

Chapter 8 - Entrepreneurship and Innovation

Chapter Overview

This chapter begins by answering the question “what is entrepreneurship?” Then, the importance of entrepreneurship in the global economy is discussed. Next, the characteristics and skills of entrepreneurs are explored. Finally, the process of starting and managing a new venture and the importance of innovation is presented.

Chapter Objectives

1. Explain the economic importance of entrepreneurship.
2. Identify the key characteristics and skills of entrepreneurs.
3. Recognize the basic ingredients needed to effectively start and manage an entrepreneurial venture.
4. Differentiate among the legal forms of organizing an entrepreneurial venture.
5. Identify alternative forms of entrepreneurship.
6. Describe innovation and demonstrate why it is important for business success.

Lecture Outline

I. What Is Entrepreneurship?

Entrepreneurship is the process of creating a business enterprise capable of entering new or established markets.

- A. An **entrepreneur** is an individual who creates an enterprise that becomes a new entry to a market.
 1. Entrepreneurs recognize opportunities, undertake projects, and bear risk.

1. Entrepreneurship Myths

- A. There are many *myths* about entrepreneurs and how they succeed including
 1. *Entrepreneurs are born, not made* – entrepreneurs actually include many types of people with different personality characteristics.
 2. *It is necessary to have access to money to become an entrepreneur* – many companies have been launched by people with few resources.
 3. *Most entrepreneurs are under the age of 30* – there are successful entrepreneurs of all ages.

4. *Entrepreneurs become successful on their first venture* – failure can actually be part of the learning process.

2. A Distinction between an Entrepreneurial Venture and a Small Business

- A. A **small business** is any business that is independently owned and operated, that is small in size, and that is not dominant in its market.
 1. Some small business owners have no desire to grow their companies and focus on stability and profitability.
 2. Many entrepreneurs see growth and market share as high priorities.

II. The Importance of Entrepreneurship

Economies in many countries including the United States depend on entrepreneurs and the new ventures they launch.

- A. Entrepreneurship
 1. Creates jobs
 2. Stimulates innovation
 3. Provides opportunities for diverse people

1. Job Creation

- A. In 2007, companies less than six years old accounted for 64 percent of new jobs in the United States.

2. Innovation

- A. Many new products and services are developed by entrepreneurs looking for faster, better, cheaper ways of doing something or adding additional features.
- B. New technologies that make existing technologies obsolete are often developed by entrepreneurs.

3. Opportunities for Diverse People

- A. Entrepreneurship is attractive to people who have experienced frustration and blocked career paths in larger corporations.
 1. Entrepreneurship is attractive to women trying to balance work and family responsibilities or looking for more challenges.
 2. Blacks, Asian Americans, and Hispanics are also attracted to entrepreneurship as an alternative to a traditional corporate career path.

III. Entrepreneurial Characteristics and Skills

Entrepreneurs have a variety of reasons for launching new businesses including family role models, the desire to invent new products, and dissatisfaction with the corporate world.

1. Characteristics of Entrepreneurs

A. Common characteristics of entrepreneurs include

1. *A high need for achievement* – they enjoy setting and achieving goals, and are proactive and good at anticipating future problems, needs, or changes.
2. *An **internal locus of control*** – a strong belief in one’s own ability to succeed and a willingness to accept responsibility for outcomes and try harder after making mistakes
 - a. People with an **external locus of control** believe that luck, fate, or factors beyond their control determine one’s progress, and so feel helpless in the face of failure and do not sustain or intensify their efforts to succeed.
3. *A willingness to take risks* – they may leave a secure corporate job to launch a new venture.
4. *Self-confidence* – used to motivate and energize others.

2. Entrepreneurial Skills

A. Common skills of entrepreneurs include

1. *Negotiation skills* – use to obtain resources needed to launch and maintain their company.
2. *Networking skills* – used to build and maintain personal and business networks.
 - a. **Personal networks** are based on the relationships between the entrepreneur and other parties including other entrepreneurs, suppliers, creditors, investors, friends, and others.
 1. These networks can reduce uncertainty for the company.
 - b. **Business networks** are the firm’s alliances formed with other businesses to achieve mutually beneficial goals.
3. *Leadership skills* – use to inspire and motivate others

IV. Starting and Managing an Entrepreneurial Venture

Once an entrepreneur has an idea, a business plan must be developed, a legal structure for the company must be selected, financing must be obtained, growth and expansion decisions must be made.

1. New Business Ideas

- A. Ideas for new businesses can come from a variety of sources including newspapers, inventions, trade shows, hobbies, family members, and business schools.

2. Why Entrepreneurs Fail

- A. The most common reasons for failure include lack of capital, poor knowledge of the market, faulty product design, human resource problems, and a poor understanding of the competition.

