

GLOBAL
EDITION



Essentials of Entrepreneurship and Small Business Management

EIGHTH EDITION



Norman M. Scarborough • Jeffrey R. Cornwall

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CASES

ESSENTIALS OF ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT, 8/E

Case #	Entrepreneur & Company Name	Related Topics	Chapter Reference
1	Vincent Ko, Luke Lagera, and Mike Mills Panda Sunglasses	Industry: Bamboo Sunglasses * Social Entrepreneurship * Social Responsibility * Business Model * Bootstrap Marketing and Social Media * E-Commerce	1 2 4 8 9
2	Dr. Luke Alphey Oxitec	Industry: Biotech * Business Ethics and Social Responsibility * Business Model	2 4
3	Gerald Shvartsman Source Outdoor	Industry: Outdoor Furniture * Entrepreneurship * Business Model * Global Business	1 4 15
4	Carlos Vega Father and Son Pizzeria	Industry: Restaurant * Intellectual Property * Strategic Planning * Bootstrap Marketing * Location	3 5 8 14
5	Laura and Doug Zander Jimmy Beans Wool	Industry: E-Commerce and Retail Yarn * Strategic Planning * E-Commerce * Cash Management	5 9 12
6	Telford and Ivey James James Confectioners – Part 1	Industry: Chocolate Confections * Pricing * Financial Analysis	10 11
7	Telford and Ivey James James Confectioners – Part 2	Industry: Chocolate Confections * Managing Cash Flow	12
8	Brian Razzaque SocialToaster	Industry: Social Media * Business Plan * Sources of Financing	5 13
9	Sam Davidson CoolPeopleCare	Industry: Social Enterprise * Social Entrepreneurship * Business Model * Business Plan * Bootstrap Marketing	1 and 2 4 5 8
10	Michael Brody-Waite InQuicker	Industry: Healthcare * Strategic Planning * Equity Financing * Culture	5 13 16

Global Edition

Essentials of Entrepreneurship and Small Business Management

Eighth Edition

Norman M. Scarborough

Presbyterian College

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Cover Art: © amenic181/Shutterstock
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Printer/Binder: Courier/Kendallville
Cover Printer: Lumina Datamatics
Text Font: 8/10 Times LT Std

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Edinburgh Gate
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Authorized adaptation from the United States edition, entitled Essentials of Entrepreneurship and Small Business Management, 8th edition, ISBN 978-0-13-384962-2, by Norman M. Scarborough and Jeffrey R. Cornwall, published by Pearson Education © 2016.

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ISBN-10: 1-292-09486-9
ISBN-13: 978-1-292-09486-1

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

10 9 8 7 6 5 4 3 2 1

Typeset by S4Carlisle Publishing Services
Printed and bound by Courier Kendallville

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 is 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 your mind to the possibilities, the challenges, and the rewards of owning your own business and to provide the tools you will need to be successful if you 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 like entrepreneurs the world over, you will be able to work at something you love!

Now in its eighth edition, *Essentials of Entrepreneurship and Small Business Management* has stood the test of time by bringing you the material you need 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 make new business ventures successful. Many people launch businesses every year; only some of them succeed. This book provides the tools to help teach students the *right* way to launch and manage a small business with the staying power to succeed and grow.

What's New to This Edition?

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

- One of the first changes you will notice is the addition of Jeff Cornwall as coauthor. Jeff, who holds the Jack C. Massey Chair of Entrepreneurship and is Professor of Entrepreneurship at Belmont University, is an experienced and successful entrepreneur, a dedicated teacher, a respected author, and an acknowledged expert in the field of entrepreneurship. The United States Association for Small Business and Entrepreneurship has honored Jeff on numerous occasions, naming him a Longenecker/USASBE Fellow in 2006 and presenting the center that he headed at Belmont University the USASBE National Model Undergraduate Program of the Year Award in 2008. USASBE also recognized Jeff in 2013 with the prestigious Outstanding Educator of the Year award. He also served as USASBE's president in 2010. Jeff's blog, the Entrepreneurial Mind, is one of the most popular small business blogs on the Internet, named by *Forbes* as a “best of the Web” selection.
- Almost all of the real-world examples in this edition are new and are easy to spot because they are accompanied by an icon. These examples allow you to see how entrepreneurs are putting into practice the concepts you are learning about in the book and in class. These examples are designed to help you to 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.
- We have added a new chapter on “Ethics and Entrepreneurship: Doing the Right Thing” that provides you with a framework for making ethical decisions in business and with the opportunity to wrestle with some of the ethical dilemmas entrepreneurs face in business, 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.
- This edition provides expanded and updated coverage of important topics such as using the business model canvas to refine a business idea; using social media, including Facebook, Twitter, and YouTube, as bootstrap marketing tools; attracting capital using

crowd funding; using “pop-up” stores to test potential permanent locations; and identifying the factors that drive employee engagement.

- 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 you can put it to practice in your own company. These features include topics such as how to “Be a Successful Innovator,” “Use a Mobile-First, Responsive Web Design to Increase Online Sales,” “Manage Cash Flow in a Highly Seasonal Business,” and “Make Your Small Business a Great Place to Work.”
- Another feature that is popular with both students and professors is “You Be the Consultant.” Every chapter contains at least one of these inserts, which describe a decision an entrepreneur faces and asks you to play the role of consultant and 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 one on decoding the DNA of the entrepreneur that introduces beekeepers Tim Dover and Susan Gardner, who turned their hobby into a successful bee supply business), setting the right price for a company’s custom-made shirts in a highly competitive market (direct sales company J. Hilburn, founded by Hil Davis), helping entrepreneurs revamp their Web site (New Columbia Distillers, the first new distillery to open in Washington, D.C., since Congress passed the Eighteenth Amendment to the U.S. Constitution), and advising companies on their strategies for becoming micro-multinational businesses (Zee Wines USA and Somnio, which makes unique running shoes that accommodate runners’ foot shapes and running styles). Each one poses a problem or an opportunity and includes questions that focus your attention on key issues and help you to hone your analytical and critical thinking skills.
- This edition includes ten brief cases, eight of them new to this edition, covering 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 you can research online. These cases challenge you 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. You will learn how to launch and manage a business 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. Policymakers 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 small business management or entrepreneurship class, 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 eighth edition of *Essentials of Entrepreneurship and Small Business Management* introduces you to the process of creating a new venture and provides you with the knowledge you 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 you with the tools you will need for entrepreneurial success. By combining this textbook with your professor’s expertise, you will be equipped to follow your dream of becoming a successful entrepreneur.

