

Chapter 1 The Foundations of Entrepreneurship

Multiple Choice Questions:

1. A recent study by Ernst and Young found that 78% of influential Americans believe that entrepreneurship will be the defining trend of this century. The entrepreneurial opportunity that topped their list was:
 - a. the Internet
 - b. globalization
 - c. downsizing of corporate America
 - d. None of the above.

2. Current competitive conditions favor:
 - a. large companies with their hierarchies and layers of management.
 - b. companies in industries that were once regulated by government but have recently been deregulated.
 - c. small companies that can quickly move into and out of niche markets as they emerge and recede.
 - d. Both A and B are correct.

3. Which of the following is NOT a characteristic of the typical entrepreneur?
 - a. Confidence in his/her ability to succeed
 - b. Value of money over achievement
 - c. Desire for immediate feedback
 - d. A future orientation

4. Which of the following is NOT a characteristic of the typical entrepreneur?
 - a. Desire for responsibility
 - b. High degree of commitment
 - c. Low energy levels
 - d. Confidence in his/her ability to succeed

5. Characteristics of entrepreneurs include all of the following EXCEPT:
 - a. Tolerance for ambiguity
 - b. Flexibility
 - c. Skill at organizing
 - d. Low degree of commitment

6. Entrepreneurs are characterized by:
 - a. skill at organizing.
 - b. desire for immediate feedback.
 - c. high energy levels.
 - d. All of the above.

7. Entrepreneurs who repeatedly start businesses and grow to a sustainable size before striking out again are known as _____ entrepreneurs.
 - a. Opportunistic
 - b. Persistent
 - c. Serial
 - d. None of the above.

8. Surveys show that owners of small businesses believe that they _____ than if they worked for a large company.
 - a. work harder
 - b. earn more money
 - c. are happier
 - d. All of the above.

9. In a large organization, an individual may be stifled and limited by a wide variety of factors. But, by owning one's own business, the only limits are one's own creativity, talent, and determination. In this sense, small business ownership offers the advantage of:
 - a. the opportunity to reach one's full potential.
 - b. the opportunity to reap unlimited profits.
 - c. the chance to learn from others' mistakes.
 - d. None of the above.

10. Which of the following is a benefit of entrepreneurship?
 - a. The opportunity to gain control over your own destiny
 - b. The opportunity to reach your full potential
 - c. The opportunity to do what you enjoy
 - d. All of the above

11. The only boundaries imposed on an entrepreneur's success are those imposed by:
 - a. society.
 - b. his/her own creativity, enthusiasm, and vision.
 - c. financial institutions.
 - d. licensing agencies.

12. Which of the following is NOT a characteristic of the entrepreneurial experience?
 - a. Uncertainty
 - b. Ambiguity
 - c. Guaranteed success
 - d. Hard work

13. _____% of new businesses fail within two years, while _____% fail within six years.
 - a. 35;64
 - b. 51;64
 - c. 35;80
 - d. 64;80

14. The majority of new business owners work:
 - a. fewer than 40 hours per week.
 - b. more than 40 hours per week.
 - c. more than 70 hours per week.
 - d. more than 80 hours per week.

15. Which of the following is a potential disadvantage of owning your own business?
 - a. Uncertainty of income
 - b. Risk of losing your entire investment
 - c. High level of stress
 - d. All of the above.

16. Which of the following forces is driving the entrepreneurial trend in our nation?
 - a. Increased entrepreneurial educational opportunities
 - b. E-commerce and the World Wide Web
 - c. Technological advancements and modern business machinery
 - d. All of the above.