3. Business Plan

- A. After developing an idea for a new business venture, the entrepreneur must prepare a **business plan** that maps out its business strategy for entering markets and explains the business to potential investors.
- B. A business plan includes a description of the product or service, an analysis of market trends and competitors, estimated pricing, estimated timetables, growth and expansion plans, sources of funding, plans for obtaining funding, and details on an effective management team.

4. Legal Forms

- A. There are three different legal forms that can be used to launch a new enterprise.
 1. **Proprietorship** – a form of business that is owned by one person.
 - a. The owner keeps all of the profits and has complete control, but may be limited in obtaining funding, and has unlimited liability in a lawsuit.
 2. **Partnership** – a form of business that is an association of two or more persons acting as co-owners of a business.
 - a. Multiple partners can bring complementary skills to the venture, as well as the opportunity to raise more capital, but each partner is liable for the decisions of other partners.
 3. **Corporation** – a legal entity separate from the individuals who own it.
 - a. This is more costly and complex than the other forms, but offers limited liability and the opportunity to raise more capital through sales of stock or loans and bonds.

5. Sources of Financial Resources

- A. The two main ways to obtain financing for a new business venture are
 1. **Debt financing** – a means of obtaining financing that involves obtaining a commercial loan and setting up a plan to repay the principle and interest.
 - a. Failure to make scheduled repayments can lead to **bankruptcy** (a legal procedure that distributes company assets to creditors and

protects the debtor from unfair demands of creditors when the debtor fails to make scheduled loan repayments).

2. **Equity financing** – a means of obtaining financial resources that involves the sale of part of the ownership of the business to investors.
 - a. **Venture capitalists** specialize in making loans to entrepreneurs that have the potential for rapid growth but are in high risk situations with few options for traditional financing.
 - b. **Public offerings** are a means of raising capital by the sale of securities in public markets such as the New York Stock Exchange.

6. Managing Growth

- A. Companies that grow too quickly can experience cash flow crises, high levels of stress among employees, problems with accounting and information systems, and problems managing a more diverse range of products or business units.
- B. Business plans help entrepreneurs manage growth targets and pace expansion.
 1. It can be better to turn down growth opportunities rather than lose control of the business.

V. Alternative Forms of Entrepreneurship

Alternatives to entrepreneurship that involve less risk include intrapreneurship, spin-offs, and franchising.

1. Intrapreneurship

- A. **Intrapreneurship**, also known as *corporate entrepreneurship*, is a form of business organization in which new business units are developed within a larger corporate structure in order to deploy the firm's resources to market a new product or service.
- B. This type of entrepreneurship is found in large companies that foster innovation.
 1. It is attractive because the company provides funding and other resources, but the intrapreneur does not receive the financial rewards that would be received in a traditional entrepreneurial venture.

2. Spin-Offs

- A. A **spinoff** is an independent entrepreneurship that produces a product or service that originated in a large company.
 1. When a new product does not fit with the organization's established product lines, the company can spin it off.
 2. Spinoffs are common in technology companies.

3. Franchises

- A. A business with an established name and product that is sold to additional owners along with the rights to distribute the product is known as a franchise operation.
 - 1. Franchising is especially common in the retail service sector.
- B. Franchising is attractive because it is less risky for the entrepreneur since the product is already established in the market place, management training and other assistance is provided, there are economies of scale in advertising and purchasing, financial assistance is available, and operating and structural controls are established.

VI. Innovation

Long term success in an organization is often linked to the firm's ability to explore and develop new technologies.

1. What is Innovation?

- A. Innovation is doing something differently. It can be a *radical* change or just an *incremental* change. Innovation can make prior technology obsolete or it can simply improve existing technologies.
- B. To be successful, innovations must add value and result in some type of positive gain or improvement.

2. The Importance of Innovation

- A. Most senior executives believe that innovation is critical to the success of their companies.
- B. There is a paradigm shift underway in many industries from a focus on quality and price to an emphasis on innovation.

3. The Innovation Process

- A. Companies must encourage and support *invention* and *application*.
- B. Firms need to establish guidelines to separate good ideas from less desirable ones.
 - 1. Gary Hamel's *wheel of innovation* is one way to do this. It involves five steps:
 - a. Imagining
 - b. Designing
 - c. Experimenting

- d. Assessing
- e. Scaling

C. Successful innovation meets the needs of the organization and its customers.

Chapter Discussion Questions

1. How does an entrepreneurial business differ from a small business? What are the similarities?

Answer: Small businesses and entrepreneurial businesses can be hard to tell apart initially because of their size. However, entrepreneurial businesses and small businesses differ in several ways. In an entrepreneurial business there is a focus on growing the organization at least to a mid-size company. In fact, many entrepreneurial businesses hope to dominate their markets at some point in the future. These companies emphasize growth and market share. In contrast, small business owners often prefer to keep their companies small, and place a priority on stability and profitability.