Other Text Features

- This edition once again emphasizes the importance of conducting a feasibility analysis and creating a business plan for a successful new venture. Chapter 4 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 edition features an updated, attractive, full-color design and a user-friendly layout that includes an in-margin glossary and learning objectives. Each chapter begins with learning objectives, which are repeated as in-margin markers within the chapter to guide you as you study.
- 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 you learn to think like an entrepreneur.
- Chapter 9, “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.
- Chapter 13, “Sources of Financing: Equity and Debt,” gives you a useful overview of the various financing sources that are available to entrepreneurs with plenty of practical advice for landing the financing you need to start or grow your business. Given the changes that have resulted from recent turmoil in the financial industry, this is a particularly important chapter.

Instructor Resources

At the Instructor Resource Center, www.pearsonglobaleditions.com/scarborough, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor’s Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentations**

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

Acknowledgments

Supporting every author is a staff of professionals who work extremely hard to bring a book to life. They handle the thousands of details involved in transforming a rough manuscript into the finished product you see before you. Their contributions are immeasurable, and we appreciate all

they do to make this book successful. We have been blessed to work with the following outstanding publishing professionals:

- Dan Tylman, acquisitions editor, who has assisted us in many ways as we developed a revision plan for this edition. His input and vision proved to be a valuable resource.
- Claudia Fernandes, our exceptionally capable program manager, who was always just an e-mail away when we needed her help with a seemingly endless number of details. She did a masterful job of coordinating the many aspects of this project. Her ability to juggle many aspects of multiple projects at once is amazing!
- Kelly Warsak, project manager, who skillfully guided the book through the long and sometimes difficult production process with a smile and a “can-do” attitude. She is always a pleasure to work with and a good friend.
- Nancy Moudry, photo researcher, who took our ideas for photos and transformed them into the meaningful images you see on these pages. Her job demands many hours of research and hard work, which she did with aplomb.
- Lenny Ann Rapper, marketing manager, whose input helped focus this edition in an evolving market.

We also extend a big “Thank You” to the corps of Pearson sales representatives, who work so hard to get our books into customers’ hands and who represent the front line in our effort to serve our customers’ needs. They are the unsung heroes of the publishing industry.

Special thanks to the following academic reviewers, whose ideas, suggestions, and thought-provoking input have helped to shape this and previous editions of our two books, *Essentials of Entrepreneurship and Small Business Management* and *Entrepreneurship and Effective Small Business Management*. We always welcome feedback from customers!

Lon Addams, *Weber State University*
 Sol Ahjarah, *Buffalo State College*
 Professor M. Ala, *California State University—Los Angeles*
 Annamary Allen, *Broome Community College*
 Tammy Yates Arthur, *Mississippi College*
 Jay Azriel, *York College of Pennsylvania*
 Bruce Bachenheimer, *Pace University*
 Kevin Banning, *University of Florida*
 Jeffrey Bell, *Dominican University*
 Tom Bergman, *Northeastern State University*
 Nancy Bowman, *Baylor University*
 Jeff Brice, *Texas Southern University*
 Michael S. Broida, *Miami University*
 James Browne, *University of Southern Colorado*
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 Robert Keimer, *Florida Institute of Technology*
 E. L. (Betty) Kinarski, *Seattle University*
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 Joseph Salamone, *State University of New York at Buffalo*
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 Lakshmy Sivaratnam, *Johnson Community College*
 Bill Snider, *Cuesta College*
 Deborah Streeter, *Cornell University*
 Ethné Swartz, *Fairleigh Dickinson University*
 Yvette Swint-Blakely, *Lancing Community College*
 John Todd, *University of Arkansas*
 Charles Toftoy, *George Washington University*
 Barry L. Van Hook, *Arizona State University*
 Ina Kay Van Loo, *West Virginia University Institute of Technology*
 William Vincent, *Mercer University*
 Jim Walker, *Moorhead State University*
 Bernard W. Weinrich, *St. Louis Community College*
 Donald Wilkinson, *East Tennessee State University*
 Gregory Worosz, *Schoolcraft College*
 Bernard Zannini, *Northern Essex Community College*

We also are grateful to our colleagues who support us in the often grueling process of writing a book: Foard Tarbert, Sam Howell, Jerry Slice, Suzanne Smith, Jody Lipford, Tobin Turner, Cindy Lucking, and Uma Sridharan of Presbyterian College and Mark Schenkel, Mark Phillips, Matthew Wilson, and Jose Gonzalez of Belmont University.

Finally, we thank Cindy Scarborough and Ann Cornwall for their love, support, and understanding while we worked many long hours to complete this book. For them, this project represents a labor of love.

Pearson would like to thank and acknowledge Anushia Chelvarayan (Multimedia University) for her contribution to the Global Edition, and Chin Hock Lim (Tunku Abdul Rahman University College) and Stephen Ko (Hong Kong Polytechnic University) for reviewing the Global Edition.

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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1

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.
- 3A. Describe the benefits of entrepreneurship.
- 3B. 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.

