

***Essentials of Entrepreneurship & Small Business Management, 6e* (Scarborough)**

**Chapter 1 The Foundations of Entrepreneurship**

1) One of the most significant economic developments in recent business history relates to the:

- A) growth of blue-chip corporations.
- B) development of Pacific Rim countries.
- C) entrepreneurial spirit.
- D) additional employment opportunities offered by government institutions.

Answer: C

Diff: 1 Page Ref: 1

AACSB: Reflective Thinking

2) All of the following are characteristics of the typical entrepreneur *except*:

- A) confidence in his/her ability to succeed.
- B) value of money over achievement.
- C) desire for immediate feedback.
- D) a future orientation.

Answer: B

Diff: 1 Page Ref: 3-6

AACSB: Reflective Thinking

3) Entrepreneurs are characterized by:

- A) skill at organizing.
- B) desire for immediate feedback.
- C) high energy levels.
- D) All of the above

Answer: D

Diff: 1 Page Ref: 3-5

AACSB: Reflective Thinking

4) An entrepreneur is one who:

- A) is willing to attempt to implement a business concept and then give up if it does not meet immediate expectations.
- B) understands the process of developing an idea and does not need to understand what it means to bring that idea to a viable business concept.
- C) knows that the concept they are about to develop will result in a profitable business.
- D) creates a new business concept for the purpose of achieving profit and growth by assembling the necessary resources to capitalize on identified opportunities.

Answer: D

Diff: 1 Page Ref: 5

AACSB: Analytic Skills

5) Entrepreneurs who repeatedly start businesses and grow to a sustainable size before striking out again are known as \_\_\_\_\_ entrepreneurs.

- A) opportunistic
- B) persistent
- C) serial
- D) classic

Answer: C

Diff: 1      Page Ref: 5

AACSB: Reflective Thinking

6) Entrepreneurs typically possess:

- A) the ability to easily access capital.
- B) a set of unique skills that is usually accompanied by advanced degrees in several areas.
- C) a high level of commitment, have a tolerance for ambiguity, are flexible and tenacious.
- D) specialized technical abilities.

Answer: C

Diff: 2      Page Ref: 6

AACSB: Reflective Thinking

7) In a large organization, an individual may be stifled and limited by a wide variety of factors. However, by owning one's own business, the only limits are one's own creativity, talent, and determination. In this sense, small business ownership offers the advantage of the:

- A) opportunity to reach one's full potential.
- B) opportunity to reap unlimited profits.
- C) chance to learn from others' mistakes.
- D) ability to accumulate certain wealth.

Answer: A

Diff: 2      Page Ref: 8-9

AACSB: Analytic Skills

8) In addition to the opportunity to create their own destiny and enjoy what they do, entrepreneurs also benefit from the ability to:

- A) earn tremendous wealth without risk and uncertainty.
- B) make a difference in an area important to them and be recognized for those efforts.
- C) create wealth without providing true value.
- D) exploit the opportunities that the free enterprise system offers.

Answer: B

Diff: 2      Page Ref: 9

AACSB: Reflective Thinking

9) Which of the following is a benefit of entrepreneurship?

- A) The opportunity to gain control over your own destiny
- B) The opportunity to reach your full potential
- C) The opportunity to do what you enjoy
- D) All of the above

Answer: D

Diff: 1      Page Ref: 8-10

AACSB: Reflective Thinking

10) Potential drawbacks of entrepreneurship may include:

- A) uncertainty of income, risk, long hours, and high stress.
- B) uncertainty of income, risk, easy hours, and frequent vacations.
- C) uncertainty of income, risk, long hours, and the immediate accumulation of wealth.
- D) certainty of income, risk, long hours, and high stress.

Answer: A

Diff: 2      Page Ref: 10-12

AACSB: Reflective Thinking

11) It is estimated that \_\_\_\_\_ percent of new businesses fail within two years, while \_\_\_\_\_ percent fail within four years.

- A) 35; 54
- B) 51; 64
- C) 35; 80
- D) 64; 80

Answer: A

Diff: 3      Page Ref: 10

AACSB: Analytic Skills

12) Within 6 years, \_\_\_\_\_ percent of new businesses will fail.

- A) 35
- B) 50
- C) 64
- D) 75

Answer: C

Diff: 2      Page Ref: 10

AACSB: Analytic Skills

13) The majority of new business owners work:

- A) fewer than 40 hours per week.
- B) more than 40 hours per week.
- C) more than 70 hours per week.
- D) more than 80 hours per week.

