

CHAPTER 2 The Entrepreneurial Mind-Set in Individuals: Cognition and Ethics

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FEATURED CONTENT

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 Entrepreneurship in Practice: Persistence Pays Off for Entrepreneurs
 The Entrepreneurial Process: Exuding Passion in Your Venture
 The Entrepreneurial Process: Entrepreneurial Fear 101
 Entrepreneurship in Practice: Avoiding Another Enron Disaster
 The Entrepreneurial Process: Shaping an Ethical Strategy

CHAPTER OBJECTIVES

- 1 To describe the entrepreneurial mind-set and entrepreneurial cognition
- 2 To identify and discuss the most commonly cited characteristics found in successful entrepreneurs
- 3 To discuss the “dark side” of entrepreneurship
- 4 To identify and describe the different types of risk entrepreneurs face as well as the major causes of stress for these individuals and the ways they can handle stress
- 5 To discuss the ethical dilemmas confronting entrepreneurs
- 6 To study ethics in a conceptual framework for a dynamic environment
- 7 To present strategies for establishing ethical responsibility and leadership
- 8 To examine entrepreneurial motivation

CHAPTER SUMMARY

This chapter describes the entrepreneurial perspective in individuals. It discusses topics that can be useful in becoming an entrepreneur. Most of the topics have to do with personal and psychological traits that are hard to measure but are identifiable. It describes the most common characteristics associated with successful entrepreneurs, the elements associated with the “dark side” of entrepreneurship, as well as the ethical challenges that entrepreneurs confront.

In attempting to explain the entrepreneurial mind-set within individuals, this chapter presents the concepts of entrepreneurial cognition and metacognition in examining the ways in which entrepreneurs view opportunities and make decisions. Concepts from cognitive psychology are increasingly being found to be useful tools to help probe entrepreneurial-related phenomena, and, increasingly, the applicability of the cognitive sciences to the entrepreneurial experience are cited in the research literature. The entrepreneurial cognitions view offers an understanding as to how entrepreneurs think and “why” they do some of the things they do. For example, Cognitive adaptability, which can be defined as the ability to be dynamic, flexible, and self-regulating in one’s cognitions given dynamic and uncertain task environments, are important in achieving desirable outcomes from entrepreneurial actions.

The next part of the chapter discusses possible characteristics of successful entrepreneurs. This list is long and ever expanding and the characteristics are not exclusively the ones necessary to become a successful entrepreneur. Some characteristics are commitment, determination, and perseverance, which are all goal oriented. Also, the drive to achieve can be goal oriented. Other traits are correcting problems and seeking associates with feedback. These are only a few of the many that are there. Some of the traits involved in the risk area indicate that the entrepreneur must be a calculated risk taker instead of a high risk taker. Also, the entrepreneur must have a tolerance for failure, otherwise there would be no risk. There are other traits that are personal, such as vision, self-confidence, and optimism. These traits can help with self-motivation and attitudes.

An examination of failure and the grief recovery process is introduced, because failure is so often a learning experience for entrepreneurs.

The next part of the chapter focuses on the dark side of entrepreneurship, which encompasses the risks confronted by entrepreneurs, including financial, career, psychic, family, and social risk. These risks can lead to many types of stress caused by loneliness, immersion in business, people problems, and the need to achieve. Possible solutions to ease stress are networking, getting away from it all, communicating with subordinates, finding satisfaction outside the company, and delegating. These, of course, are not sure bets for curing stress but they can help.

The chapter then discusses the entrepreneurial ego and its negative effects. This is brought about by a false sense of security and invincibility because the business is going well. The traits used to help diagnose this problem are the need for control, sense of distrust, the desire for success, and external optimism.

The chapter continues with a full-featured exploration of the ethical side of entrepreneurship. Ethics is a set of principles prescribing a behavioral code that explains right and wrong; it also may outline moral duty and obligations. Because it is so difficult to define the term, it is helpful to look at ethics more as a process than as a static code. Entrepreneurs face many ethical decisions, especially during the early stages of their new ventures.

Decisions may be legal without being ethical, and vice versa. When making decisions that border on the unethical, entrepreneurs commonly rationalize their choices. These rationalizations may be based on morally questionable acts committed “against the firm” or “on behalf of the firm” by the managers involved. Within this framework are four distinct types of managerial roles: nonrole, role failure, role distortion, and role assertion.