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! Around the world, growing numbers of people are realizing their dreams of owning and operating their own businesses. Entrepreneurship continues to thrive in nearly every corner of the world. Globally, one in eight adults is actively engaged in launching a business.¹ Research by the Kauffman Foundation shows that in the United States alone, entrepreneurs launch 476,000 businesses each month.² This entrepreneurial spirit is the most significant economic development in recent business history. In the United States and around the globe, these heroes of the new economy are reshaping the business environment and creating a world in which their companies play an important role in the vitality of the global economy. With amazing vigor, their businesses have introduced innovative products and services, pushed back technological frontiers, created new jobs, opened foreign markets, and, in the process, provided their founders with the opportunity to do what they enjoy most. “Small businesses have been at the core of our economy’s growth over the last few years,” says Winslow Sargeant, chief counsel of the U.S. Small Business Administration’s Office of Advocacy.³

Entrepreneurial activity is essential to a strong global economy. Many of the world’s largest companies continue to engage in massive downsizing campaigns, dramatically cutting the number of employees on their payrolls. This flurry of “pink slips” has spawned a new population of entrepreneurs: “castoffs” from large corporations (in which many of these individuals thought they would be lifetime ladder climbers) with solid management experience and many productive years left before retirement. According to the Small Business Administration, during a recent one-year period, the largest companies in the United States (those with 500 or more employees) *shed* 1.7 million net jobs; during the same period, small businesses with fewer than 20 employees *created* 287,000 net jobs!⁴

One casualty of this downsizing has been the long-standing notion of job security in large corporations. As a result, many people no longer see launching a business as a risky career path. Having been victims of downsizing or having witnessed large companies execute layoffs with detached precision, these people see entrepreneurship as the ideal way to create their own job security and success. Rather than pursue corporate careers after graduation, many college students are choosing to launch companies of their own. They prefer to control their own destinies by building their own businesses.



ENTREPRENEURIAL PROFILE: Christopher Kelley: Badd Newz BBQ

For years, Christopher Kelley had dreamed of becoming a mobile restaurateur by launching a food truck that specialized in barbecue but was hesitant to give up the security of his job at the company where he had worked in maintenance for 14 years. Like many entrepreneurs, Kelley refused to give up on his dream, bought a food truck, outfitted it, and started Bad Newz BBQ as a part-time business, catering local school events, church gatherings, and fundraisers in Huntsville, Alabama. Two months later, Kelley’s employer announced a massive layoff, and Kelley’s job was eliminated. The layoff prompted Kelley to transform Bad Newz BBQ into a full-time business, and he began marketing his food truck via social and traditional media, even landing a regular spot at a nearby army post. Kelly, who is 43 years old and has lost three jobs over the last 20 years to layoffs, decided it was time to take control of his own destiny by starting a business. He advises other entrepreneurs to believe in their abilities even when others do not and to devote all of their energy into building a successful business.⁵ ■

The downsizing trend among large companies has created a more significant philosophical change. It has ushered in an age in which “small is beautiful.” Twenty-five 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 can dart into and out of niche markets as they emerge and recede, they can move faster to exploit market opportunities, and they can use modern technology to create, within a matter of weeks or months, products and services that once took years and all the resources a giant corporation could muster. The balance has tipped in favor of small, entrepreneurial companies. Howard Stevenson, Harvard’s chaired professor of entrepreneurship, says, “Why is it so easy [for small companies] to compete against giant corporations? Because while they [the giants] are studying the consequences, [entrepreneurs] are changing the world.”⁶