Answer: B

Diff: 2      Page Ref: 11

AACSB: Analytic Skills

14) Socioeconomic forces that are driving the positive entrepreneurial trend in the U.S. economy include:

- A) America's view that entrepreneurs are considered to be "heroes."
- B) entrepreneurial education has increased.
- C) the shift to a service-based economy.
- D) All of the above

Answer: D

Diff: 1      Page Ref: 12-13

AACSB: Analytic Skills

15) Which of the following is NOT one of the forces driving the entrepreneurial trend in our country?

- A) Shift away from a service economy
- B) Independent lifestyle
- C) International opportunities
- D) E-commerce and the World Wide Web

Answer: A

Diff: 2      Page Ref: 12-13

AACSB: Analytic Skills

16) Which of the following forces is driving the entrepreneurial trend in our nation?

- A) Increased entrepreneurial educational opportunities
- B) E-commerce and the World Wide Web
- C) Technological advancements and modern business machinery
- D) All of the above

Answer: D

Diff: 1      Page Ref: 12-14

AACSB: Use of IT

17) Entrepreneurs may find benefit from the Internet due to its potential:

- A) if the organization is willing to invest millions of dollars in this effort.
- B) only if the entrepreneur has a high level of technical abilities.
- C) as a relatively low-cost solution to expand its revenue generating abilities.
- D) to take all pressure off other attributes of the business venture.

Answer: C

Diff: 2      Page Ref: 13-14

AACSB: Use of IT

18) International opportunities are:

- A) clearly out of reach for entrepreneurial businesses.
- B) now within the reach of entrepreneurial businesses and may present significant opportunities.
- C) highly limited for entrepreneurs.
- D) risky and do not merit serious consideration by the entrepreneur.

Answer: B

Diff: 2      Page Ref: 14

AACSB: Multicultural & Diversity

19) Which of the following statements concerning small businesses and international markets is *false*?

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

Answer: C

Diff: 3      Page Ref: 14

AACSB: Analytic Skills

20) Small companies that have expanded successfully into foreign markets tend to rely on all but which of the following strategies?

- A) Research foreign markets thoroughly.
- B) Focus on many countries initially.
- C) Utilize government resources designed to help small companies establish an international presence.
- D) Forge alliances with local partners.

Answer: B

Diff: 2      Page Ref: 14

AACSB: Multicultural & Diversity

21) Although there is a trend toward younger entrepreneurs, most entrepreneurs launch their businesses between the ages of \_\_\_\_\_ and \_\_\_\_\_.

- A) 20; 34
- B) 25; 44
- C) 30; 44
- D) 35; 49

Answer: B

Diff: 2      Page Ref: 16

AACSB: Analytic Skills

22) Which of the following statements is true of Generation X?

- A) They are the most entrepreneurial generation in history.
- B) They are three times more likely to start businesses than other generations.
- C) They are responsible for approximately 80 percent of all business start-ups.
- D) All of the above are true.

Answer: D

Diff: 2      Page Ref: 16

AACSB: Multicultural & Diversity

23) According to a study conducted by the Center for Women's Business Research, the most common reason women give for starting their own businesses is to:

- A) seize a market opportunity.
- B) avoid the limitations of the "glass ceiling."
- C) gain control over their schedule.
- D) create the opportunity to leverage their full skill set.

Answer: C

Diff: 3 Page Ref: 16-17

AACSB: Multicultural & Diversity

24) The demographic attributes of successful entrepreneurs are:

- A) limited to specific ages, genders, and ethnic backgrounds.
- B) uncertain and have not been fully studied or analyzed.
- C) are key predictors that determine how long the business will survive.
- D) highly diverse relating to age, gender, and ethnicity.

Answer: D

Diff: 2 Page Ref: 17

AACSB: Multicultural & Diversity

25) Women owned businesses dominate \_\_\_\_\_ and \_\_\_\_\_ industries.

- A) manufacturing; retail
- B) services; retail
- C) services; professional
- D) retail; agricultural

Answer: B

Diff: 4 Page Ref: 16-17

AACSB: Multicultural & Diversity

26) Which of the following statements is *not* true regarding the diversity of entrepreneurs?

- A) Minority-owned businesses have come a long way in the past decade, and their success rate is climbing.
- B) Minority-owned businesses now account for approximately one-third of all businesses in the U.S.
- C) Immigrants with more education and experience than those of the past are coming to the U.S. and succeeding in entrepreneurial ventures.
- D) The numbers of part-time and home-based entrepreneurs are rising.

Answer: B

Diff: 2 Page Ref: 16-22

AACSB: Multicultural & Diversity

27) Women own an estimated \_\_\_\_\_ percent of all privately-held U.S. businesses.

- A) 18
- B) 28
- C) 41
- D) 51

Answer: C

Diff: 3      Page Ref: 17

AACSB: Multicultural & Diversity

28) Which of the following statements about women-owned businesses is *false*?