2. What are the differences between an entrepreneur and a manager?

Answer: An entrepreneur is an individual who creates an enterprise that becomes a new entry to market. Entrepreneurs recognize opportunities, undertake projects, and bear risk. Managers are involved with planning and strategizing, organizing, leading, and controlling. Managers can take on interpersonal roles, information roles, and decisional roles.

3. What is the significance of entrepreneurship to the U.S. economy?

Answer: Entrepreneurship is essential to the growth of the U.S. economy. Some 64 percent of new jobs created in the United States in 2007 were a result of entrepreneurship. Entrepreneurship also stimulates innovation. Entrepreneurs are often visionary people who find ways to do things faster, better, or cheaper, or develop entirely new products and features. In addition, entrepreneurship provides opportunities for diverse people including women and minorities that they may not otherwise have in a traditional corporate setting.

4. Identify the important personal characteristics of entrepreneurs. Do you think only people with these characteristics should become entrepreneurs? What problems does this approach present? What alternatives could be used to encourage people to choose an entrepreneurial path?

Answer: Some important characteristics for entrepreneurs are a high need for achievement, an internal locus of control, a willingness to take risks, and self-confidence. While many entrepreneurs possess these qualities, most students will probably agree that

they are not essential for entrepreneurial success. Students may point out for example that some entrepreneurs choose that career path because of family role models.

5. Compare and contrast debt financing and equity financing as ways of starting a new business. Does one have an overall advantage over the other? What situation is more favorable to the use of debt financing? Which situation favors equity financing?

Answer: Debt financing involves obtaining a commercial loan and establishing a plan to repay the principal and interest. This type of financing may not be available to new ventures with uncertain cash flows. Equity financing involves selling part of the ownership of the venture to investors. Because it does not require any collateral, this type of financing is popular in the early days of a business when the risk of failure is high. In general, the type of financing used by a new business will depend in the value of the firm's assets, the interest rate, and the availability of investor funds.

6. Why is growth important to an entrepreneurial business? How can rapid growth be detrimental to its survival?

Answer: It is important for new businesses to manage their growth, and in some cases even turn down opportunities to grow when accepting them threatens the stability of the company. While it is necessary for new ventures to grow and increase their market share, companies that grow too quickly risk running into cash flow crises, having a highly stressed workforce, using accounting and information systems that no longer make sense given the firm's size, and being led by individuals who lack the experience necessary to successfully run a larger, more diverse organization.

7. Can an individual be an entrepreneur yet work within a large corporation? Explain your answer.

Answer: It is possible for an individual to be an entrepreneur yet work in a large corporation. This form of entrepreneurship, known as intrapreneurship, exists when a large company develops cultures that encourage and support innovation and new businesses. Students will probably recognize this approach of entrepreneurship is used in companies like 3M and Apple. One key difference between a traditional entrepreneur and an intrapreneur is that the latter does not receive the financial rewards the former would if the venture is successful.

8. What are the advantages of starting a franchise business (such as McDonald's) instead of an independent entrepreneurial business? What are the disadvantages?

Answer: Franchises are attractive because they involve established products or services and include managerial and marketing assistance. In addition, franchisees can often obtain financial assistance from franchisors. However, there are some disadvantages associated with franchises. Franchisees do not have full control, may have restrictions on selling the venture, and can face high start-up costs. In addition, franchisors may oversell franchise rights in a particular location making it difficult or even impossible for

the franchisee to grow. Furthermore, franchisors may fail to provide agreed upon services to the franchisee.

9. What is the purpose of a business plan for an entrepreneurial effort? Some successful businesses are started without any business plan and operate according to the gut instincts of the entrepreneur. What do you think accounts for the success of businesses that are run “by the seat of the pants” without any formal planning?

Answer: Many students will attribute the success of some companies that operate without any formal planning to luck. Even when a new venture is still in its infancy, it can benefit from establishing goals, identifying ways to achieve the objectives, and evaluating the results. In some cases, it is possible at least for a while to simply have a mental picture of the company’s mission and strategy. However, as the company grows, more formal planning is necessary.

10. Describe what is meant by the statement that an invention is not necessarily an innovation. Can you provide any examples of inventions that may not be innovations?

Answer: Innovations are more than just new ideas or products, innovations add value in some way that results in gain or improvement. Students may note that the Segway people mover is more of an invention rather than an innovation.

Study Questions

1) What is the process of creating a business enterprise capable of entering new or established markets by deploying resources and people in a unique way to develop a new organization?

- A) Strategic management
- B) Entrepreneurship
- C) Partnership
- D) Innovation

Answer: B

Diff: 1 Page Ref: 232

Objective: LO1

2) Which of the following is a reality of entrepreneurship?