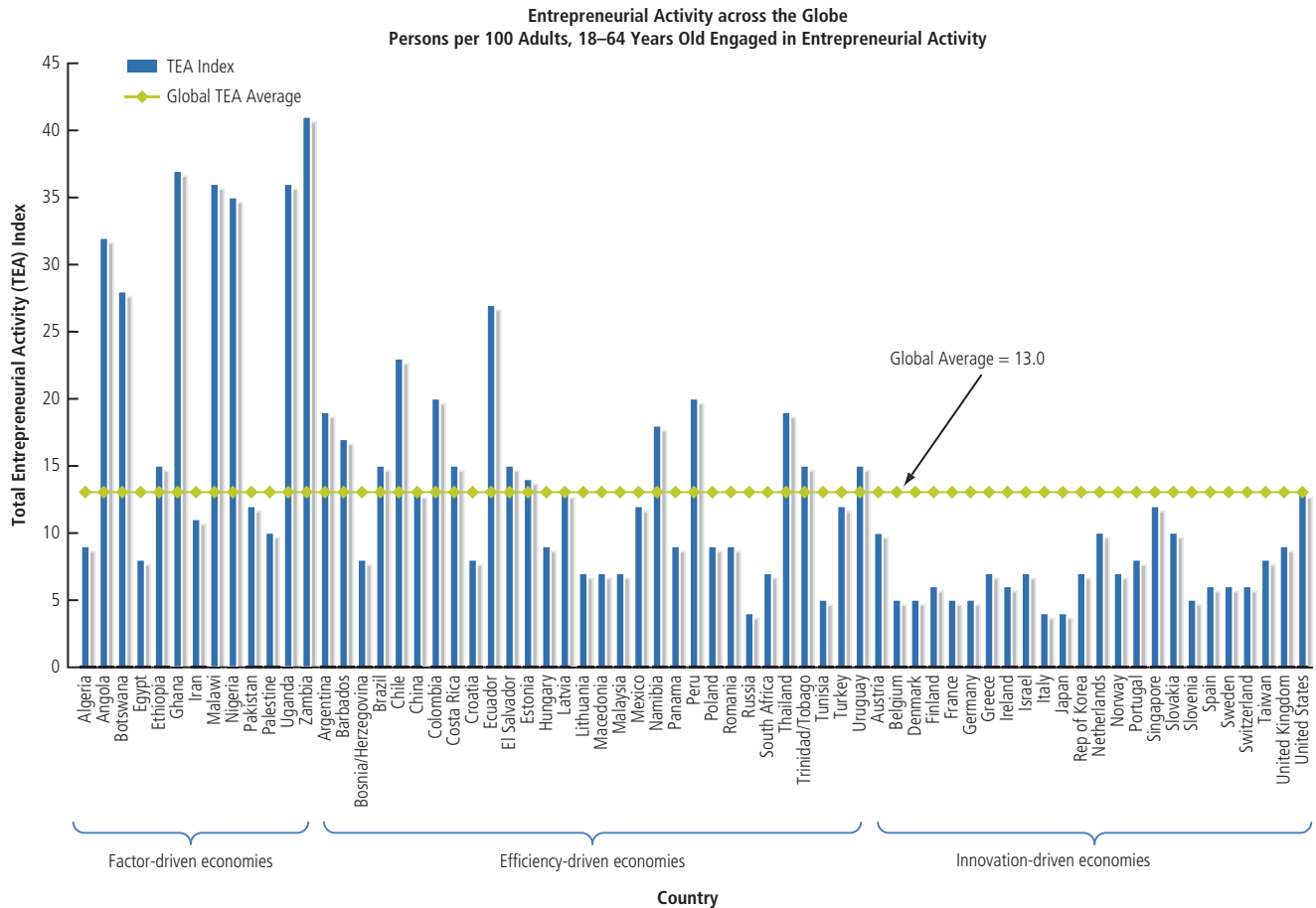


FIGURE 1.1
Entrepreneurial Activity Across the Globe

Source: Based on data from José Ernesto and Neils Bosma, *Global Entrepreneurship Monitor 2013 Global Report*, Babson College, Universidad del Desarrollo, Universiti Tun Abdul Razak, and London Business School, 2014, pp. 30–31.

One of the most comprehensive studies of global entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) shows significant variation in the rate of new business formation among the nations of the world when measured by total entrepreneurial activity or TEA (see Figure 1.1). The most recent edition of the study reports that 12.7 percent of the adult population in the United States—one in eight people—is working to start a business. The GEM study also reports that globally men are nearly twice as likely to start a business as women; that entrepreneurs are most likely to launch their companies between the ages of 35 and 44; and that the majority of people in the world see entrepreneurship as a good career choice.⁷ The health of the global economy and the level of entrepreneurial activity are intertwined. “The world economy needs entrepreneurs,” says GEM researcher Kent Jones, “and increasingly, entrepreneurs depend on an open and expanding world economy for new opportunities and growth—through trade, foreign investment, and finance.”⁸

The United States and many other nations are benefiting from this surge in global entrepreneurial activity. 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 118 nations according to the quality of the entrepreneurial environment they exhibit. Although troubled by corruption, a poor “ease of doing business” ranking, and a low quality entrepreneurial environment, Kenya is home to entrepreneurs of all ages who are hard at work solving problems that range from healthcare and electricity shortages to providing clean water and fashionable clothing to the nation’s 41 million residents.

TABLE 1.1 Entrepreneurship-Friendly Nations

Which nations provide the best environment for cultivating entrepreneurship? A recent study ranked 121 countries on the quality of the entrepreneurial environment using the Global Entrepreneurship and Development Index (GEDI), which 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 82.5	109. Madagascar 19.6
2. Canada 81.7	110. Ivory Coast 19.4
3. Australia 77.9	111. Uganda 19.3
4. Sweden 73.7	112. Mali 18.8
5. Denmark 72.5	113. Pakistan 18.7
6. Switzerland 70.9	114. Mauritania 18.5
7. Taiwan 69.5	115. Sierra Leone 17.6
8. Finland 69.3	116. Burundi 15.5
9. Netherlands 69.0	117. Chad 15.0
10. United Kingdom 68.6	118. Bangladesh 13.8

Source: “GEDIndex 2014,” The Global Entrepreneurship and Development Institute, 2013, <http://www.thegedi.org/>.



Courtesy of Stawi Foods and Fruits



ENTREPRENEURIAL PROFILE: Eric Muthomi: Stawi Foods and Fruits

Eric Muthomi grew up in Meru, Kenya, and studied law at the Catholic University of East Africa. While Muthomi was earning his law degree, his goal was to start his own business. After graduating in 2010, Muthomi, just 26 years old, launched Stawi Foods and Fruits, a company that makes a unique banana flour that is used for baking, making baby food, and preparing ugali, a staple dish in Kenya. Muthomi, who also studied entrepreneurship and banana processing, says that coming up with his business idea was simple because his hometown of Meru is a center for banana growers and processors. Stawi Foods and Fruits benefited from the publicity and recognition that came after Muthomi won Jitihada, Kenya’s national business plan competition, beating out 3,439 other business ideas. Getting into business in Kenya was not easy, however; Muthomi says getting necessary permits and licenses for a food business from various government entities is time-consuming and “tiresome.” Despite facing challenges, Stawi Foods and Fruits, which employs five people, reached its breakeven point in less than one year, and Muthomi is reinvesting profits into the company to fuel its growth. The determined entrepreneur already has his sights set on exporting his company’s banana flour to other African nations and eventually other continents. When asked what advice he could offer to other aspiring entrepreneurs, Muthomi recommends that they should not wait for conditions to be perfect before they launch their businesses; instead, they should start with whatever resources they have and grow from there.⁹ ■

Wherever they may choose to launch their companies, these business builders continue to embark on one of the most exhilarating—and 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. Still, 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.

What Is an Entrepreneur?