- A) The businesses women start tend to be smaller than those men start.
- B) Women own about 28 percent of all privately held businesses in the U.S.
- C) The survival rate of women-owned businesses is much lower than that of U.S. businesses overall.
- D) Most women-owned companies are concentrated in retailing and services.

Answer: C

Diff: 3      Page Ref: 16-17

AACSB: Multicultural & Diversity

29) "Copreneurs" represent one of the fastest growing business sectors and are defined as:

- A) entrepreneurs that work part-time.
- B) highly successful entrepreneurs with prior company experience and background.
- C) those entrepreneurs that will eventually combine their business with another venture.
- D) entrepreneurial couples that work together as co-owners of their business.

Answer: D

Diff: 2      Page Ref: 19-20

AACSB: Multicultural & Diversity

30) Which of the following is NOT a characteristic of a successful working relationship between copreneurs?

- A) A clear definition of one partner as "boss" and the other as "subordinate"
- B) Compatible business and life goals
- C) Complementary business skills
- D) A clear division of roles and authority based on each partner's skills and abilities

Answer: A

Diff: 2      Page Ref: 19-20

AACSB: Multicultural & Diversity

31) Which of the following is a characteristic of copreneurs?

- A) Mutual respect
- B) Complementary business skills
- C) A clear division of roles and authority
- D) All of the above

Answer: D

Diff: 1      Page Ref: 19-20

AACSB: Multicultural & Diversity

32) Approximately \_\_\_\_\_ percent of corporate managers who are "cast off" as companies downsize become entrepreneurs.

- A) 5
- B) 15
- C) 20
- D) 45

Answer: C

Diff: 3      Page Ref: 20

AACSB: Analytic Skills

33) Melinda and John Perez, both corporate attorneys in New York City, have grown tired of their lengthy daily commute, the stress of their jobs, and the overbearing policies of their employers. They have decided to leave their six-figure jobs and together open a guide service in Wyoming. Melinda and John are examples of:

- A) corporate castoffs and corporate dropouts.
- B) corporate dropouts and copreneurs.
- C) corporate castoffs and copreneurs.
- D) copreneurs and serial entrepreneurs.

Answer: A

Diff: 2      Page Ref: 20-21

AACSB: Multicultural & Diversity

34) \_\_\_\_\_ percent of all U.S. businesses are family owned and managed.

- A) Twenty-five
- B) Fifty
- C) Seventy
- D) Ninety

Answer: D

Diff: 2      Page Ref: 23

AACSB: Analytic Skills

35) Small companies pay more than \_\_\_\_\_ percent of total private payroll in the United States.

- A) 33
- B) 45
- C) 55
- D) 99

Answer: B

Diff: 3      Page Ref: 23

AACSB: Analytic Skills



36) Entrepreneurs that use their skills to create a profitable business that is designed to achieve social and environmental goals for the common good are known as:

- A) social entrepreneurs.
- B) not-for-profit entrepreneurs.
- C) copreneurs.
- D) serial entrepreneurs.

Answer: A

Diff: 2            Page Ref: 21

AACSB: Multicultural & Diversity

37) According to the U.S. Small Business Administration, a common delineation of a small business is one that employs fewer than:

- A) 50 people.
- B) 100 people.
- C) 250 people.
- D) 500 people.

Answer: B

Diff: 1            Page Ref: 23

AACSB: Analytic Skills

38) What percentage of companies in the U.S. are considered "small"?

- A) 69
- B) 79
- C) 89
- D) 99

Answer: D

Diff: 2            Page Ref: 23

AACSB: Analytic Skills

39) The nation's small businesses:

- A) employ more than 51 percent of the nation's private sector workforce.
- B) create more jobs than do big businesses.
- C) account for 47 percent of business sales.
- D) All of the above

Answer: D

Diff: 2            Page Ref: 23

AACSB: Analytic Skills

40) Small companies:

- A) created fewer jobs than big companies in the last decade.
- B) are concentrated in the manufacturing and retail sectors.
- C) are the leaders in offering training and advancement opportunities to workers.
- D) account for approximately 10 percent of the nation's GDP and 25 percent of business sales.

Answer: C

Diff: 2            Page Ref: 23

AACSB: Reflective Thinking

41) The majority of small companies are concentrated in the \_\_\_\_\_ and \_\_\_\_\_ industries.

- A) manufacturing; retail
- B) manufacturing; service
- C) retail; service
- D) wholesale; retail

Answer: C

Diff: 2      Page Ref: 23-24

AACSB: Analytic Skills

42) David Birch, president of the research firm Cognetics, suggests that three percent of small businesses create approximately \_\_\_\_\_ percent of new jobs.