- A) Entrepreneurs are born, not made.
- B) It is necessary to have access to money to become an entrepreneur.
- C) Most entrepreneurs are not young people under 30 years of age.
- D) Entrepreneurs become successful on their first venture.

Answer: C

Diff: 2 Page Ref: 232-233

Objective: LO1

3) A small business is defined by the U.S. Small Business Administration as employing fewer than

- A) 25 employees.
- B) 100 employees.
- C) 250 employees.
- D) 500 employees.

Answer: D

Diff: 1 Page Ref: 233

Objective: LO1

4) As opposed to a small business, one of the important goals of an entrepreneurial venture is

- A) social responsibility.
- B) profit.
- C) growth.
- D) innovation.

Answer: C

Diff: 3 Page Ref: 233

Objective: LO1

5) Entrepreneurship

- A) creates jobs.
- B) stimulates innovation.
- C) provides opportunities for diverse people in society.
- D) all of the above

Answer: D

Diff: 2 Page Ref: 233

Objective: LO1

6) Entrepreneurship can provide

- A) an alternative corporate career path.
- B) an opportunity to experience the frustration of the glass ceiling.
- C) a blocked career path.
- D) additional unpleasant organizational politics.

Answer: A

Diff: 2 Page Ref: 234

Objective: LO1

7) What is the motive for entrepreneurs to start a new business?

- A) They learn from successful family role models.
- B) They invent a new product and build a business around it.
- C) They become dissatisfied with corporate careers and discover that entrepreneurship provides an attractive set of challenges.
- D) all of the above

Answer: D

Diff: 2 Page Ref: 235

Objective: LO2

8) Which of the following is a key characteristic associated with entrepreneurship?

- A) Low self-confidence
- B) High need for achievement
- C) Risk averse
- D) External locus of control

Answer: B

Diff: 1 Page Ref: 235

Objective: LO2

9) A strong belief in one's own ability to succeed, so that one accepts responsibility for outcomes and tries harder after making mistakes, is

- A) a high need for achievement.
- B) an internal locus of control.
- C) an external locus of control.
- D) a high level of self-confidence.

Answer: B

Diff: 2 Page Ref: 235

Objective: LO2

10) Jack believes that what happens to him is due to luck and factors beyond his control. Jack has a(n)

- A) high need for achievement.
- B) internal locus of control.
- C) external locus of control.
- D) high level of self-confidence.

Answer: C

Diff: 2 Page Ref: 235

Objective: LO2

11) Which of the following is not a business skill utilized by entrepreneurs to create and operate an enterprise?

- A) High need for achievement
- B) Negotiation skills
- C) Networking skills
- D) Leadership skills

Answer: A

Diff: 1 Page Ref: 235

Objective: LO2

12) Which of the following statements is true about Michael Dell?

- A) Dell realized he could build a company on the same business model of other computer firms.
- B) Michael Dell became one of the youngest CEOs of a major U.S. corporation.
- C) Dell avoided the use of the Internet as a distribution channel.
- D) all of the above

Answer: B

Diff: 2 Page Ref: 236
Objective: LO2

- 13) An entrepreneur's personal network can be formed through
- A) participation in professional societies.
 - B) actively seeking out individuals with similar interests.
 - C) building trust and good will.
 - D) all of the above

Answer: D

Diff: 2 Page Ref: 237
Objective: LO2

- 14) A firm's alliances formed with other businesses to achieve mutually beneficial goals is a(n)

- A) personal network.
- B) advisory board.
- C) board of directors.
- D) business network.

Answer: D

Diff: 2 Page Ref: 237
Objective: LO2

- 15) An advisory board

- A) has legally binding duties to the business.
- B) provides legally binding advice.
- C) is a panel of experts that offers counsel to an entrepreneur.
- D) is only used in large corporations.

Answer: C

Diff: 3 Page Ref: 238
Objective: LO2

- 16) An entrepreneurial venture begins with

- A) the development of a business plan.
- B) obtaining financing.
- C) the selection of the most appropriate type of legal structure to operate under.
- D) an idea.

Answer: D

Diff: 1 Page Ref: 238
Objective: LO3

- 17) Which of the following is not one of the most common reasons for business failure?

- A) Poor knowledge of the market
- B) Lack of capital
- C) Paralysis of analysis
- D) Human resource problems

Answer: C

Diff: 2 Page Ref: 238

Objective: LO3

18) A blueprint that maps out the business strategy for entering markets and explains the business to potential investors is the

- A) personal network.
- B) business plan.
- C) business network.
- D) the marketing plan.

Answer: B

Diff: 1 Page Ref: 239

Objective: LO3

19) Which of the following are key components of the business plan?