It is also important for entrepreneurs to realize that many decisions are complex and that it can be difficult to deal with all of a decision’s ethical considerations. Some of them may be overlooked, and some may be sidestepped because the economic cost is too high. In the final

analysis, ethics is sometimes a judgment call, and what is unethical to one entrepreneur is viewed as ethical to another. Despite the ever-present lack of clarity and direction in ethics, however, ethics will continue to be a major issue for entrepreneurs during the new century.

To establish ethical strategies, some corporations create codes of conduct. A code of conduct is a statement of ethical practices or guidelines to which an enterprise adheres. Codes are becoming more prevalent in organizations today, and they are proving to be more meaningful in their implementation.

This chapter concludes with a model of entrepreneurial motivation, which depicts the important factors of expectation and outcome. It is the entrepreneur's expectations and how well the outcomes of the venture satisfy those expectations that keep the entrepreneurial drive sustained.

LECTURE NOTES

I. The Entrepreneurial Mind-Set

Every person has the potential and free choice to pursue a career as an entrepreneur.

What motivates people to make this choice is not fully understood.

II. Entrepreneurial Cognition

Cognition is used to refer to the mental functions, mental processes (thoughts), and mental states of intelligent humans.

Entrepreneurial cognition is about understanding how entrepreneurs use simplifying mental models to piece together previously unconnected information that helps them to identify and invent new products or services, and to assemble the necessary resources to start and grow businesses.

Metacognitive Perspective

Metacognitive model of the entrepreneurial mind-set integrates the combined effects of entrepreneurial motivation and context, toward the development of metacognitive strategies applied to information processing within an entrepreneurial environment.

Who Are Entrepreneurs?

Starting a new business requires more than just an idea; it requires a special person, an entrepreneur, who combines sound judgment and planning with risk taking to ensure the success of his or her own business.

Characteristics Associated with Entrepreneurial Mind-Set

DETERMINATION AND PERSEVERANCE—More than any other factor, total dedication to success as an entrepreneur can overcome obstacles and setbacks. It can also compensate for personal shortcomings.

DRIVE TO ACHIEVE—Entrepreneurs are self-starters who appear to others to be internally driven by a strong desire to compete, to excel against self-imposed standards, and to pursue and attain challenging goals.

OPPORTUNITY ORIENTATION—One clear pattern among successful growth-minded entrepreneurs is their focus on opportunity rather than on resources, structure, or strategy.

PERSISTENT PROBLEM-SOLVING—Entrepreneurs are not intimidated by difficult situations. Simple problems bore them, unsolvable ones do not warrant their time.

SEEKING FEEDBACK—Effective entrepreneurs are often described as quick learners.

INTERNAL LOCUS OF CONTROL—Successful entrepreneurs believe in themselves. They believe that their accomplishments and setbacks are within their own control and influence and that they can affect the outcome of their actions.

TOLERANCE FOR AMBIGUITY Successful entrepreneurs thrive on the fluidity and excitement of such an ambiguous existence.

CALCULATED RISK TAKING—Successful entrepreneurs are not gamblers. When they decide to participate in a venture, they do so in a very calculated, carefully thought out manner.

HIGH ENERGY LEVEL—Many entrepreneurs fine tune their energy levels by carefully monitoring what they eat and drink, establishing exercise routines, and knowing when to get away for relaxation.

CREATIVITY AND INNOVATIVENESS—An expanding school of thought thinks that creativity can be learned.

VISION—Not all entrepreneurs have predetermined vision for their firm. In many cases this vision develops over time as the individual begins to learn what the firm is and what it can become.

PASSION—A fundamental emotional experience for entrepreneurs characterized by a discrete emotion that is quite intense.

TEAM BUILDING—The desire for independence and autonomy does not preclude the entrepreneur's desire to build a strong entrepreneurial team. Most successful entrepreneurs have highly qualified, well-motivated teams that help handle the growth and development of the venture.

III. Dealing with Failure

Entrepreneurs use failure as a learning experience. They have a tolerance for failure.

The most effective entrepreneurs are realistic enough to expect difficulties and failures.

If entrepreneurs deal effectively with grief that emanates from failure then they will not become disappointed, discouraged, or depressed. In adverse and difficult times, they will continue to look for opportunity.

The Grief Recovery Process

Grief is a negative emotional response to the loss of something important triggering behavioral, psychological, and physiological symptoms.