- A) 50
- B) 60
- C) 70
- D) 80

Answer: C

Diff: 3      Page Ref: 23-24

AACSB: Analytic Skills

43) David Birch describes small companies growing at 20 percent or more per year with at least \$100,000 in annual sales that create 70 percent of the net new jobs in the economy as:

- A) "assertive."
- B) "antelopes."
- C) "aggressive."
- D) "gazelles."

Answer: D

Diff: 2      Page Ref: 23-24

AACSB: Reflective Thinking

44) In terms of innovation and research, small businesses:

- A) create four times the innovations per research and development dollar than medium-sized firms and 24 times the innovations per research and development dollar than large companies.
- B) contribute 20 percent more innovations per employee than large companies.
- C) have created such important innovations as air conditioning, FM radio, the laser, the automatic transmission, and the personal computer.
- D) All of the above

Answer: D

Diff: 3      Page Ref: 24

AACSB: Analytic Skills

45) According to the NFIB *Small Business Policy Guide*, after 10 years in business, the percentage of small firms surviving is \_\_\_\_\_.

- A) 32
- B) 27
- C) 25
- D) 22

Answer: C

Diff: 3      Page Ref: 24

AACSB: Analytic Skills

46) John has come to you for advice on starting a business venture. He wants to know the best way to gain the experience he'll need. You suggest that he:

- A) read a small business book.
- B) seek experience in the field he wishes to enter by working for another firm.
- C) determine his weaknesses and return to school for a term or two.
- D) just jump in and learn as he goes.

Answer: B

Diff: 3      Page Ref: 25-26

AACSB: Reflective Thinking

47) Most startup companies can expect to need \_\_\_\_\_ capital than they anticipate.

- A) less
- B) the same
- C) more
- D) within 10% of the

Answer: C

Diff: 2      Page Ref: 26

AACSB: Analytic Skills

48) The primary cause of small business failures is:

- A) the lack of capital.
- B) management mistakes.
- C) poor location.
- D) improper inventory control.

Answer: B

Diff: 2      Page Ref: 27

AACSB: Analytic Skills

49) Entrepreneurs tend to be overly \_\_\_\_\_ and commonly misjudge the \_\_\_\_\_ requirements of going into business.

- A) optimistic; personal
- B) optimistic; financial
- C) pessimistic; financial
- D) optimistic; professional

Answer: B

Diff: 1      Page Ref: 27

AACSB: Reflective Thinking

50) The only people who \_\_\_\_\_ are those who never do anything or never attempt anything new.

- A) succeed
- B) prosper
- C) profit
- D) fail

Answer: D

Diff: 1            Page Ref: 27-28

AACSB: Reflective Thinking

51) One hallmark of successful entrepreneurs is the ability to:

- A) be willing to gamble.
- B) fail intelligently.
- C) overlook past successes.
- D) repeat the same mistake.

Answer: B

Diff: 2            Page Ref: 25

AACSB: Reflective Thinking

52) Which of the following was **not** identified as one of the suggestions for small business success?

- A) Develop a business plan as you grow your business.
- B) Manage your financial resources and understand financial statements.
- C) Know your business in depth.
- D) Learn to manage people successfully.

Answer: A

Diff: 1            Page Ref: 26-27

AACSB: Analytic Skills

53) Which of the following is/are true regarding business plans?

- A) Provide a pathway to success.
- B) Allow entrepreneurs to replace faulty assumptions with facts before making the decision to go into business.
- C) Create a benchmark against which entrepreneurs can measure actual company performance.
- D) All of the above

Answer: D

Diff: 1            Page Ref: 26

AACSB: Analytic Skills

54) Most entrepreneurs believe that \_\_\_\_\_ is what matters most, but \_\_\_\_\_ is the most important financial resource for a small business owner.

- A) cash; profit
- B) profit; cash
- C) profit; inventory
- D) inventory; cash

Answer: B

Diff: 2            Page Ref: 26-27

AACSB: Reflective Thinking

55) Entrepreneurs can increase their chances for success if they:  
A) know their business in depth and develop a solid business plan.  
B) manage their financial resources and understand financial statements.  
C) learn to manage people and keep in touch with how they react to stress and balance their health needs with the needs of the business.  
D) All of the above

Answer: D

Diff: 1 Page Ref: 26-28

AACSB: Reflective Thinking

56) The 21st century has seen record numbers of entrepreneurs launching businesses.

Answer: TRUE

Diff: 1 Page Ref: 1-2

AACSB: Analytic Skills

57) Current competitive conditions favor large companies over smaller ones because of their ability to use their size to achieve efficiency and economies of scale.

