Entrepreneurship 5th edition Zacharakis Test Bank

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Questions for Chapter 2

True/False

1. A manager is someone who perceives an opportunity and creates an organization to pursue it. (pg. 41)
   (False)

2. The entrepreneurial process includes all the functions, activities, and actions that are part of perceiving opportunities and creating organizations to pursue them. (pg. 41)
   (True)

3. Locus of control is an organizational factor in the innovation stage of the entrepreneurial model. (pg. 43)
   (False)

4. Entrepreneurship is a process that can be learned. (pg. 42)
   (True)

5. Entrepreneurs possess highly specialized behavioral attributes that are distinct from those of non-entrepreneurs. (pg. 44)
   (False)

6. Access to entrepreneurial role models can be a significant factor in determining whether or not someone will become an entrepreneur. (pgs. 45 – 46)
   (True)

7. A majority of the businesses started each year will eventually go bankrupt. (pg. 48)
   (False)

8. To determine the amount of capital that your company needs, crucial resources must be assessed first. (pg. 52)
   (True)

9. It is usually more efficient to do everything in-house instead of subcontracting certain jobs to other companies. (pg. 53)
   (False)

10. Raising venture capital is a critical step for most successful ventures. (pg. 56)
    (False)

11. Whether a company is successful is largely a matter of luck. (pg. 49)
    (False)

12. To be successful, a company must possess a unique and novel idea. (pg. 49)
    (False)

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13. Secrecy about one's idea is more likely to hurt the development of the business than help it. (pg. 49)
(True)

14. Only the most skilled entrepreneurs should attempt to build a business around social or cultural fads. (pg. 50)
(True)

15. Entrepreneurial companies should consider outsourcing responsibilities and functions that are not critical to the company's success. (pg. 53)
(True)

16. Marginal cost is a term that refers to expenses that are difficult to justify in an entrepreneurial environment. (pg. 53)
(False)

17. Entrepreneurs should always seek to own the resources that they utilize while building a company. (pg. 54)
(False)

18. The two types of startup capital are debt and equity. (pg. 54)
(True)

19. The vast majority of entrepreneurs start their companies with their own personal savings. (pg. 54)
(True)

20. A majority of companies require at least $100,000 to begin operations. (pg. 56)
(False)

21. Investors in small, growing startups typically expect to earn the same rate of return as they would if they invested in a public company that is listed on the New York Stock Exchange. (pg. 56)
(False)

22. It is possible for a company to have a negative cash flow and be profitable. (pg. 57)
(True)

23. Startups that tend to focus on multiple markets are the most successful. (pg. 58)
(False)

24. Having multiple layers of management is the best way to ensure that a startup is flexible and quick to react to changes. (pg. 58)
(False)

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25. If companies A and B are in the same industry, and A has $200,000 in sales per employee while B has $325,000 in sales per employee, then B is the more productive company. (pg. 59)
(True)

26. Generally speaking, entrepreneurs have a stronger need to be in control of their own fate. (pg. 44)
(True)

27. The medium age for founding a company is 41.9 years old. (pg. 46)
(True)

28. For a company that goes public, the founding entrepreneur typically owns a majority of the shares of the corporation. (pg. 57)
(False)

29. For a successful new business, having a grade-A management team is more important than having a grade-A idea. (pg. 48)
(True)

30. The most famous geographic region for high-tech entrepreneurship is in California and often referred to as, “Silicon Valley.” (pg. 44)
(True)

31. Low-tech businesses, such as convenience stores, are not typically considered part of entrepreneurship because of their lack of innovation and intellectual property. (pg.46)
(False)

32. The most costly expense that seed-stage biotechnology companies face in their early years is the initial expenditure on manufacturing equipment. (pg. 57)
(False)

33. The majority of entrepreneurs’ business ideas come from area outside of their present line of employment or experience. (pg. 44)
(False)

34. The Small Business Administration’s Service Core of Retired Executives provides paid assistance to entrepreneurs. (pg. 47)
(False)

35. One difference between having an idea vs. an opportunity is the ability to list potential customers by name. (pg. 50)
(True)

36. On average, US companies make about 11% net income. (pg. 56)
(False)

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37. Two ingredients that determine an entrepreneur's return on investment are (1) the amount invested and (2) the annual amount earned on that investment. (pg. 57)
(True)

Multiple Choice

1. A(n) _____ is someone who perceives an opportunity and creates an organization to pursue it. (pg. 41)
A) manager
B) entrepreneur
C) employee
D) customer
E) supplier

2. Which process includes all the functions, activities, and actions that are part of perceiving opportunities and creating organizations to pursue them? (pg. 41)
A) Management process
B) Entrepreneurial process
C) Human resource management process
D) Customer acquisition process
E) Supply chain management process

3. Locus of control is part of which of the following category of factors in the innovation stage of the entrepreneurial model? (pg. 43)
A) Personal
B) Sociological
C) Environmental
D) Organizational
E) Regulatory

4. Which of the following typically represent the first stage in the entrepreneurial process ? (pg. 43)
A) Implementation
B) Triggering event
C) Innovation
D) Growth
E) Self-doubt

5. Which of the following typically represent the final stage in the entrepreneurial process ? (pg. 43)
A) Implementation
B) Triggering event
C) Innovation
D) Growth

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E) Self-doubt

6. Which of the following could be a "trigger" for the entrepreneurial process? (pgs. 42-44)
A) Being fired by an employer
B) Deep frustration with one's career
C) A conversation with a friend or peer
D) An unexpected financial windfall
E) All of the above