The emotions generated by failure (i.e., grief) can interfere with the learning process.

A “loss orientation” towards grief recovery, which focuses on the failure, can sometimes exacerbate negative emotional reactions to failure.

A “restoration orientation,” alternatively, enables entrepreneurs to distract themselves from thinking about the failure. However, avoiding negative emotions is unlikely to be successful in the long-run

Research indicates that entrepreneurs may recover more quickly from a failure if they oscillates between a loss and a restoration orientation.

IV. The Entrepreneurial Experience

The prevalent view of entrepreneurship in the literature is that entrepreneurs create ventures. Its narrow framing, however, neglects the complete process of entrepreneurship.

An experiential view of the entrepreneur moves past the static “snapshot” approach to entrepreneurship and encourages consideration of entrepreneurship as a dynamic, socially situated process that involves numerous actors and events.

The creation of sustainable enterprises involves three parallel, interactive phenomena: emergence of the opportunity, emergence of the venture, and emergence of the entrepreneur. None are predetermined or fixed—they define and are defined by one another.

V. The Dark Side of Entrepreneurship

Certain negative factors that may envelop entrepreneurs and dominate their behavior. Although each of these factors has a positive aspect, it is important for entrepreneurs to understand their potential destructive side as well.

The Entrepreneur’s Confrontation with Risk

Starting or buying a new business involves risk. A typology of entrepreneurial styles helps describe the risk-taking activity of entrepreneurs. In this model, financial risk is measured against the level of profit motive (the desire for monetary gain or return from the venture).

FINANCIAL RISK—In most new ventures the individual puts a significant portion of his savings or other resources at stake.

CAREER RISK—A question frequently raised by would-be entrepreneurs is whether they will be able to find a job or go back to their old jobs if their venture should fail.

FAMILY AND SOCIAL RISK—Entrepreneurs expose their families to the risk of an incomplete family experience and the possibility of permanent scars.

PSYCHIC RISK—The greatest risk may be to the well-being of the entrepreneur.

Stress and the Entrepreneur

To achieve their goals, entrepreneurs are willing to tolerate the effects of stress: back problems, indigestion, insomnia, or headaches.

WHAT IS ENTREPRENEURIAL STRESS?

In general, stress can be viewed as a function of discrepancies between a person's expectations and ability to meet demands.

Lacking the depth of resources, entrepreneurs must bear the cost of their mistakes while playing a multitude of roles, such as salesperson, recruiter, spokesperson, and negotiator. Simultaneous demands can lead to role overload.

Entrepreneurs often work alone or with a small number of employees and therefore lack the support from colleagues.

A basic personality structure, common to entrepreneurs and referred to as type A personality structure, describes people who are impatient, demanding, and overstrung.

SOURCES OF STRESS

Researchers Boyd and Gumpert identify four causes of entrepreneurial stress.

Loneliness—Entrepreneurs are isolated from persons in whom they can confide. They tend not to participate in social activities unless there is some business benefit.

Immersion in Business—Most entrepreneurs are married to their business. They work long hours, leaving them with little or no time for civic recreation.

People Problems—Most entrepreneurs experience frustration, disappointment, and aggravation in their experience with people.

Need to Achieve—Achievement brings satisfaction. However, many entrepreneurs are never satisfied with their work no matter how well it is done.

DEALING WITH STRESS

If stress can be kept within constructive bounds, it can increase a person's efficiency and improve performance.

Networking—One way to relieve the loneliness of running a business is to share experiences by networking with other business owners.

Getting Away from It All—The best antidote could be a well-planned vacation.

Communicating with Employees—Entrepreneurs are in close contact with employees and can readily assess the concerns of their staff.

Finding Satisfaction Outside the Company—Entrepreneurs need to get away from the business occasionally and become more passionate about life itself; they need to gain some new perspectives.

Delegating—Entrepreneurs find delegation difficult because they think they have to be at the business all the time and be involved in all aspects of the operation.

Exercising Rigorously—Research demonstrates the value of exercise regimens on relieving the stress associated with entrepreneurs.

The Entrepreneurial Ego

Certain characteristics that usually propel entrepreneurs into success also, if exhibited in the extreme have destructive implications for entrepreneurs.

OVERBEARING NEED FOR CONTROL—Entrepreneurs are driven by a strong desire to control both their venture and their destiny.