Answer: FALSE

Diff: 1 Page Ref: 2

AACSB: Analytic Skills

58) Increased entrepreneurial activity is a phenomenon unique to the U.S.

Answer: FALSE

Diff: 1 Page Ref: 2

AACSB: Analytic Skills

59) One study conducted by the Global Entrepreneurship Monitor (GEM) reports that nearly one in five people in the United states is working to start a business. .

Answer: TRUE

Diff: 2 Page Ref: 2

AACSB: Analytic Skills

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

Answer: TRUE

Diff: 1 Page Ref: 5

AACSB: Analytic Skills

61) Surveys show that small business owners believe that, as entrepreneurs, they work harder, earn more money, and are happier than if they worked for a large company.

Answer: TRUE

Diff: 2 Page Ref: 7

AACSB: Reflective Thinking

62) The opportunity to reap impressive profits is the primary motivation for most entrepreneurs.

Answer: FALSE

Diff: 2 Page Ref: 7-10

AACSB: Reflective Thinking

63) To most entrepreneurs, there is little difference between work and play; the two are synonymous.

Answer: TRUE

Diff: 2      Page Ref: 9-10

AACSB: Multicultural & Diversity

64) The majority of new business owners work fewer than 40 hours per week.

Answer: FALSE

Diff: 2      Page Ref: 11

AACSB: Reflective Thinking

65) The majority of new business owners devote more than 40 hours per week to their companies.

Answer: TRUE

Diff: 2      Page Ref: 11

AACSB: Reflective Thinking

66) One advantage of being your own boss and owning a small business is that work hours are very flexible and leisure time is abundant.

Answer: FALSE

Diff: 1      Page Ref: 11

67) Entrepreneurs are not willing to give up a steady paycheck.

Answer: FALSE

Diff: 2      Page Ref: 11

AACSB: Reflective Thinking

68) The market need and the relatively low startup costs make service businesses popular with entrepreneurs.

Answer: TRUE

Diff: 2      Page Ref: 12

AACSB: Reflective Thinking

69) An important factor helping to drive the entrepreneurial trend in our economy is the favorable attitude Americans have towards entrepreneurs.

Answer: TRUE

Diff: 1      Page Ref: 12

AACSB: Reflective Thinking

70) Modern technology and office machines enable one-person, home-based businesses to look much bigger than they are to their customers.

Answer: TRUE

Diff: 2      Page Ref: 13

AACSB: Use of IT

71) A recent small business Internet survey shows small businesses that use the Web to market their products and services outperform those that don't.

Answer: TRUE

Diff: 2      Page Ref: 13

72) Approximately 95 percent of the world's population lives within the borders of the U.S.

Answer: FALSE

Diff: 1      Page Ref: 14

AACSB: Analytic Skills

73) The number of colleges and universities offering courses in small business management and entrepreneurship is declining.

Answer: FALSE

Diff: 1      Page Ref: 15

AACSB: Reflective Thinking

74) There is concern over the future of entrepreneurship because so few high school and college students want to start their own companies.

Answer: FALSE

Diff: 1      Page Ref: 15

AACSB: Reflective Thinking

75) Most entrepreneurs start their business between the ages of 20 and 29.

Answer: FALSE

Diff: 2      Page Ref: 16

AACSB: Multicultural & Diversity

76) Nearly two-thirds of entrepreneurs start their businesses between the ages of 25 and 44.

Answer: TRUE

Diff: 3      Page Ref: 16

AACSB: Analytic Skills

77) Research has isolated a set of characteristics that can predict who will succeed as an entrepreneur.

Answer: FALSE

Diff: 2      Page Ref: 16

AACSB: Multicultural & Diversity

78) Although about 83 percent of women-owned companies are concentrated in the retailing and service sectors, female entrepreneurs are branching out rapidly into previously male-dominated industries.

Answer: TRUE

Diff: 2      Page Ref: 16

AACSB: Multicultural & Diversity

79) Small companies comprise 97 percent of all businesses engaged in exporting, yet they account for only 29 percent of the nation's export sales.

Answer: TRUE

Diff: 3      Page Ref: 14

AACSB: Analytic Skills

80) Members of Generation X no longer see launching a business as being a risky career path.

Answer: TRUE

Diff: 1      Page Ref: 16

AACSB: Analytic Skills

81) Women now own 41 percent of all privately-held businesses in the United States.

Answer: TRUE

Diff: 2      Page Ref: 17

AACSB: Multicultural & Diversity

82) Increasing numbers of women are discovering that the best way to break the "glass ceiling" that prevents them from rising to the top of many organizations is to start their own companies.

Answer: TRUE

Diff: 1      Page Ref: 17

AACSB: Multicultural & Diversity

83) Diversity may be considered a characteristic of entrepreneurs, as they don't fit any statistical norm.