- A) A description of the product or service
- B) Sources of funding
- C) An analysis of market trends and potential competitors
- D) all of the above

Answer: D

Diff: 2 Page Ref: 239

Objective: LO3

20) The business form that is owned by one person is

- A) proprietorship.
- B) corporation.
- C) partnership.
- D) an LLC.

Answer: A

Diff: 1 Page Ref: 239

Objective: LO4

21) What percent of all U.S. businesses are proprietorships?

- A) 24
- B) 44
- C) 74
- D) 94

Answer: C

Diff: 2 Page Ref: 239

Objective: LO4

22) An advantage of a proprietorship is

- A) it requires a minimum of paperwork.
- B) it can provide complementary skills that can create more opportunities for the enterprise.
- C) it has limited liability.
- D) the personal assets of the owner are separate from the business.

Answer: A

Diff: 3 Page Ref: 239

Objective: LO4

23) A partnership

- A) is subject to a large number of government regulations.
- B) can generally raise more capital than a proprietorship.
- C) is provided a charter from the state.
- D) is more complex to form than a corporation.

Answer: B

Diff: 3 Page Ref: 240

Objective: LO4

24) When advising John of what to include in the production plan of his business plan for his entrepreneurial venture, which would you not include in your recommendation?

- A) Manufacturing process
- B) Names of suppliers of raw materials
- C) Physical plant
- D) Product forecasts

Answer: D

Diff: 2 Page Ref: 240

Objective: LO4

25) A corporation

- A) is a legal entity separate from the individuals who own it.
- B) receives limited rights to operate from the government that provides its charter.
- C) is more costly to form than a partnership.
- D) all of the above

Answer: D

Diff: 2 Page Ref: 240

Objective: LO4

26) More than half of all entrepreneurships are started by

- A) a single individual.
- B) an individual from a family of entrepreneurs.
- C) individuals under 30 years old.
- D) a team of founders.

Answer: D

Diff: 3 Page Ref: 241

Objective: LO4

27) The benefit of forming a corporation is

- A) lower taxes.
- B) ease of formation.
- C) limited liability.
- D) less governmental regulation.

Answer: C

Diff: 2 Page Ref: 241

Objective: LO4

- 28) A disadvantage of a corporation is
- A) activities are limited to those stated in the charter.
 - B) unlimited liability for the firm's debts.
 - C) difficulty in obtaining capital.
 - D) limited continuity of the life of the enterprise.

Answer: A

Diff: 2 Page Ref: 241

Objective: LO4

- 29) Pat and Jim are founding an entrepreneurial venture. They want to leverage their complementary skills and raise as much capital as possible. Which business form would you recommend for their venture?

- A) Proprietorship
- B) Corporation
- C) Partnership
- D) Advisory board

Answer: C

Diff: 2 Page Ref: 240

Objective: LO4

AACSB: Analytic skills

- 30) The two principle means of obtaining the resources to fund a new business are

- A) loans and debt financing.
- B) equity financing and debt financing.
- C) equity financing and venture capitalists.
- D) public offerings and venture capitalists.

Answer: B

Diff: 3 Page Ref: 242

Objective: LO4

- 31) A common form of debt financing is

- A) venture capitalists.
- B) commercial loans.
- C) equity financing.
- D) bankruptcy.

Answer: B

Diff: 2 Page Ref: 242

Objective: LO4

- 32) Entrepreneurs may obtain debt financing for specific purchases through

- A) equipment manufacturing.
- B) suppliers.
- C) credit cards.
- D) all of the above

Answer: D

Diff: 2 Page Ref: 242

Objective: LO4

33) A means of obtaining financial resources that involves the sale of part of the ownership of the business is

- A) debt financing.
- B) equity financing.
- C) commercial loans.
- D) bankruptcy.

Answer: B

Diff: 2 Page Ref: 242

Objective: LO4

34) An early entrepreneurial venture that has the potential for rapid growth but is in a high risk situation with few assets may seek financing from

- A) venture capitalists.
- B) public offerings.
- C) commercial loans.
- D) all of the above

Answer: A

Diff: 2 Page Ref: 242

Objective: LO4

AACSB: Analytic skills

35) Venture capitalists

- A) manage pools of money.
- B) provide management knowledge.
- C) provide financial advice.
- D) all of the above

Answer: D

Diff: 3 Page Ref: 242

Objective: LO4

36) Raising capital by selling securities on the New York Stock Exchange or NASDAQ is a

- A) public offering.
- B) debt financing offer.
- C) commercial loan.
- D) venture capitalist.

Answer: A

Diff: 1 Page Ref: 242

Objective: LO4

37) After a public offering

- A) there is a higher tolerance for management mistakes.
- B) management decisions are under a higher level of public scrutiny.
- C) there is less shareholder pressure for dividends.
- D) less information is made public for competitors.