SENSE OF DISTRUST Because entrepreneurs are continually scanning the environment, it could cause them to lose sight of reality, distort reasoning and logic, and take destructive action.

OVERRIDING DESIRE FOR SUCCESS This can be dangerous because there exists the chance that the individual will become more important than the venture itself.

UNREALISTIC OPTIMISM—When external optimism is taken to its extreme, it could lead to a fantasy approach to the business.

VI. Entrepreneurial Ethics

Today's entrepreneurs are faced with many ethical decisions. As there is no simple universal formula for solving ethical problems, entrepreneurs have to choose their own codes of conduct; the outcome of their choices makes them who they are.

Ethical Dilemmas

Ethics provides the basic rules or parameters for conducting any activity in an "acceptable" manner.

Ethics represents a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong.

Ethics may outline moral duty and obligations. Legality provides societal standards but not definitive answers to ethical questions. Because deciding what is good or right or bad and wrong is situational, instead of relying on a set of fixed ethical principles, entrepreneurs should have an ethical process for making decisions.

Ethical Rationalizations

Decision makers use one of four rationalizations to justify questionable conduct:

- that the activity is not "really" illegal or immoral
- that it is in the individual's or the corporation's best interest
- that it will never be found out
- that, because it helps the company, the company will condone it

Morally questionable acts can be classified as: nonrole, role failure, role distortion, and role assertion.

The Matter of Morality

Requirements of law may overlap at times but do not duplicate the moral standards of society.

Some laws have no moral content whatsoever.

Some laws are morally unjust.

Some moral standards have no legal basis.

Legal requirements tend to be negative, morality tends to be positive.

Legal requirements usually lag behind the acceptable moral standards of society

Complexity of Decisions

Business decisions, in the context of entrepreneurial ethics are complex. Why?

- Ethical decisions have extended consequences.
- Ethical questions have multiple alternatives—the choices are not always "do" or "don't do."

- Ethical business decisions often have mixed outcomes.
- Most business decisions have uncertain ethical consequences.
- Most ethical business decisions have personal implications.

VII. Establishing a Strategy for Ethical Enterprise

Entrepreneurs need to commit to an established strategy for ethical enterprise.

Ethical Codes of Conduct

A code of content is a statement of ethical practices or guidelines to which an enterprise adheres.

Ethical Responsibility

A strategy for ethical responsibility should encompass three major elements: ethical consciousness, ethical process and structure, and institutionalization.

VIII. Ethical Considerations of Corporate Entrepreneurs

Recognize the fine line between resourcefulness and rule breaking.

Recognize that unethical consequences that can result in organizations where there are barriers to innovation.

Recognize that companies can take action to combat unethical behavior by:

- Establishing flexibility, innovation, and employee initiative and risk-taking.
- Removing barriers to innovation faced by entrepreneurial middle managers.
- Including an ethical component in corporate training.

IX. Ethical Leadership by Entrepreneurs

The value system of an owner/entrepreneur is the key to establishing an ethical organization.

The owner's actions serve as a model for all other employees to follow.

Caring is a feminine alternative to the more traditional and masculine ethics based on rules and regulations. by considering the interests of others and maintaining healthy relationships, caring—according to feminists—can lead to more genuinely moral climates.

X. Entrepreneurial Motivation

The decision to behave entrepreneurially is the result of the interaction of several factors:

- The individual's personal characteristics
- The individual's personal environment
- The relevant business environment
- The individual's personal goal set
- The existence of a viable business idea
- The comparison of probable outcomes with personal expectations

- The relationship between entrepreneurial behavior and the expected outcomes
- Entrepreneurial persistence—the choice to continue with an entrepreneurial opportunity regardless of counterinfluences or other enticing alternatives

SUGGESTED ANSWERS FOR DISCUSSION QUESTIONS (END-OF-CHAPTER)

1. What is “entrepreneurial cognition” and how does it impact the mind-set of entrepreneurs? How does “metacognition” come into play here?