17. Which of the following is NOT one of the forces driving the entrepreneurial trend in our country?
 - a. Shift away from a service economy
 - b. Independent lifestyle
 - c. International opportunities
 - d. E-commerce and the World Wide Web

18. The service sector of the U.S. economy produces _____% of the jobs and _____% of the GDP in the country.
 - a. 92; 85
 - b. 76; 75
 - c. 65; 66
 - d. 50; 24

19. Most entrepreneurs launch their businesses between the ages of ____ and _____.
 - a. 20; 34
 - b. 25; 44
 - c. 30; 44
 - d. 35; 49

20. Which of the following statements concerning small businesses and international markets is FALSE?
 - a. Although terrorism and global recession have slowed the growth of international trade somewhat, global opportunities for small businesses have a long-term positive outlook.
 - b. Although the U.S. is an attractive market, approximately 95 percent of the world's population lives outside its borders.
 - c. Because exporting is so complex and requires a company to have so many international experts on staff, exporting is not feasible for small businesses.
 - d. Small companies comprise 97% of all businesses engaged in exporting, yet they account for only 30% of the nation's export sales.

21. Small companies that have expanded successfully into foreign markets tend to rely on all but which of the following strategies?
 - a. Research foreign markets thoroughly
 - b. Focus on many countries initially
 - c. Utilize government resources designed to help small companies establish an international presence
 - d. Forge alliances with local partners

22. Which of the following statements is/are NOT true of Generation X?
 - a. They are the most entrepreneurial generation in history.
 - b. They are three times more likely to start businesses than other generations.
 - c. They are responsible for approximately 80% of all business start-ups.
 - d. All of the above are true.

23. Which of the following statements about women-owned businesses is FALSE?
 - a. The businesses women start tend to be smaller than those men start.
 - b. Women own about 28% of all privately-held businesses in the U.S.
 - c. The survival rate of women-owned businesses is much lower than that of U.S. businesses overall.
 - d. Most women-owned companies are concentrated in retailing and services.

24. Women own about _____% of all privately-held businesses in the United States.
 - a. 8
 - b. 28
 - c. 48
 - d. 68

25. Women are opening businesses at a rate of approximately ____ times that of the national average.
 - a. 1.5
 - b. 2
 - c. 3
 - d. 4

26. Which of the following statements is NOT true regarding the diversity of entrepreneurs?
 - a. Minority-owned businesses have come a long way in the past decade, and their success rate is climbing.
 - b. Minority-owned businesses now account for approximately one-third of all businesses in the U.S.
 - c. Immigrants with more education and experience than those of the past are coming to the U.S. and succeeding in entrepreneurial ventures.
 - d. The numbers of part-time and home-based entrepreneurs are rising.

27. _____% of all U.S. businesses are family-owned and managed.
 - a. 25
 - b. 50
 - c. 70
 - d. 90

28. Which of the following is NOT a characteristic of a successful working relationship between copreneurs?
 - a. A clear definition of one partner as "boss" and the other as "subordinate"

- b. Compatible business and life goals
 - c. Complementary business skills
 - d. A clear division of roles and authority based on each partner's skills and abilities
29. Which of the following is NOT a characteristic of copreneurs?
- a. Mutual respect
 - b. Complementary business skills
 - c. A clear division of roles and authority
 - d. An understanding that one is the superior and the other is the subordinate
30. Approximately _____% of corporate managers who are "cast off" as companies downsize become entrepreneurs.
- a. 5
 - b. 15
 - c. 20
 - d. 45
31. Melinda and John Perez, both corporate attorneys in New York City, have grown tired of their lengthy daily commute, the stress of their jobs, and the overbearing policies of their employers. They have decided to leave their six-figure jobs and together open a guide service in Wyoming. Melinda and John are:
- a. corporate castoffs
 - b. corporate dropouts
 - c. copreneurs
 - d. B and C are correct.
32. The majority of small companies are concentrated in the _____ and _____ industries.
- a. manufacturing; retail
 - b. manufacturing; service
 - c. retail; service
 - d. wholesale; retail
33. The nation's small businesses:
- a. employ more than 51% of the nation's private sector work force.
 - b. create more jobs than do big businesses.
 - c. account for 47% of business sales.
 - d. All of the above.
34. What percentage of companies in the U.S. are considered "small"?
- a. 58
 - b. 65
 - c. 79
 - d. 99
35. David Birch, president of the research firm Cognetics, suggests that three percent of small businesses created _____ percent of new jobs.
- a. 20
 - b. 50
 - c. 70
 - d. 90