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 never act on their ideas. Entrepreneurs do. In his 1911 book *The Theory of Economic Development*, economist Joseph Schumpeter wrote 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 filled with people but rarely the same ones.¹⁰

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. One reason the U.S. economy has been so successful over time is the constant churn that results from the rapid pace at which entrepreneurs create new businesses, destroy old ones, and upend entire industries with their creativity and ingenuity. Entrepreneurs are important change agents in the global economy, uprooting staid industries with fresh new business models that spot market opportunities and deliver the products and services customers want.



ENTREPRENEURIAL PROFILE: Jennifer Hyman and Jenny Fleiss: Rent the Runway

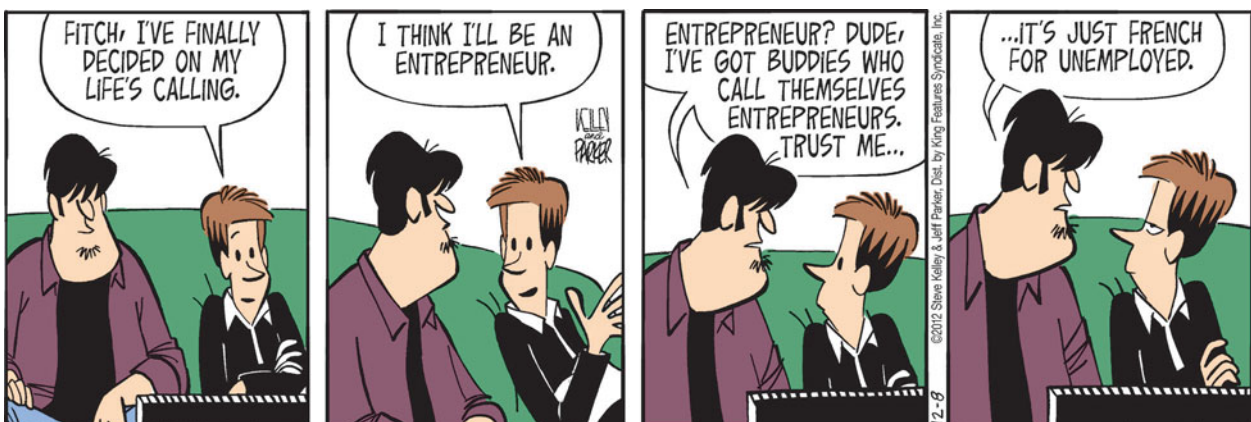
While in college, Jenn Hyman came up with the idea for a designer clothing rental business, Rent the Runway, that would disrupt the fashion industry after she witnessed one of her sister’s “closet full of clothes, but nothing to wear” moments during Thanksgiving break. When she returned to school, she shared her idea with a suitemate, Jenny Fleiss, and the two collegiate entrepreneurs launched the company that rents high-end, designer clothing, accessories, and jewelry to customers at a fraction of the regular retail price. To test their business model (think “Netflix meets high fashion”), they used their savings to purchase 100 dresses and set up a pop-up shop on campus that proved to be a hit. The shop’s success convinced the entrepreneurial pair that their business idea was valid and led them to conduct focus groups with more than 1,000 women, which gave them valuable insight into refining their business model and pricing strategy. Since starting Rent the Runway in 2009, Hyman and Fleiss have raised nearly \$55 million in four rounds of financing from a “who’s who” list of venture capital firms and assembled an inventory of tens of thousands of dresses from more than 170 designers, such as Nicole Miller, Vera Wang, Versace, and Dolce and Gabbana. Customers go online, select the dress they want, enter their size (a backup size comes free), and specify the rental date; returns are as easy as dropping the dress into a prepaid return envelope. “We deliver Cinderella moments,” says Hyman. Rent the Runway, which became cash-flow positive in less than one year, now has more than 3 million members, and financial experts estimate its value at \$240 million.¹¹ ■

LO2

Describe the entrepreneurial profile.

entrepreneur

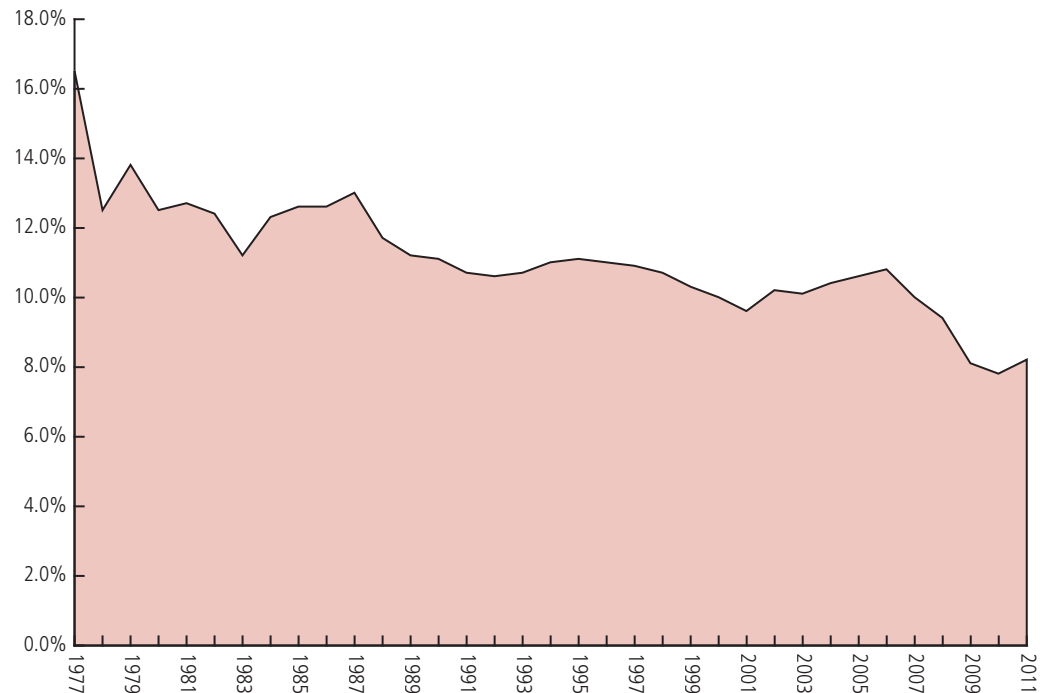
one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them.