In attempting better to understand the driving forces within entrepreneurs, we can gain a more complete perspective if we take a psychological look at entrepreneurs and consider the entrepreneurial mind-set. Part of that mind-set includes the package of mental processes that entrepreneurs possess, which include attention, remembering, producing and understanding language, solving problems, and making decisions. Entrepreneurial cognition refers to the knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation, and growth. The metacognitive perspective calls attention to cognitive adaptability, which can be defined as the ability to be dynamic, flexible, and self-regulating in one’s cognitions given dynamic and uncertain task environments. Before an entrepreneur is prepared to evaluate alternative strategies, the entrepreneur must first formulate a strategy to frame how he or she will “think” about this task. This process is metacognitive. The process responsible for ultimately selecting a response (i.e. a particular venture strategy) is cognitive—the process responsible for ultimately selecting how the entrepreneur will frame the entrepreneurial task is metacognitive.

2. Entrepreneurs have a tolerance for ambiguity, are calculated risk takers, and exude passion. What do these characteristics mean for any potential entrepreneur?

Entrepreneurs face uncertainty compounded by constant changes that introduce ambiguity and stress into every aspect of the enterprise. A tolerance for ambiguity exists when the entrepreneur can deal with the various setbacks and changes that constantly confront him or her.

Successful entrepreneurs are not gamblers—they are calculated risk takers. They do everything possible to get the odds in their favor, and they often avoid taking unnecessary risks. These strategies include getting others to share inherent financial and business risks with them—for example, by persuading partners and investors to put up money, creditors to offer special terms, and suppliers to advance merchandise.

Entrepreneurial passion is a fundamental emotional experience for entrepreneurs. It is a discrete emotion that is quite intense being described as an underlying force that fuels our strongest emotions, or the intensity felt when engaging in activities that are of deep interest, or the energy that enables entrepreneurs to achieve peak performance.

3. Is it true that most successful entrepreneurs have failed at some point in their business careers? Explain.

The most effective entrepreneurs are realistic enough to expect difficulties and failures. Entrepreneurs use failure as a learning experience; hence, they have a tolerance for failure.

4. How should failure be dealt with by entrepreneurs? How does “grief” play a role in this process?

As noted above, the most effective entrepreneurs are realistic enough to expect difficulties and failures. If they can deal effectively with any grief that emanates from the failure then they will not become disappointed, discouraged, or depressed by a setback or failure. In adverse and difficult times, they will continue to look for opportunity. In this way entrepreneurs will believe that they learn more from their early failures to form the foundation of later successes. Research shows that an entrepreneur recovers more quickly from a failure if he or she oscillates between a loss and a restoration orientation. This oscillation means that the entrepreneur can gain the benefits of both orientations while minimize the costs of maintaining either for an extended period.

5. Entrepreneurship has a “dark side.” What is meant by this statement? Be complete in your answer.

The dark side of entrepreneurship is a destructive course that exists within the energetic drive of a successful entrepreneur. There are three major traits that are associated with the dark side of entrepreneurship: risk, stress, and the entrepreneurial ego. All potential entrepreneurs need to be aware that the dark side of entrepreneurship exists.

6. What are the four specific areas of risk that entrepreneurs face. Describe each.

The four specific areas of risk are as follows:

1. Financial risk—In most new ventures the individual puts a significant portion of his savings or other resources at stake.
2. Career risk—A question frequently raised by would-be entrepreneurs is whether they will be able to find a job or go back to their old jobs if their venture should fail.
3. Family and social risk—Entrepreneurs expose their families to the risk of an incomplete family experience and the possibility of permanent scars.
4. Psychic risk—The greatest risk may be to the well-being of the entrepreneur.

7. What are the four causes of stress among entrepreneurs? How can an entrepreneur deal with each of them?

There are four causes of stress: loneliness, immersion in business, people problems, and need to achieve. To reduce stress, entrepreneurs must define the cause of the stress. After clarifying the cause of stress, the entrepreneur can combat excessive stress by acknowledging its existence, developing coping mechanisms, and probing personal unacknowledged needs.

8. Describe the factors associated with the entrepreneurial ego.

The factors associated with the entrepreneurial ego include: an overbearing need for control; a sense of distrust; an overriding desire for success; and unrealistic optimism.

9. **Ethics must be based more on a process than on a static code. What does this statement mean? Do you agree? Why or why not?**

The statement means ethics must be based on society's differing norms, a process of change. Yes, I agree, because we live in an ever-changing environment where each day is different and each decision has differing alternatives and circumstances.