36. Small companies:
- created fewer jobs than big companies in the last decade.
 - are concentrated in the manufacturing and retail sectors.
 - are the leaders in offering training and advancement opportunities to workers.
 - account for approximately 10 percent of the nation's GDP and 25% of business sales.
37. Which of the following is NOT true regarding the research of David Birch, president of Cognetics?
- "Gazelles" grow 20% or more per year and have at least \$100,000 in annual sales.
 - "Mice" never grow much and don't create many new jobs.
 - The largest businesses are "elephants," which have continued to shed jobs for several years.
 - The majority of small companies are "gazelles."
38. In terms of innovation and research, small businesses:
- create four times the innovations per research and development dollar than medium-sized firms and 24 times the innovations per research and development dollar than large companies.
 - contribute 20% more innovations per employee than large companies.
 - have created such important innovations as air conditioning, FM radio, the laser, the automatic transmission and the personal computer.
 - All of the above.
39. Which of the following products was NOT invented by a small business?
- Air conditioning
 - Camcorder
 - FM radio
 - Escalator
40. John has come to you for advice on starting a business venture. He wants to know the best way to gain the experience he'll need. You suggest that he:
- read a small business book.
 - seek experience in the field he wishes to enter by working for another firm for a while.
 - determine his weaknesses and return to school for a term or two.
 - just jump in and learn as he goes.
41. The primary cause of small business failures is _____.
- lack of capital
 - management mistakes
 - poor location
 - improper inventory control
42. Entrepreneurs tend to be overly _____ and misjudge the _____ requirements of going into business.
- optimistic, personal
 - optimistic, financial
 - pessimistic, financial
 - optimistic, professional
43. Which one of the following is one of the ten deadly mistakes entrepreneur's make?
- Weak marketing efforts

- b. Understanding financial statements
 - c. Seeking help from experts
 - d. Controlled growth
44. According to management expert Peter Drucker, startup companies can expect to outgrow their capital bases each time sales increase _____ percent.
- a. 5 to 10
 - b. 20 to 30
 - c. 40 to 50
 - d. 70 to 80
45. All of the following are symptoms of ten deadly mistakes entrepreneurs make EXCEPT:
- a. believing a product will sell itself.
 - b. figuring things out as they go.
 - c. extending credit just to make a sale.
 - d. tempering optimism with reality.
46. The only people who _____ are those who never do anything or never attempt anything new.
- a. succeed
 - b. prosper
 - c. profit
 - d. fail
47. One hallmark of successful entrepreneurs is the ability to:
- a. be willing to gamble.
 - b. fail intelligently.
 - c. overlook past successes.
 - d. repeat the same mistake.
48. Which of the following was NOT identified as one of the suggestions for small business success?
- a. Develop a business plan as you grow your business.
 - b. Manage your financial resources and understand financial statements.
 - c. Know your business in depth.
 - d. Learn to manage people successfully.
49. Which of the following is/are true regarding business plans?
- a. Provide a pathway to success
 - b. Allow entrepreneurs to replace faulty assumptions with facts before making the decision to go into business
 - c. Create a benchmark against which entrepreneurs can measure actual company performance
 - d. All of the above.
50. Most entrepreneurs believe that _____ is what matters most, but _____ is the most important financial resource for a small business owner.
- a. cash; profit
 - b. profit; cash
 - c. profit; inventory
 - d. inventory; cash

True/False Questions:

51. Current competitive conditions favor large companies over smaller ones because of their ability to use their size to achieve efficiency and economies of scale.
52. Increased entrepreneurial activity is a phenomenon unique to the U.S.
53. The 21st century has seen record numbers of entrepreneurs launching businesses.
54. Members of Generation X no longer see launching a business as being a risky career path.
55. Seventy-eight percent of influential Americans believe that entrepreneurship will be the defining trend of this century.
56. Entrepreneurs are not willing to give up a steady paycheck.
57. Research has isolated a set of characteristics that can predict who will succeed as an entrepreneur.
58. An individual who possesses all of the characteristics of the typical entrepreneur is virtually guaranteed success in launching a small business.
59. Serial entrepreneurs repeatedly start businesses and grow them to a sustainable size before striking out again.
60. The typical entrepreneur values money over achievement.
61. The only boundaries imposed on an entrepreneur's success are those imposed by his or her own creativity, enthusiasm, and vision.
62. Surveys show that small business owners believe they work harder, earn more money, and are happier than if they worked for a large company.