Answer: TRUE

Diff: 1      Page Ref: 17-18

AACSB: Multicultural & Diversity

84) A major advantage of launching a business part-time is the lower risk it offers in case the business fails.

Answer: TRUE

Diff: 1      Page Ref: 18

AACSB: Analytic Skills

85) Most home-based businesses are simple cottage industries such as crafts or sewing.

Answer: FALSE

Diff: 1      Page Ref: 18-19

86) Not all family-owned businesses are small; in fact, over one-third of the *Fortune* 500 companies are family businesses.

Answer: TRUE

Diff: 2      Page Ref: 19

AACSB: Multicultural & Diversity

87) Of the 25 million businesses in the U.S., about 40 percent are family owned and managed.

Answer: FALSE

Diff: 3      Page Ref: 19

AACSB: Multicultural & Diversity



88) Ninety-percent of businesses in the United States are family-owned and managed and account for 62 percent of total U.S. employment.

Answer: TRUE

Diff: 3      Page Ref: 19

AACSB: Multicultural & Diversity

89) Family-owned and managed businesses account for 78 percent of all new jobs.

Answer: TRUE

Diff: 3      Page Ref: 19

AACSB: Multicultural & Diversity

90) Most family businesses survive to the second and third generations.

Answer: FALSE

Diff: 2      Page Ref: 19

AACSB: Multicultural & Diversity

91) Successful "copreneurs" create a division of labor based on expertise.

Answer: TRUE

Diff: 1      Page Ref: 19-20

AACSB: Multicultural & Diversity

92) About 20 percent of downsized corporate managers have become entrepreneurs.

Answer: TRUE

Diff: 2      Page Ref: 20

AACSB: Multicultural & Diversity

93) Corporate downsizing has spawned a generation of entrepreneurs known as "corporate castoffs."

Answer: TRUE

Diff: 1      Page Ref: 20

AACSB: Multicultural & Diversity

94) Because they have college degrees, a working knowledge of business, and years of management experience, both corporate castoffs and corporate dropouts who become entrepreneurs will most likely increase the small business survival rate.

Answer: TRUE

Diff: 1      Page Ref: 20-21

AACSB: Multicultural & Diversity

95) Minority-owned businesses have come a long way in the past decade, and their success rate is climbing.

Answer: TRUE

Diff: 2      Page Ref: 21

AACSB: Multicultural & Diversity

96) David Birch considers "gazelles" those businesses that grow at 20 percent or more per year and gross at least \$100,000 in annual sales.

Answer: TRUE

Diff: 3      Page Ref: 23-24

AACSB: Analytic Skills

97) Small companies have created two-thirds to three-fourths of the net new jobs in the U.S. economy.

Answer: TRUE

Diff: 2      Page Ref: 24

AACSB: Analytic Skills

98) Small businesses actually create more jobs than do big businesses.

Answer: TRUE

Diff: 1      Page Ref: 24

AACSB: Analytic Skills

99) Large companies create significantly more innovations per research and development dollar spent than small firms.

Answer: FALSE

Diff: 2      Page Ref: 24

AACSB: Analytic Skills

100) Because of their size and limited resources, small businesses rarely create innovations that are important to the U.S. economy.

Answer: FALSE

Diff: 1      Page Ref: 24

AACSB: Reflective Thinking

101) About 25 percent of new businesses fail within six years.

Answer: FALSE

Diff: 3      Page Ref: 24

AACSB: Analytic Skills

102) Most entrepreneurs have invested the time to develop a sound business plan.

Answer: FALSE

Diff: 1      Page Ref: 26

AACSB: Reflective Thinking

103) An often fatal error made by many small business owners is to open their businesses on a "shoestring," causing them to be undercapitalized.

Answer: TRUE

Diff: 1      Page Ref: 26-27

AACSB: Analytic Skills

104) The primary cause of small business failure is lack of capital.

Answer: FALSE

Diff: 1 Page Ref: 26-27

AACSB: Analytic Skills

105) The faster a small company grows, the greater its appetite for cash.

Answer: TRUE

Diff: 2 Page Ref: 26-27

AACSB: Analytic Skills

106) Expanding a business usually requires no significant changes in structure or business practices.

Answer: FALSE

Diff: 2 Page Ref: 26-27

AACSB: Analytic Skills

107) About 75 percent of the businesses in the U.S. can be considered "small" businesses.

Answer: FALSE

Diff: 1 Page Ref: 27

AACSB: Analytic Skills

108) The lifeblood of the "brick and mortar" small business □ sales □ is influenced heavily by choice of location.