10. **A small pharmaceutical firm has just received permission from the Food and Drug Administration (FDA) to market its new anticholesterol drug. Although the product has been tested for five years, management believes that serious side effects may still result from its use, and a warning to this effect is being printed on the label. If the company markets this FDA-approved drug, how would you describe its actions from an ethical and legal standpoint? Use Figure 2.2 to help you.**

There is nothing illegal about marketing the product, because all necessary actions were taken to get the drug approved by the FDA and the benefits must have outweighed the side effects. On the other side, however, marketing the product may not be unethical, because the company is providing information concerning the side effects on the product for the consumer, and therefore, the consumer must make the choice. Management may continue to put more money into the research and development of the product.

11. **Explain the four distinct roles managers may take in rationalizing morally questionable acts "against the firm" or "on behalf of the firm." Be complete in your answer.**

The four distinct roles are non-role, role failure, role distortion, and role assertion. There are two roles that apply to questionable acts "against the firm." Non-role examples would include: embezzlement and stealing supplies. Role failure includes superficial performance appraisals and not confronting expense account cheating by employees. There are two distinct roles that apply "on behalf of the firm." Role distortion includes bribery or price fixing. Role assertion refers to socially questionable acts such as not withdrawing a product in the face of product safety allegations.

12. **Why do complex decisions often raise ethical considerations for the entrepreneur?**

The reasons why business decisions of entrepreneurs are so complex are as follows: (1) ethical decisions have extended consequences, (2) business decisions involving ethical questions have multiple alternatives, (3) ethical business decisions often have mixed outcomes, (4) most business decisions have uncertain ethical consequences, and (5) there are personal implications in most ethical business decisions.

13. **Cal Whiting believes entrepreneurs need to address the importance of ethics in their organizations. However, in his own company he is unsure of where to begin because the entire area is unclear to him. What would you suggest? Where can he begin? What should he do? Be as practical as you can in your suggestion.**

Cal Whiting needs to carefully examine his organization in order to determine actions that might be considered morally questionable. From there he can develop a code of conduct that would represent the ethical positions expected of all employees. Finally, he can follow the four principles for ethical management involved in the holistic approach. These include:

(1) Hire the right people.

- (2) Set standards more than rules.
- (3) Don't let yourself get isolated.
- (4) Let your ethical example be absolutely impeccable at all times

14. What is the concept of entrepreneurial motivation?

Examining why people start businesses and how they differ from those who do not (or those who start unsuccessful businesses) may be useful in understanding the “motivation” that entrepreneurs exhibit during startup as a link to sustaining behavior exhibited later. Because motivation plays an important part in the creation of new organizations, theories of organization creation that fail to address this notion are incomplete. Thus, while research on the psychological characteristics of entrepreneurs has not provided an agreed upon “profile” of an entrepreneur, it is still important to recognize the contribution of psychological factors to the entrepreneurial process. In fact, the quest for new venture creation as well as the willingness to sustain that venture is directly related to an entrepreneur's motivation. Therefore, one research approach is the motivational process that an entrepreneur experiences.

15. Explain the concept of entrepreneurial persistence and how it is being examined.

Entrepreneurs are not intimidated by difficult situations. Although entrepreneurs are extremely persistent, they are realistic in recognizing what they can and cannot do and where they can get help to solve difficult but unavoidable tasks. Experience and persistence teaches lessons to entrepreneurs that are used to vault them into future successes.

A line of new research examines how and why entrepreneurs persist with a venture, defining entrepreneurial persistence as an entrepreneur's choice to continue with an entrepreneurial opportunity regardless of counterinfluences or other enticing alternatives. The decision to persist is influenced by personal characteristics of the entrepreneur as well as by feedback from the environment.

TEACHING NOTES FOR END-OF-CHAPTER EXERCISES

EXPERIENTIAL EXERCISE: ARE YOU A HIGH ACHIEVER?

One of the most important characteristics of a successful entrepreneur is the desire to be a high achiever. Ten questions are provided to help the reader identify their achievement drive. Choices for each question are a, b, and c. A scoring table is provided after the exercise. Once the reader has tabulated their score, information for interpreting the results is provided.

EXPERIENTIAL EXERCISE: KNOWING THE DIFFERENCE

Most entrepreneurial actions are ethical and legal. Sometimes, however, they are unethical and/or illegal. The reader is given a list of eight actions, and asked to classify them as either ethical and legal, unethical and legal, ethical and illegal, or unethical and illegal. Answers are

given after the exercise to allow the reader to determine if they have good understanding on the concepts of ethics and legality.

