring and whistle-blowing.

3. *The moral stance* that employees take when they encounter a situation that is not governed by levels 1 and 2. It is the broadest and most fundamental definition of ethical standards. The values people learn early in life at home, from their religious upbringing, in the communities where they were raised, in school, and at work are key ingredients at this level. Morality shapes a person's character. A strong determinant of moral behavior is *training*. As Aristotle said thousands of years ago, you get a good adult by teaching a child to do the right thing. A company's culture can serve either to support or undermine its employees' concepts of what constitutes ethical behavior.

Ethics is something that every businessperson faces daily; most decisions involve some degree of ethical judgment. Over the course of a career, entrepreneurs can be confident that they will face some tough ethical choices. However, that is not necessarily bad! Situations such as these give entrepreneurs the opportunity to flex their ethical muscles and do what is right. Entrepreneurs set the ethical tone for their companies. The ethical stance employees take when faced with difficult decisions often reflects the values that entrepreneurs have used to intentionally shape the culture within their businesses.



ENTREPRENEURIAL PROFILE: Joey Prusak, Dairy Queen Manager

Joey Prusak was working at the Dairy Queen franchise where he had been employed for the previous five years. A blind man, who was a regular customer, was standing at the counter paying his bill. While the customer was getting money out of his wallet, he unknowingly dropped a \$20 bill. A woman standing behind him in line quickly picked up the \$20 bill and put it in her purse. When the woman stepped up to the counter to be served, Prusak asked her to return the money to the man who had dropped it. She refused, claiming it was her money that she had dropped. Prusak refused to serve her, saying that he would not serve her if she was going to be so "disrespectful" to another customer. The woman became belligerent and stormed out of the store. Prusak served the remaining customers in line, apologizing to each one for the incident. Prusak then went over to the blind man, pulled out a \$20 bill, and handed him the money, telling him that he had dropped it on the floor when he was paying for his food. A customer who witnessed the entire incident wrote a comment card describing what had happened. The owner of the franchise put the comment card on a bulletin board for all of the employees to see. One of the employees took a picture of the card and posted it on Facebook. The story then went viral. Billionaire Warren Buffet, whose company Berkshire Hathaway owns American Dairy Queen Corporation, heard the story and invited Prusak to be his special guest at the annual shareholder meeting of Berkshire Hathaway.⁷ ■

Moral Management

Although companies may set ethical standards and offer guidelines for employees, the ultimate decision about whether to abide by ethical principles rests with the *individual*. In other words, companies really are not ethical or unethical; individuals are. Managers, however, can greatly influence the behavior of individuals within the company. That influence must start at the *top* of the organization. An entrepreneur who practices ethical behavior establishes the moral tone for the entire organization. Table 2.1 summarizes the characteristics of the three ethical styles of management: immoral, amoral, and moral management.

IMMORAL MANAGEMENT Immoral managers are motivated by selfish reasons such as their own gains or those of the company. The driving force behind immoral management is *greed*: achieving personal or organizational success at any cost. Immoral management is the polar opposite of ethical management; immoral managers do what they can to circumvent laws and moral standards and are not concerned about the impact their actions have on others.

AMORAL MANAGEMENT The principal goal of amoral managers is to earn a profit, but their actions differ from those of immoral managers in one key way: They do not purposely violate laws or ethical standards. Instead, amoral managers neglect to consider the impact their decisions have on others; they use free-rein decision making without reference to ethical standards. Amoral management is not an option for socially responsible businesses.

MORAL MANAGEMENT Moral managers also strive for success but only within the boundaries of legal and ethical standards. Moral managers are not willing to sacrifice their values and violate ethical standards just to make a profit. Managers who operate with this philosophy see the law as a minimum standard for ethical behavior.

TABLE 2.1 Approaches to Business Ethics

Organizational Characteristics	Immoral Management	Amoral Management	Moral Management
Ethical norms	Management decisions, actions, and behavior imply a positive and active opposition to what is moral (ethical). Decisions are discordant with accepted ethical principles. An active negation of what is moral is implicit.	Management is neither moral nor immoral; decisions are not based on moral judgments. Management activity is not related to any moral code. A lack of ethical perception and moral awareness may be implicit.	Management activity conforms to a standard of ethical, or right, behavior. Management activity conforms to accepted professional standards of conduct. Ethical leadership is commonplace.
Motives	Selfish. Management cares only about its or its company's gains.	Well-intentioned but selfish in the sense that impact on others is not considered.	Good. Management wants to succeed but only within the confines of sound ethical precepts such as fairness, justice, and due process.
Goals	Profitability and organizational success at any price.	Profitability. Other goals are not considered.	Profitability within the confines of legal obedience and ethical standards.
Orientation toward law	Legal standards are barriers that management must overcome to accomplish what it wants.	Law is the ethical guide, preferably the letter of the law. The central question is "What we can do legally?"	Obedience toward the letter and spirit of the law. Law is a minimal ethical behavior. Prefer to operate well above what law mandates.
Strategy	Exploit opportunities for corporate gain. Cut corners when it appears useful.	Give managers free rein. Personal ethics may apply but only if managers choose. Respond to legal mandates if caught and required to do so.	Live by sound ethical standards. Assume leadership position when ethical dilemmas arise. Enlightened self-interest.

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