Steven Kelly and Jeff Parker, Dustin, King Features Syndicate

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

Source: *Business Dynamics Statistics Data Tables: Firm Characteristics*, U.S. Department of Commerce, U.S. Census Bureau, 2013, http://www.census.gov/ces/dataproducts/bds/data_firm.html.



Unfortunately, in the United States, the percentage of private companies that are start-up businesses (those 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 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 last few decades trying to paint a clear picture of “the entrepreneurial personality.” 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.¹²

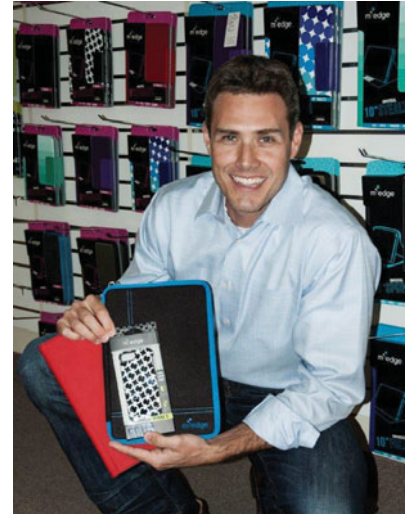
1. ***Desire for responsibility.*** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals. Deborah Sullivan, a lifelong serial entrepreneur realized 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 because she knew almost nothing about the business until she spent months researching and learning everything she could about consignment shops.¹³
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.¹⁴ A study of the founders of the businesses listed as *Inc.* magazine’s fastest-growing companies found no correlation between risk tolerance and entrepreneurship. The common belief that entrepreneurs prefer taking big risks is a myth. Unlike “high-rolling, riverboat 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.



ENTREPRENEURIAL PROFILE: Patrick Mish: M-Edge Accessories

Patrick Mish took his father's advice to take the safe route by earning an engineering degree and getting a stable job. After earning a PhD in aerodynamics from Virginia Polytechnic Institute and State University, Mish went to work for Northrop Grumman, where he was a member of the team that was responsible for creating the next generation of super-stealthy destroyers, but he wasn't happy. Mish spent his days in a cubicle dealing with corporate bureaucracy but dreamed of owning a business of his own. He and his wife, Devon, had purchased one of the first e-readers on the market and discovered that there were very few accessories to enhance its use. That's when the idea to start a business that sells e-reader accessories came to him. Mish began contacting manufacturers with his designs and found one that could produce quality products and was willing to make them in the small quantities Mish ordered at first. Although he was not yet ready to take the plunge into full-time entrepreneurship, Mish began selling a small selection of accessories online after work. Realizing that he needed sales experience, Mish left his engineering job and became a sales representative for a small information technology firm before leaving to operate M-Edge full time. Mish says that by then, starting a business was not a huge risk because he had taken the necessary steps to prepare himself to be a successful entrepreneur. Today, M-Edge generates more than \$37 million in annual sales of e-book accessories and has appeared on *Inc.* magazine's list of fastest-growing companies.¹⁵ ■



Courtesy of M-Edge Accessories

Like Patrick Mish, entrepreneurs usually spot opportunities in areas that reflect their passions, knowledge, backgrounds, or experiences, which increases their probability of success. 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. One of the most successful ways of eliminating risks is to build a viable business plan for a venture.

3. **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 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.
4. **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. 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.



ENTREPRENEURIAL PROFILE: David Steinberg: XL Marketing

In 2004, David Steinberg's company, InPhonic, a business that sold mobile phones and services, made it to the top of *Inc.* magazine's list of the fastest-growing small companies in the United States. By 2007, however, the company's fast growth outstripped its cash flow, and InPhonic filed for Chapter 11 bankruptcy before Steinberg sold it to an investment firm. While he was closing the InPhonic chapter of his entrepreneurial experience, Steinberg was launching another company, XL Marketing, which provides lead-generation and customer-acquisition services for other businesses. With his second venture, Steinberg learned from the mistakes he made with InPhonic, securing adequate financing, managing carefully XL Marketing's financial resources, and controlling the company's growth rate. Like Steinberg, smart entrepreneurs recognize that their failures can be the source of some of the lessons that lead them to their greatest successes.¹⁶ ■

5. **Determination.** Some people call this characteristic “grit,” the ability to focus intently on achieving a singular, long-term goal. 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.¹⁷ (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.) Successful entrepreneurs demonstrate high levels of determination, especially in the face of challenging circumstances. “Failure was not an option for me,” says Alexander Gomez, founder of New Wave Surgical, a highly successful company that designs, patents, and markets laparoscopic medical devices used in surgery. “I had everything on the line. It was all or nothing for me.”¹⁸ 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 in the same types of businesses typically launched in prosperous times.¹⁹ Perhaps that explains why 57 percent of the *Fortune* 500 companies were launched in either a recession, a “bear” market, or both.²⁰