TEACHING NOTES FOR END-OF-CHAPTER CASES

CASE 2.1: JANE'S EVALUATION

1. Which of the three applicants do you think comes closest to having the mindset of an ideal entrepreneur? Why?

Each entrepreneur is as individual as the characteristics that make up the entrepreneur. An ideal entrepreneurial profile would consist of a desire to achieve, ability to solve problems so achievement can continue, ability to remain open to changes and indecisions that occur, a tolerance for failure, integrity and reliability, and self-confidence.

A possible answer: The applicant that best displays these characteristics is Phil Hartack. Phil is the only applicant that shows a high persistence in problem solving. This will be very beneficial to Phil because as an entrepreneur he will continually be working out his business complications. However, his tolerance for ambiguity will help him continue to see the overall picture. The combination of these two characteristics will help him keep a realistic view. His high integrity and reliability displays that he is a responsible person who supports his standards. His high self-confidence shows that he is sure of himself and his values. These characteristics make Phil Hartack the closest to the ideal.

2. To which applicant would you recommend the bank lend money? (Assume each has asked for a loan of \$50,000.) Defend your answer.

The recommendation would be for Richard Trumpe. Richard has the highest drive to achieve with a high initiative to accomplish his goals. He possesses a high tolerance for failure, so if he is not successful the first time he will not give up. His creativity and innovativeness will help him develop new ideas. The new ideas can be continually implemented for the improvement and success of his venture.

3. Can these three entrepreneurs do anything to improve their entrepreneurial profile and their chances for success? Be specific in your answer.

The three entrepreneurs in the case study need to improve different areas in their profile. Robin Wood needs the most improvement in her tolerance for ambiguity. If she does not learn to face the uncertainty of her business, she may find the venture too stressful and be unable to cope. Another improvement area is her persistence in problem solving. Finding options to solve the venture's problems will help Robin reduce the uncertainty. Once Robin learns how to tolerate the inevitable, she will be a stronger entrepreneur. Next is Richard Trumpe. Richard could improve his integrity and reliability. As an entrepreneur, Richard has to stay faithful to his vision for his success. By improving his integrity he will be more likely to be able to stand by his standards. Improvement is also needed in his persistence in problem solving. Solving problems as they occur will help keep the problems from growing. Phil Hartack is the last entrepreneur to be discussed. Phil's weaknesses are in his creativity and innovativeness. He needs to be able to come up with new ideas. These ideas need to then be applied by Phil in his venture. Phil also needs improvement in his drive to achieve, because

his success will depend on his need for achievement. These are some of the improvements that the three entrepreneurs need to make to improve their profile and chance for success.

CASE 2.2: A FRIEND FOR LIFE

1. Is the recommendation of the marketing vice president legal? Is it ethical? Why or why not?

The marketing vice president has recommended that production continue using the substitute fur. While this is not illegal, since there are no laws specifically governing what type of simulated fur is used, it is unethical to delude the public into thinking the product is of high quality when the material is actually of low quality. Especially since the company knows exactly what it is doing in trading away good faith and trust for the sake of profits.

2. Would it be ethical if the firm used less expensive simulated fur but did not change its slogan of “A Friend for Life” and did not tell the buyer about the change in the production process? Why or why not?

No, it would not be ethical since the firm already sold 1,000 bears with the higher-quality simulated fur that lasts seven years and is in the middle of producing 25,000 more. The continued production of bears under the same slogan “A Friend for Life” but with lower-quality simulated fur expected to last only eight months is consumer fraud. While the legal question may be debated as to the actual fraud, the ethics question is not debatable. This is a prime example of disregard for ethics.

3. If you were advising Paula, what would you recommend?

As an adviser to Paula, you should utilize Table 4.4, which illustrates the various approaches to management ethics. The column dealing with “moral management” explains the different aspects of ethics concerned with motives, goals, orientation to the law, and strategy. The strategy segment especially applies to Paula in that she must assume a leadership role when ethical dilemmas arise. In dealing with consumers, enlightened self-interest means that by having concern for others (consumers), you are also taking care of yourself (business) in the future. Thus, Paula will find that either full disclosure to the public of the lesser-quality fur (with a slogan change) or absorption of the extra costs associated with the quality fur are the best options for her to choose.