True, Medium, Page 6

63. The opportunity to reap impressive profits is the primary motivation for most entrepreneurs.
64. To most entrepreneurs, there is little difference between work and play; the two are synonymous.
65. The majority of new business owners work fewer than 40 hours per week.
66. The majority of new business owners devote more than 40 hours per week to their companies.
67. One advantage of being your own boss and owning a small business is that work hours are very flexible and leisure time is abundant.
68. An important factor helping to drive the entrepreneurial trend in our economy is the

favorable attitude Americans have towards entrepreneurs.

69. Most entrepreneurs start their business between the ages of 20 and 29.
70. Nearly two-thirds of entrepreneurs start their businesses between the ages of 25 and 44.
71. The number of colleges and universities offering courses in small business management and entrepreneurship is declining.
72. Because of their low startup costs, service businesses are popular with entrepreneurs.
73. Modern technology and office machines enable one-person, home-based businesses to look much bigger than they are to their customers.
74. A recent small business Internet survey shows small businesses that use the web to market their products and services out-perform those that don't.
75. Approximately 95 percent of the world's population lives within the borders of the U.S.
76. Small companies comprise 97% of all businesses engaged in exporting, yet they account for only 30% of the nation's export sales.
77. There is concern over the future of entrepreneurship because so few high school and college students want to start their own companies.
78. Diversity may be considered a characteristic of entrepreneurs, as they don't fit any statistical norm.
79. Minority owned businesses have come a long way in the past decade, and their success rate is climbing.
80. Although their businesses grow more slowly than those owned by men, women-owned businesses have a higher survival rate than U.S. businesses overall.
81. 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.
82. Although about 69% of women-owned companies are concentrated in the retailing and service sectors, female entrepreneurs are branching out rapidly into previously male-dominated industries.
83. Most home-based businesses are simple cottage industries such as crafts or sewing.
84. A major advantage of launching a business part-time is the lower risk it offers in case the business fails.
85. Successful "copreneurs" create a division of labor based on expertise.

86. Not all family-owned businesses are small; in fact, over one-third of the *Fortune* 500 companies are family businesses.
87. Most family businesses survive to the second and third generations.
88. Of the 25 million businesses in the U.S., about 40 percent are family-owned and managed.
89. About 20 percent of downsized corporate managers have become entrepreneurs.
90. Because they have college degrees, a working knowledge of business, and years of management experience, both corporate castoffs and corporate dropouts who become entrepreneurs will most likely increase the small business survival rate.
91. Corporate downsizing has spawned a generation of entrepreneurs known as "corporate castoffs."
92. David Birch considers "gazelles" those businesses that grow at 20% or more per year and gross at least \$100,000 in annual sales.
93. Small companies have created two-thirds to three-fourths of the net new jobs in the U.S. economy.

True, Medium, Page 21

94. Small businesses actually create more jobs than do big businesses.

True, Easy, Page 21

95. About 75 percent of the businesses in the U.S. can be considered "small."
96. Large companies create significantly more innovations per research and development dollar spent than small firms.
97. Because of their size and limited resources, small businesses rarely create innovations that are important to the U.S. economy.
98. An often fatal error made by many small business owners is to open their businesses on a "shoestring," causing them to be undercapitalized.
99. The primary cause of small business failure is lack of capital.
100. About 24 percent of new businesses fail within six years.
101. The faster a small company grows, the greater its appetite for cash.
102. To boost sales, small businesses, especially startups, should grant credit to anyone who wants to buy their products or services.
103. As an entrepreneur, you are always working for someone else – your customers.