ENTREPRENEURIAL PROFILE: Romesh Wadhvani: Aspect Development Five years after starting a canteen with several other students on the campus of Mumbai’s Indian Institute of Technology in 1964 with an investment of 100 rupees (about \$10), Romesh Wadhvani arrived in the United States with just \$3.48 in his pocket. He earned a master’s degree and a PhD in bioengineering from Carnegie Mellon University in Pittsburgh, Pennsylvania, and renewed his passion for entrepreneurship by launching a company that provided computer-based security and energy management services during the short recession of 1991. Wadhvani convinced an angel investor to invest \$30,000 and pitched his idea to 125 venture capital firms before he found one that was willing to finance a business started by an entrepreneur with no experience. Just nine years later, Wadhvani sold Aspect Development to i2 technologies for \$9.3 billion. Wadhvani says it never occurred to him to give up, and ultimately his tenacity paid off.²¹ ■

6. **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. The feedback they receive from their businesses drives them to set higher standards of performance for their companies and themselves.²²
7. **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 recent survey by Bank of America, 72 percent of small business owners work more than 40 hours per week.²³ Another recent survey by Sage Software reports that 37 percent of business owners work more hours per week than they did just five years ago.²⁴ 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, adding that he can catch up on his sleep in several years when his company has grown and matured and has levels of managers to handle the immense workload that he currently manages himself.²⁵
8. **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. A year after William Roetzheim’s software company, Marotz, landed on *Inc.* magazine’s list of the 500 fastest-growing companies in the United States, he sold it and launched another company, Cost Xpert Group, which sells a cost-estimating tool he had developed at Marotz. When Cost Xpert Group reached about \$5 million in annual sales, he sold it. “I always plan to sell when I get to \$5 million,” says Roetzheim. “I like starting companies. I don’t want to run something big.” Roetzheim recently started another company, Level 4 Ventures, which provides project management software. His plan for the future? Expand Level 4 Ventures to \$5 million in sales, sell it, and start another company.²⁶

Entrepreneurs see potential where most people 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, 59 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.²⁷



ENTREPRENEURIAL PROFILE: AJ Forsythe and Anthony Martin: iCracked After California Polytechnic State University student AJ Forsythe cracked the screen on his iPhone for the sixth time in just 18 months, the long-time tinkerer decided to fix his phone himself using parts he purchased on eBay. A few hours later, with his phone as good as new, Forsythe realized he had discovered a significant business opportunity and decided to launch iCracked, an iPhone, iPad, and iPod repair service, from his dorm room to serve other Cal Poly students. The business grew quickly, and Forsythe teamed up with fellow students Leslee Lambert and Anthony Martin to turn iCracked into a full-time business. The entrepreneurs reworked their business model, choosing to train self-employed technicians, who would buy parts from iCracked to repair their customers' devices. The young entrepreneurs took a chance and used credit cards to finance iCracked, often rolling up credit card balances of \$30,000 to \$40,000 per month. Today, iCracked generates \$1.4 million in annual sales and has thousands of satisfied customers and nearly 350 technicians across the United States and in 11 other countries. To give back to the community, the entrepreneurs recently opened a retail store in a renovated hotel in Long Beach, California, that employs adult foster youth and provides them with a safe place to live. Forsythe says he and his cofounders have had so much fun launching iCracked that they cannot wait to see what their business brings next.²⁸ ■

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 choose to pursue several ideas at the same time.²⁹ *The Entrepreneur State of Mind* study reports that 54 percent of business owners are serial entrepreneurs.³⁰ “The personality of the serial entrepreneur is almost like a curse,” admits one entrepreneurial addict. “You see opportunities every day.”³¹ At age 81, serial entrepreneur David Gilmour says he has been trying to retire for four decades, but opportunities just kept coming his way. “None of my start-ups were based on searching for something to do,” claims Gilmour, who has founded 11 companies (some of which failed) that range from a stereo maker and a luxury resort to bottled water and a gold mine. “I get the vision and the passion for the next project,” he says. “It must see the light of day.”³²

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.”³³

9. **Skill at organizing.** Building a company “from scratch” is much like piecing together a giant jigsaw puzzle. Entrepreneurs know how to put the right people together 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.³⁴
10. **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

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.

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 experience “the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity.”³⁵

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 must overcome seemingly insurmountable barriers to launch a company and keep it growing. That requires commitment and fortitude. Oleg Firer, who at age 12 emigrated to the United States from Russia with his family, cofounded Unified Payments when he was 29. The debit and credit card processing company handles \$10 billion in transactions for more than 100,000 merchants annually. Many people dream of launching their own companies; entrepreneurs such as Firer muster the commitment to actually do it. Firer says that the primary reasons for his success are his refusal to accept “no” as an answer and his “all-in” attitude toward his business.³⁶

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.³⁷

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 models, services, and products. Davide Vigano, Mario Esposito, and Maurizio Macagno, founders of Heapsylon, focused their creativity on developing practical wearable technology designed to improve people’s lives. One of the products their company has created is Sensoria fitness socks, which are made from a proprietary fabric equipped with sensors and include an electronic anklet that reads signals from the sensors. The anklet transmits information to the runner’s smart phone via an app that shows his or her speed, number of steps, distance traveled, and calories burned. The sophisticated device also tracks the runner’s cadence, foot-landing technique, and weight distribution on the foot. If Sensoria detects a problem, such as heel striking or overpronating, it offers the runner real-time verbal coaching cues to remedy it, allowing the runner to avoid injuries.³⁸ You will learn more about the creative process and how to stimulate entrepreneurial creativity in Chapter 2.

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, says Sarasvathy, “it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the founders and the people they interact with. Effectual thinkers are like explorers setting out on voyages into uncharted waters.” 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.³⁹

Resourceful. Entrepreneurs excel at getting the most out of the resources that are available, however limited they may be. They are skilled at **bootstrapping**, a strategy that involves conserving money and cutting costs during start-up so that entrepreneurs can pour every available dollar into their businesses.