Answer: B

Diff: 3 Page Ref: 2402

Objective: LO4

AACSB: Reflective thinking skills

38) Growing too quickly may result in which of the following?

- A) A cash flow crisis
- B) Employees that are likely to experience stress
- C) Management that is no longer competent
- D) all of the above

Answer: D

Diff: 3 Page Ref: 243

Objective: LO4

39) Which of the following is not an alternative to entrepreneurship?

- A) Intrapreneurship
- B) Partnership
- C) Spin-offs
- D) Franchising

Answer: B

Diff: 2 Page Ref: 244

Objective: LO5

40) A form of business organization in which new business units are developed within a larger corporation structure in order to deploy the firm's resources to market a new product or service is referred to as

- A) a spin-off.
- B) intrapreneurship.
- C) franchising.
- D) a corporation.

Answer: B

Diff: 2 Page Ref: 244

Objective: LO5

41) Intrapreneurship is also referred to as

- A) franchising.
- B) spin-offs.
- C) corporate entrepreneurship.
- D) all of the above

Answer: C

Diff: 2 Page Ref: 244

Objective: LO5

42) The launch of CNBC by the National Broadcasting Company (NBC) is an example of

- A) franchising.
- B) spin-offs.
- C) corporate entrepreneurship.

D) all of the above

Answer: B

Diff: 2 Page Ref: 244

Objective: LO5

AACSB: Reflective thinking skills

43) An advantage of intrapreneurship is

A) a successful intrapreneur within a corporation receives financial rewards equal to those generated by an independent entrepreneurship.

B) franchising fees are generated.

C) the company provides funding and corporate resources that an independent entrepreneur cannot gather.

D) rights may be sold overseas to grow geographically.

Answer: C

Diff: 2 Page Ref: 244

Objective: LO5

44) If a new product that is developed by a corporation does not fit with the company's established products, what is the recommended form of entrepreneurship?

A) Intrapreneurship

B) Spin-offs

C) Franchises

D) Partnerships

Answer: B

Diff: 2 Page Ref: 244

Objective: LO5

45) When Xerox created Semaphore Communications to manufacture and market a security product that encrypts messages for cellular phones, which form of entrepreneurship were they using?

A) Intrapreneurship

B) Spin-off

C) Franchise

D) Partnership

Answer: B

Diff: 2 Page Ref: 244

Objective: LO5

AACSB: Reflective thinking skills

46) When a business with an established name and product is sold to additional owners along with the rights to distribute the product, which type of operation is created?

A) Intrapreneurship

B) Spin-off

C) Franchise

D) Partnership

Answer: C

Diff: 2 Page Ref: 245

Objective: LO5

47) Franchising is particularly prevalent in which sector of the economy?

- A) Government
- B) Nonprofit
- C) Manufacturing
- D) Retail service

Answer: D

Diff: 2 Page Ref: 245

Objective: LO5

48) An entrepreneur assumes fewer risks with franchising because the franchise can provide

- A) a product or service with an established market and favorable image.
- B) management training and assistance in operating the business.
- C) economies of scale for advertising and purchasing.
- D) all of the above

Answer: D

Diff: 2 Page Ref: 245

Objective: LO5

49) Innovation is

- A) doing something different.
- B) always about radical change.
- C) always about incremental change.
- D) always embraced by large organizations.

Answer: A

Diff: 2 Page Ref: 245

Objective: LO6

50) According to Michael Tushman, innovation can involve

- A) radical change, but not incremental change.
- B) incremental change, but not radical change.
- C) neither radical change nor incremental change.
- D) radical change or incremental change.

Answer: D

Diff: 2 Page Ref: 245

Objective: LO6

51) 3M's description of innovation is "a new idea together with action or implementation that has a bottom-line impact." This reflects which key component of innovation?

- A) The invention by itself does not make for innovation.
- B) It is not just the change that is important or that defines innovation.
- C) An innovation is more than just a novel idea or product.
- D) all of the above

Answer: D

Diff: 2 Page Ref: 245

Objective: LO6
AACSB: Analytic skills

52) Which of the following is an example of a radical innovation?

- A) Caffeine-Free Coke
- B) Smaller cell phones
- C) Digital compact discs
- D) Pepsi Max

Answer: C

Diff: 3 Page Ref: 245

Objective: LO6

AACSB: Reflective thinking skills

53) Which of the following inventions would qualify as an innovation that added value?

- A) The Segway
- B) Pepsi Max
- C) Disposable diapers
- D) all of the above

Answer: C

Diff: 3 Page Ref: 245

Objective: LO6

AACSB: Analytic skills

54) Today's business success has seen a shift from _____ to _____.