104. The lifeblood of the small business—sales—is influenced heavily by choice of location.
105. Expanding a business usually requires no significant changes in structure or business practices.
106. Establishing prices that will generate the necessary profits means that business owners must understand how much it costs to make, market, and deliver their products and services.
107. Small business owners are more likely to underprice their products and services rather than overprice them.
108. If an entrepreneur has a good enough product or service to sell, a business plan is not really necessary since the product or service will sell itself.
109. Most entrepreneurs have a sound business plan.
110. Successful entrepreneurs recognize that their most valuable asset is their time, and they learn to manage it effectively to make themselves and their companies more productive; having passion about their businesses, products, and customers enables them to stay motivated.

Essay Questions:

111. What is an entrepreneur? Give a brief profile of a typical entrepreneur. What is the primary motivation for the typical entrepreneur?
112. Discuss the potential benefits and drawbacks of entrepreneurship.
113. Describe the factors that are driving the current entrepreneurial trend in the U.S. economy.
114. Discuss the role that the following groups are playing in leading the ongoing surge in entrepreneurial activity:
 - women
 - minorities
 - immigrants
 - part-time entrepreneurs
 - home-based entrepreneurs
 - family businesses
 - copreneurs
 - corporate castoffs
 - corporate dropouts
115. Discuss the impact of small businesses on the U.S. economy, including sales, GDP, job creation, and innovation.
116. Describe the ten deadly mistakes of entrepreneurship and how to avoid them.
117. Describe the small business failure rate. What are the primary causes of business

failures, and what steps can an entrepreneur take to avoid becoming a business failure statistic?

Chapter 1
The Foundations of Entrepreneurship
Mini-Case

Case 1-1: Bill's Dilemma

Bill Hudson was a real craftsman when it came to being a machinist. Bill had learned almost all that he knew from Hugo Huffman, his first and only employer. Bill Hudson was married and had three young children. He was 33 years old and had worked for Hugo ever since he finished his tour in the army. In 12 years Bill had polished his skills under the watchful and critical eye of Hugo Huffman. Hugo was quick to recognize Bill's talent for the trade. Bill had a positive attitude about learning and displayed a drive for perfection that Hugo admired.

Hugo's Machine Shop was a successful small business. Its success was based mostly on the reputation for quality that had been established over its 42 years in operation. Hugh had come to this country with his new wife, Hilda, when he was in his late twenties. Now the business was a success, but Hugo remembered the early years when he and Hilda had to struggle. Hugo wanted the business to continue to produce the highest quality craftsman products possible. On a Friday evening, he called Bill into his office at closing time, poured him a cup of half-day-old coffee, and began to talk with him about the future.

"Bill, Hilda and I are getting old and I want to retire. It's been 42 years of fun but these old hands need a rest. In short, Hilda and I would like you to buy the business. We both feel that your heart is in this craft and that you would always retain the quality that we have stood for." Bill was taken back by the offer. He, of course, knew Hugo was getting older, but had no idea Hugo would retire. Bill and his wife, Anna, had only \$4,200 in the bank. Most of Bill's salary went for the normal costs of rearing three children. Hugo knew Bill did not have the money to buy the business in cash, but he was willing to take a portion of the profits for the next 15 years and a modest initial investment from Bill.

Bill had, for the past four years, made most of the technical decisions in the shop. Bill knew the customers and was well respected by the employees. He had never been involved in the business side of the operation. He was a high school graduate but had never taken business courses. Bill was told by Hugo that even after deducting the percentage of the profits he would owe under the sales agreement, he would be able to almost double his annual earnings. Bill would have to take on all the business functions himself because Anna had no business training either.

Questions

1. Which entrepreneurial characteristics does Bill have that may be important to his success? Which characteristic could lead to his failure?
2. What steps should Bill take to avoid the pitfalls common to a small business?
3. If you were Hugo, would you sell Bill the business under the terms discussed in the case? Explain.