ENTREPRENEURIAL PROFILE: Ryan Barr: WhippingPost.com After holding a series of uninspiring jobs, Ryan Barr, a musician, started an online company, WhippingPost.com, that markets high-quality leather products, such as guitar cases, guitar straps, tote bags, and “picker’s wallets.” Like many cash-starved entrepreneurs, Barr used bootstrapping to launch and grow his company. He would save enough money, buy some leather, and make a prototype. Once he had saved enough money, Barr visited a leather manufacturer in Leon, Mexico, to whom he outsourced production of the company’s products. Priced at \$825, Barr’s initial product, guitar cases, appealed to a limited audience, so he came up with the idea of a picker’s wallet, one that has a slot designed specifically to hold a guitar pick so that guitar players no longer have to resort to their standard practice of storing picks between their credit cards. Barr sent press releases about his picker’s wallet to numerous fashion, design, and music blogs, which generated several posts and good publicity. Priced between \$31 and \$37, the picker’s wallet is now the company’s best-selling item and has helped WhippingPost.com surpass \$200,000 in annual sales.⁴⁰ ■

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. “What’s really interesting about this 10,000-hour rule is that it applies virtually everywhere,” says Gladwell. 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 he worked for seven years without taking a day off to launch his first business, MicroSolutions, 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.⁴¹ Entrepreneurs often capitalize on opportunities through sheer amounts of hard work through which they test, invalidate, test again, and finally validate their ideas. A great idea may come to an entrepreneur in a single moment, but building a successful business from that idea takes time and lots of hard work.⁴²

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’s 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 unsurmountable task each day, and accomplishment of each task enabled him to recover from the devastating loss.⁴³ Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that success is “a feat not of intellect but of will.” Rick Smolan quit his job as a magazine photojournalist to launch A Day in the Life Inc., a company that publishes eye-popping coffee table books that feature photographs by professional photographers who swarm a particular country and capture its essence in 24-hour marathon photo sessions. “I met with 35 publishers,” says Smolan. “Every single one of them told me what an incredibly stupid idea A Day in the Life was.” Smolan persisted, and his company went on to produce 11 books that sold more than 5 million copies before he sold it to start another business.⁴⁴

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

bootstrapping

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

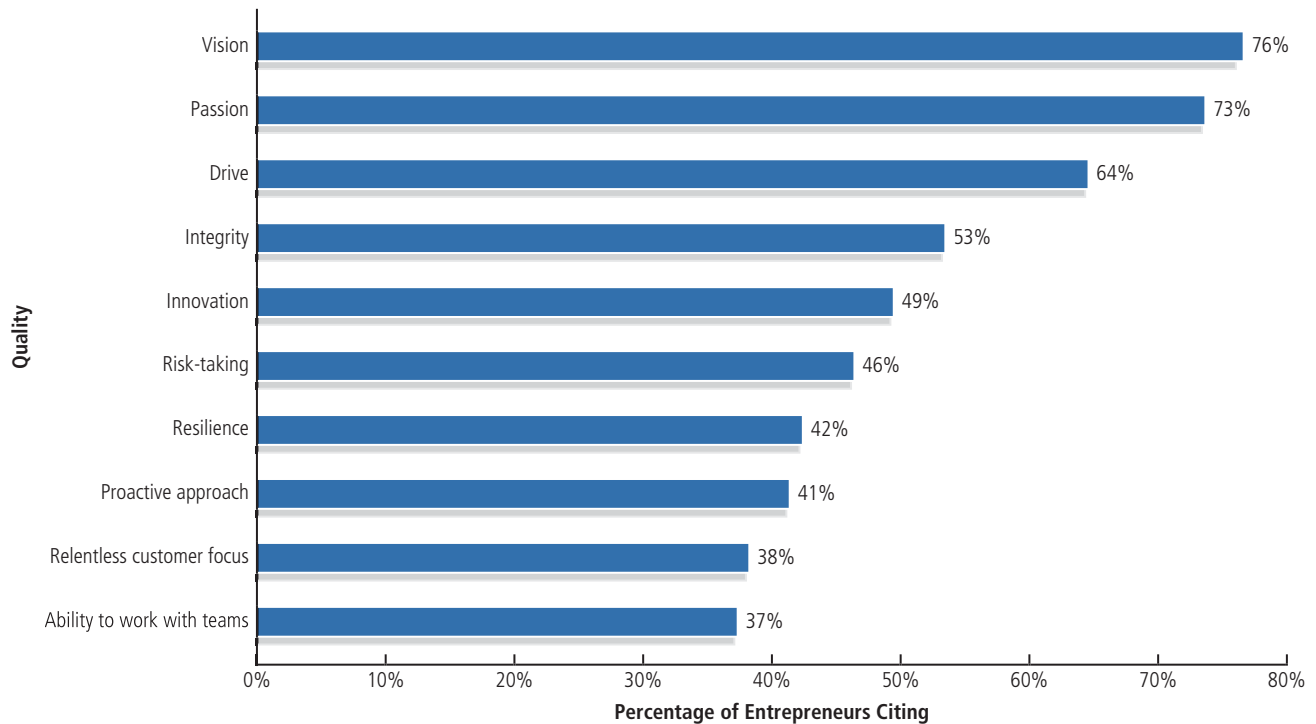


FIGURE 1.3

Most Important Qualities of an Entrepreneur

Source: *Nature or Nurture: Decoding the DNA of the Entrepreneur*, Ernst & Young, 2011, p. 17, <http://www.ey.com/GL/en/Services/Strategic-Growth-Markets/Nature-or-nurture--Decoding-the-DNA-of-the-entrepreneur---Entrepreneurs-share-core-traits>.

scorn convention—and nowadays, they’re driving the global economy.”⁴⁵ Indeed, entrepreneurs tend to be nonconformists, a characteristic that seems to be central to their views of the world and to their success.

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.”⁴⁶ 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. “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.⁴⁷