Answer: TRUE

Diff: 1 Page Ref: 27

AACSB: Reflective Thinking

109) To boost sales, small businesses, especially start-ups, should grant credit to anyone who wants to buy their products or services.

Answer: FALSE

Diff: 2 Page Ref: 27

AACSB: Communication

110) As an entrepreneur, you are always working for someone else □ your customers.

Answer: TRUE

Diff: 1 Page Ref: 27

AACSB: Communication

111) Establishing prices that will generate the necessary profits means that business owners must understand how much it costs to make, market, and deliver their products and services.

Answer: TRUE

Diff: 1 Page Ref: 27

AACSB: Analytic Skills

112) Small business owners are more likely to underprice their products and services rather than overprice them.

Answer: TRUE

Diff: 2      Page Ref: 27

AACSB: Analytic Skills

113) If an entrepreneur has a good enough product or service to sell, a business plan is not really necessary since the product or service will sell itself.

Answer: FALSE

Diff: 1      Page Ref: 27

AACSB: Communication

114) Successful entrepreneurs recognize that their most valuable asset is their time, and they learn to manage it effectively to make themselves and their companies more productive; having passion about their businesses, products, and customers enables them to stay motivated.

Answer: TRUE

Diff: 1      Page Ref: 27-28

AACSB: Reflective Thinking

115) What is an entrepreneur? Give a brief profile of a typical entrepreneur. What is the primary motivation for the typical entrepreneur?

Answer: An entrepreneur is someone who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them.

While entrepreneurs tend to exhibit no isolated set of required traits, an entrepreneurial profile contains the following characteristics:

- Desire for responsibility
- Preference for moderate risk
- Confidence in their ability to succeed
- Desire for immediate feedback
- High level of energy
- Future orientation
- Skill at organizing

Entrepreneurs are motivated most by a desire to control their own destiny, reach their own potential, make a difference, reap unlimited profits, and enjoy what they are doing.

Diff: 3      Page Ref: 3-7

AACSB: Reflective Thinking

116) Discuss the potential benefits and drawbacks of entrepreneurship.

Answer: Entrepreneurs benefit by controlling their own destiny, reaching their own potential, making a difference, reaping impressive profits, contributing to society, and enjoying what they are doing. Potential drawbacks include the uncertainty of income, risk of losing their entire investment, long hours and hard work, a somewhat lower quality of life until the business gets started, high levels of stress, and absolute responsibility.

Diff: 3      Page Ref: 7-12

AACSB: Reflective Thinking

117) Describe the factors that are driving the current entrepreneurial trend in the U.S. economy.

Answer:

- A more positive attitude toward entrepreneurs
- Higher levels and greater availability of entrepreneurial education
- Demographic and economic factors, such as younger people starting businesses and greater opportunities for wealth
- Shift to a service economy, which opens up opportunities for small business owners
- Technological advancements make it easier for small businesses to compete on a more level playing field with larger companies
- Independent lifestyle, allowing people more freedom to make choices about what they want to do
- E-commerce and the World Wide Web provide an additional opportunity for a level playing field with larger companies
- International opportunities are opening more doors than ever before for entrepreneurs

Diff: 3            Page Ref: 12-14

AACSB: Reflective Thinking

118) Discuss the role that the following groups are playing in leading the ongoing surge in entrepreneurial activity:

- women
- minorities
- immigrants
- part-time entrepreneurs
- home-based entrepreneurs
- family businesses
- copreneurs
- corporate castoffs
- corporate dropouts

Answer: **Women** often face discrimination in the workplace. Entrepreneurship offers women opportunities for economic growth.

**Minorities**, like women, also face discrimination in the workplace and can benefit through entrepreneurship.

**Immigrant** entrepreneurs arrive with more education and experience. Their dedication and desire to succeed enable them to achieve their entrepreneurial dreams.

**Part-timers** have the best of both worlds and can ease into a business without sacrificing a steady paycheck and benefits.

**Home-based businesses** are booming. Technology and this "homecoming" support nearly 44 percent of U.S. households with some form of home office activity.

**Family businesses** are an integral part of our economy; 90 percent of all the businesses in the U.S. are family owned.

**Copreneurs** are entrepreneurial couples who work together. They represent the fastest growing business sectors.

**Corporate castoffs** have extensive on-the-job experience and are dislocated workers due to corporate downsizing.

**Corporate dropouts** leave organizations to pursue a better way of life spearheaded by the "trust gap" over job security.

Diff: 3            Page Ref: 16-21

AACSB: Reflective Thinking

119) Discuss the impact of small businesses on the U.S. economy, including sales, GDP, job creation, and innovation.