SMALL BUSINESS AND ENTREPRENEURSHIP RESOURCE CENTER

Sources:

Question 1:

[Are Entrepreneurs Born or Made? \(About This Issue\)](#)

Black Enterprise 38.4 (Nov 2007): p18(1).

Source Citation: "Are entrepreneurs born or made? (About This Issue)." *Black Enterprise* 38. 4 (Nov 2007): 18(1). *Small Business Resource Center*. Gale. Higher Education. 12 Oct. 2012.

Question 2:

[Candy Wrapper \(Interview\)](#)

Candy Industry 173.4 (April 2008): p96(1).

Source Citation: "Candy wrapper.(Interview)." *Candy Industry* 173. 4 (April 2008): 96(1). *Small Business Resource Center*. Gale. Higher Education. 12 Oct. 2012.

Questions:

1. Are entrepreneurs born or made? What does the research seem to tell us, from this article? What is your opinion?

- A. The article first gives us a little perspective about the question. For almost four decades, BLACK ENTERPRISE has profiled entrepreneurs, detailing the events that led to the launch of thousands of ventures. Many of these daring capitalists dreamed of starting their own company as a child, while others were thrust into business ownership for a variety of reasons--be it lack of upward mobility in the corporate workforce or the loss of a job. It begs the question: are entrepreneurs born or created?

According to a survey by Northeastern University's School of Technological Entrepreneurship, there isn't really such a thing as an accidental entrepreneur. Some 62% of entrepreneurs surveyed say they were inspired to start their own companies by their innate drive. Work experience and the success of their peers were cited by only 21% and 16%, respectively, as factors. In fact, 75% of those surveyed say they launched their first venture by the age of 30.

So while business owners--those who create jobs for themselves out of circumstance or necessity--can be created, it seems true entrepreneurs are born. The DNA of true entrepreneurs propels them to get on the roller coaster ride that comes with launching a venture. They defiantly disregard red flags of caution, the words of naysayers, or any statistics that conclude their business may fail.

Even though the article takes the perspective that most entrepreneurs have the natural ability to gauge and take risks, it will be interesting to hear student opinions about whether or not training can appropriately prepare them for the world of entrepreneurship.

2. It is worthwhile to examine why people start businesses and how they differ from those who do not (or those who start unsuccessful businesses). This article gives us a bit of background on Eddy Rubin, an entrepreneur and founder of Wrench Mints. What combination of factors led to Eddy's entry into the entrepreneurial ranks?

- A. According to the article, Eddy said "I've always been quirky, outgoing, loud, innovative and funny." He explained. "School was a tough one for me because if I didn't like something, I just didn't do it ... Having tutors was the norm and detention was a second home for me." This tends to point toward an independent mind set. In 1985, his family moved to Los Angeles where Rubin eventually turned to acting.

"I still wasn't making the big money so I had to take a job working retail," he recalled.

"While at the job, somebody came into the store handing out samples of a breath mint called

Hint Mint. I thought it was cool and the packaging and presentation was the nicest I'd seen. And the mints tasted really good. So I kept the tin after I finished the mints because it was so nice."

A year and a half later, Rubin found himself opening a drawer and finding that same tin. It was an epiphany. "I got in my car and thought to myself, 'What breath mint could I come up with that rhymed and could be successful?' I wasn't thinking about starting a breath mint company, but just kind of challenging myself.

During the next two years, Rubin pressed on, researching various sources on ways to produce the product he had in mind. "After four years of development and limited resources had made the product look very attractive to possible investors," he continued. In May 2006, Rubin's best friend, Johnny Alper, decided to invest \$100,000 to come up with a finished product and packaging. "With Johnny's money and my design, we formed Wrench Mints Inc.," Rubin said. "In February 2007 we received our first shipment of 100,000 pieces."

It wasn't until the two attended their first trade show in May that year, The National Hardware Show, that it became clear that Wrench Mints had a following. By December the fledgling company completely sold out its product.

"We are poised to hit our \$1,000,000 sales goal," Rubin said. "Our chain store list is Harbor Freight Tools, Northern Tool and Equipment, Ace Hardware, Woodcraft, ACO Hardware, Duluth Trading Company and many others."

No doubt Rubin has found a unique path into the confectionery industry; it was just a matter of finding a way to fix bad breath with the right tool. Eddy showed the tenacity required for entrepreneurship - he stuck to his dream over a period of years until it all came together for him.