- A) quality and price; creativity
- B) quality; price
- C) price; size
- D) creativity; innovation

Answer: A

Diff: 2 Page Ref: 246

Objective: LO6

55) Which of the following is not one of the steps in Gary Hamel's wheel of innovation?

- A) Imagining
- B) Scaling
- C) Inventing
- D) Experimenting

Answer: C

Diff: 2 Page Ref: 247

Objective: LO6

56) The small business owner is often focused on stability and profitability while the entrepreneur is focused on growth and greater presence in the market.

Answer: TRUE

Diff: 2 Page Ref: 233

Objective: LO1

57) Entrepreneurship has provided an alternative career path for many minorities in the United States.

Answer: TRUE

Diff: 1 Page Ref: 234

Objective: LO1

58) Data indicates that 90 percent of new ventures are successful after four years.

Answer: FALSE

Diff: 2 Page Ref: 235

Objective: LO2

59) Among the skills required for success by entrepreneurs are negotiation skills, networking skills, and leadership skills.

Answer: TRUE

Diff: 2 Page Ref: 235

Objective: LO2

60) When an inventor falls in love with an invention, the expectation that consumers will do so as well may lead to failure of the venture.

Answer: TRUE

Diff: 2 Page Ref: 238

Objective: LO3

61) An association of two or more persons acting as co-owners of a business creates a proprietorship.

Answer: FALSE

Diff: 1 Page Ref: 239

Objective: LO4

62) The benefit of forming a corporation is limited liability.

Answer: TRUE

Diff: 3 Page Ref: 241

Objective: LO4

63) Equity financing requires collateral.

Answer: FALSE

Diff: 2 Page Ref: 242

Objective: LO4

64) Franchises are typical in technology companies where the new technology does not fit with the company's core competencies.

Answer: FALSE

Diff: 3 Page Ref: 244

Objective: LO5

65) The economic paradigm shift today is from quality and price as key drivers to creativity.

Answer: TRUE

Diff: 2 Page Ref: 246

Objective: LO6

66) What is entrepreneurship?

Answer: Entrepreneurship is the process of creating a business enterprise capable of entering new or established markets.

Diff: 1 Page Ref: 232

Objective: LO1

67) What are the myths of entrepreneurship?

Answer: Four myths of entrepreneurship were presented. Entrepreneurs are born, not made. It is necessary to have access to money to become an entrepreneur. Most entrepreneurs are young people under 30 years of age. Entrepreneurs become successful on their first venture.

Diff: 2 Page Ref: 232-233

Objective: LO1

68) What is the difference between a small business and an entrepreneurial venture?

Answer: A small business is any business that is independently owned and operated, that is small in size, and that is not dominant in its markets. An important goal of an entrepreneur is usually growth. An entrepreneurial venture may be small in its early stages, but the goal may be to become a medium-sized firm. At the start the two may be difficult to tell apart. For a small business owner, stability and profitability are the ideal situation. For the entrepreneur, growth and a greater presence in the market can be important objectives.

Diff: 2 Page Ref: 233

Objective: LO1

69) Discuss the importance of entrepreneurship.

Answer: Entrepreneurship and the creation of small businesses have surprising impacts on the creation of new jobs. In 2007, young companies provided 64 percent of new jobs in the United States. Entrepreneurships are responsible for introducing a major proportion of new and innovative products and services that reach the market. They often pioneer new technologies designed to make older technologies obsolete. Finally, entrepreneurship provides an opportunity for an alternative career path for diverse people.

Diff: 2 Page Ref: 233-234

Objective: LO1

AACSB: Multicultural and diversity understanding

70) What are some of the key characteristics of entrepreneurs?

Answer: Some key characteristics of entrepreneurs are a high need for achievement, an internal locus of control, the willingness to take risks, and self-confidence. People with a high need for achievement have a desire to solve problems on their own. They enjoy setting goals and achieving them through their own efforts, and like receiving feedback

on how they are doing. This helps the entrepreneur be more proactive and anticipate future problems, needs, or changes. An entrepreneur is also likely to have an internal locus of control. This is a strong belief in his/her ability to succeed. When a person with an internal locus of control fails or makes a mistake, the individual is likely to accept responsibility for the outcome and try harder, rather than searching for external reasons to explain the failure. An entrepreneur takes on some level of risk when trying to start a new venture. They may risk a substantial portion of their capital as well as funds contributed by family, friends and other investors. Finally, entrepreneurs feel certain they can master the skills needed to run a business and that they can overcome unforeseen obstacles. This self-confidence can be used to energize and motivate others. Self-confidence enables entrepreneurs to improvise and find novel solutions to business problems that might discourage people who are more self-critical.

Diff: 2 Page Ref: 235-236

Objective: LO2

71) List some entrepreneurial skills related to success.