Answer: The resurgence of the entrepreneurial spirit is the most significant economic development in recent business history. Small businesses have introduced innovative products and services, pushed back technological frontiers, created new jobs, opened foreign markets, and in the process, sparked the U.S. economy into regaining its competitive advantage in the world. Approximately 99 percent of all businesses in the U.S. are small businesses. They employ 51 percent of the nation's private sector workforce, created 66-75 percent of new jobs in the U.S. since the early 1990s, produce 51 percent of the country's private GDP, and account for 47 percent of business sales.

Diff: 3            Page Ref: 23-24

AACSB: Reflective Thinking

120) The following lists the ten deadly mistakes of entrepreneurship.

1. **Management mistakes**
2. **Lack of experience**
3. **Poor financial control**
4. **Weak marketing efforts**
5. **Failure to develop a strategic plan**
6. **Uncontrolled growth**
7. **Poor location**
8. **Improper inventory control**
9. **Incorrect pricing**
10. **Inability to make the entrepreneurial transition**

Select one of these deadly mistakes, describe what it may look like for the entrepreneur, and give an example.

Answer:

1. **Management mistakes** □ Primary cause of business failure; may include lack of knowledge, leadership ability, etc.
2. **Lack of experience** □ In the field they want to enter (technical ability).
3. **Poor financial control** □ Undercapitalization; lax customer credit policies; lack of understanding of financial aspects; lack of proper cash management techniques.
4. **Weak marketing efforts** □ Building a strong customer base requires a sustained creative marketing effort. Keeping them coming back requires that you provide them with value, quality, convenience, service, and fun.
5. **Failure to develop a strategic plan** □ Failure to plan, however, usually results in failure to survive. Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the marketplace. Building a strategic plan forces an entrepreneur to assess *realistically* a proposed business's potential.
6. **Uncontrolled growth** □ Expansion usually requires major changes in organizational structure, business practices such as inventory and financial control procedures, personnel assignments, and other areas. However, the most important change occurs in managerial expertise.
7. **Poor location** □ The location question is much too critical to leave to chance. Especially for retailers, the lifeblood of the business □ sales □ is influenced heavily by choice of location.
8. **Improper inventory control** □ Insufficient inventory levels may lead to dissatisfied customers; too much inventory leads to increased storage and handling costs. Entrepreneurs must ensure that they not only have the correct amount of inventory, but also the correct items in inventory.
9. **Incorrect pricing** □ Establishing prices that will generate the necessary profits means that business owners must understand how much it costs to make, market, and deliver their products and services. They must ensure that they are not underpricing their products and services.
10. **Inability to make the entrepreneurial transition** □ After the start-up, growth usually requires a radically different style of management, one that requires delegation of authority.

Diff: 4 Page Ref: 24-28

AACSB: Analytic Skills

121) Describe the small business failure rate. What are the primary causes of business failures, and what steps can an entrepreneur take to avoid becoming a business failure statistic?

Answer: Because of their limited resources, inexperienced management, and lack of financial stability, small businesses suffer a mortality rate significantly higher than that of larger, established businesses. Some steps to take to avoid failure include: achieving management competence, gaining experience, achieving financial control, developing a strategic plan, controlling growth, seeking out a good location, controlling inventory, knowing your business in depth, understanding financial statements, developing a solid business plan, learning to manage people effectively, and keeping in tune with yourself.

Diff: 2            Page Ref: 24-25

AACSB: Analytic Skills

### **Mini Case 1-1: Hudson's Dilemma**

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

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

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

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



122) Which entrepreneurial characteristics does Bill have that may be important to his success? Which characteristic could lead to his failure?

Answer: This case requires the student to compare Bill's personality characteristics with those of the typical entrepreneur. Factors in Bill's favor include knowledge of the technical aspects of the business, a willingness to learn, a devotion to the business and its customers, and a favorable sales arrangement.

Factors working against Bill include his lack of business training and experience, a lack of personal assets, and possibly, insufficient management skills.

Diff: 3            Page Ref: 6-7

AACSB: Reflective Thinking

123) What steps should Bill take to avoid the pitfalls common to a small business?

Answer: Generally, it appears that Bill has a good chance of becoming a success if he can overcome the weaknesses mentioned above. The established business □ and its reputation □ that Bill is purchasing are important benefits.

Diff: 2            Page Ref: 10-12

AACSB: Analytic Skills

124) If you were Hugo, would you sell Bill the business under the terms discussed in the case? Explain.

Answer: Yes, if I were Hugo, I would sell Bill the business. This transaction allows both Hugo and Bill to benefit from the deal allowing each to accomplish their goal. Hugo may benefit from advice from a CPA or tax advisor regarding the sale of the business.

Diff: 2            Page Ref: 7-15

AACSB: Analytic Skills