Answer: Some entrepreneurial skills related to success are negotiation skills, networking skills, and leadership skills.

Diff: 1 Page Ref: 235

Objective: LO2

72) What is a personal network as it pertains to an entrepreneur? How is it different from a business network?

Answer: A personal network is the relationship between an entrepreneur and other parties, including other entrepreneurs, suppliers, creditors, investors, friends, former colleagues, and others. Entrepreneurs build personal networks by actively seeking out individuals with similar interests, staying in touch with them, and looking for opportunities to make the relationship mutually satisfying. A business network is a firm's alliances formed with other businesses to achieve mutually beneficial goals.

Diff: 2 Page Ref: 236-237

Objective: LO2

73) What are the most common reasons for entrepreneurial business failure?

Answer: The most common reasons for entrepreneurial business failure are lack of capital, poor knowledge of the market, faulty product design, human resource problems, and poor understanding of the competition.

Diff: 2 Page Ref: 238-239

Objective: LO3

74) What are the key components of a business plan?

Answer: The key components of a business plan are as follows:

- A description of the product/service
- An analysis of market trends and potential competitors
- An estimated price for the product/service
- An estimate of the time it will take to generate profits
- A plan for manufacturing the product
- A plan for growth and expansion for the business

- Sources of funding
- A plan for obtaining financing
- An approach for putting an effective management team in place

Diff: 2 Page Ref: 239

Objective: LO3

75) Discuss the three different forms entrepreneurs can select from when launching a new venture.

Answer: Entrepreneurs can select from proprietorships, partnerships, or corporations as legal forms when launching their businesses. A proprietorship is a form of business that is owned by one person. It is easy to form and requires a minimum of paperwork. The owner keeps all of the profits and makes all of the important decisions without having to get the approval of co-owners. A partnership is a form of business that is an association of two or more persons acting as co-owners of a business. Each partner provides resources and skills and shares in the profits. A partnership can raise more capital than a proprietorship and can provide complementary skills that can create more opportunity for the enterprise. Each partner is responsible for the acts of the other partners. A corporation is a legal entity separate from the individuals who own it. It is more complex and costly to form and operate than a proprietorship or a partnership. The benefit of forming a corporation is limited liability.

Diff: 3 Page Ref: 239-240

Objective: LO4

76) What are the advantages and disadvantages of forming a partnership?

Answer: The advantages of forming a partnership are the ease of formation, the direct share of profits, division of labor and management responsibilities, more capital is available than in a sole proprietorship, and less governmental control and regulation. The disadvantages of a partnership include unlimited liability for the firm's debts, limited continuity of the life of the enterprise, difficulty in obtaining capital, and the partners share responsibility for other partners' actions.

Diff: 2 Page Ref: 241

Objective: LO4

77) Explain equity financing for entrepreneurs.

Answer: Equity financing is generally used with debt financing as a business grows. Equity financing is raising money by selling part of the ownership of the business to investors. The entrepreneur shares control of the business with the investors. Sources of equity financing include private investors, venture capitalists, and public offerings in which shares of stock are sold.

Diff: 2 Page Ref: 242

Objective: LO4

78) What types of problems may a business face if it grows too quickly?

Answer: A business that grows too quickly may experience a number of problems. The company may experience a cash flow crisis if it spends most of its available cash on expansion and has difficulty meeting obligations to creditors. Employees are likely to experience stress from rapid changes. Accounting and information systems that worked

well when the firm was smaller must be replaced with more complicated and sophisticated systems. Current personnel may not be capable of operating these systems, and information may not be available when it is needed. Finally, management may no longer be competent to manage a larger or more diverse portfolio of business units or product lines.

Diff: 3 Page Ref: 243

Objective: LO4

79) What are the alternatives to independent entrepreneurship that involve smaller risks?

Answer: The alternatives to independent entrepreneurship that involve smaller risks are intrapreneurship, spin-offs and franchising.

Diff: 1 Page Ref: 244

Objective: LO5

80) Describe Gary Hamel's five steps in the wheel of innovation.

Answer: The five steps in the wheel of innovation as described as Gary Hamel are as follows:

- Imagining: thinking about new ways of doing something or extending existing ways.
- Designing: testing ideas at the conceptual level by discussing them with colleagues, customers, clients, or technical experts; building models or prototypes that can be tested.
- Experimenting: examining the practical use of the idea and its financial value through experiments and feasibility studies.
- Assessing: identifying the strengths and weaknesses of the idea, its costs and benefits, and potential markets, and how it will be used by customers; making constructive changes based on the assessments.
- Scaling: deploying resources and developing new processes to produce the innovation on a commercial basis; incorporating what has been learned into the production and marketing of the product or service.

Diff: 2 Page Ref: 247

Objective: LO6