7. Where do most entrepreneurs get the idea for their businesses? (pg. 44)
A) Through brainstorming
B) From mentors
C) From exposure to an industry
D) By reading entrepreneurship books
E) From venture capitalists

8. Which of the following *is not* cited by the chapter as a primary reason that entrepreneurs choose to go into business for themselves? (pgs. 43-44)
A) Fame
B) Innovation
C) Financial success
D) Independence
E) Self-realization

9. Which of the following would be the best explanation for the lack of minority owned businesses in the United States? (pg. 46)
A) Lack of entrepreneurial role models
B) Small market potential for minority owned businesses
C) Lack of business ideas in this population
D) Legal roadblocks to minority ownership
E) Satisfaction with one's present job

10. Which of the following contacts can be critical to the startup phase of a new business? (pg. 47)
A) Potential customers
B) Lawyers
C) Bankers
D) Accountants
E) All of the above

11. The 8-year survival rate for new businesses is: (pg. 48)
A) 1%
B) 12%
C) 25%
D) 41%
E) 73%

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12. What percentage of venture backed companies survive to the five year mark? (pg. 48)
A) 12%
B) 20%
C) 50%
D) 67%
E) 80%

13. Which of the following is not a critical component for a successful new business? (pgs. 42-52)
A) The opportunity
B) The management team
C) The age of the lead entrepreneur
D) The resources available
E) None of the above

14. A good example of entrepreneurial frugality is: (pg. 52)
A) Providing cell phones for all employees
B) Leasing more space than is immediately necessary
C) Purchasing used office equipment and machinery
D) Limiting employees to strict job responsibilities
E) Renting top notch facilities

15. When determining how to allocate scarce resources, an entrepreneur should: (pg. 52)
A) Focus on the company's key success factors
B) Spread resources around to gain experience
C) Focus exclusively on marketing
D) Focus exclusively on technology
E) None of the above

16. For an entrepreneurial company, leasing is better than buying because: (pg. 54)
A) Leasing can lead to more favorable terms
B) Leasing preserves cash by spreading out payments
C) Owning and maintaining property and equipment is rarely a company's specialty
D) All of the above
E) None of the above

17. Which of the following is not a common stage in the financing of new businesses? (pgs. 54-55)
A) Investing personal savings
B) Building sweat equity
C) Private investment by 'angels'
D) Bank debt
E) Initial public offering

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18. When a venture capital firm invests in a company, they typically expect which of the following in return: (pg. 55)
A) Cash
B) Equity
C) Debt
D) A personal guarantee
E) Intellectual property

19. What ratio best reflects the number of companies that begin with venture capital in hand? (pg. 56)
A) 1 in 2 companies
B) 1 in 20 companies
C) 1 in 500 companies
D) 1 in 2000 companies
E) 1 in 10,000 companies

20. What is the average net profit margin for companies in the US? (pg. 56)
A) 1%
B) 5%
C) 25%
D) 50%
E) 90%

21. Investors typically expect an annual rate of return of at least _____, from a growing startup: (pg. 56)
A) 10%
B) 20%
C) 30%
D) 40%
E) 50%

22. The term 'free cash flow' generally refers to: (pg. 57)
A) Money that is raised through grants and donations
B) Debt that requires no initial interest payments
C) Cash that is generated in excess of fund required to sustain operations and purchase assets
D) Capital raised through an initial public offering or other equity financing
E) None of the above

23. Which of the following is not one of the Nine Fs of Entrepreneurial Success? (pg. 58)
A) Focused
B) Frugal
C) Flexible
D) Frenetic
E) Fun

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24. Which of the following is not one of the 10 Ds of Successful Entrepreneurs? (pg. 45)
A) Driven
B) Details
C) Dedicated
D) Distribute
E) Dream

25. In entrepreneurship, luck is where _____ and opportunity meet. (pg. 49)
A) Intelligence
B) Fortune
C) Strategy
D) Focus
E) Preparation

26. Which of the following is not a characteristic of most entrepreneurial ideas? (pg. 49)
A) They are unique
B) They offer improved performance
C) They offer lower pricing
D) They offer higher quality
E) They offer better service

27. The best would-be entrepreneur would have the following experience: (pgs. 51-52)
A) Working consistently at one company
B) Significant industry know-how
C) Managing multiple employees
D) Work in numerous industries
E) Strong relationships with managers

28. Commonly outsourced responsibilities include all of the following except: (pg. 53)
A) Payroll
B) Accounting
C) Legal work
D) Customer service
E) Janitorial Services

29. The situation that arises when an entrepreneur is reliant on his or her company for a salary and has most of his or her personal net worth tied up in the company is called: (pg. 56)
A) Sweat equity
B) Venture capital
C) Double jeopardy
D) Factoring
E) Locus of control

30. A $150,000 dollar investment in a company that yielded a $30,000 dividend in the first year would have achieved which of the following returns on investment? (pg. 56)
A) 2%

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B) 5%
C) 15%
D) 20%
E) 30%

31. Which of the following is not one of the global conditions increasing the rate of change in business? (pg. 58)
A) Managerial specialization and layering.
B) The industrial sector's reliance on advanced knowledge.
C) Advancements in communications.
D) Changes in government regulations.
E) All of the above

32. Approximately 50% of Inc. 500 companies make a net profit margin of … (pg. 56)
A) 16% or more
B) 15%
C) 5% or less
D) 13%
E) 10% or less

33. Often start-ups can reduce overhead by using outside firms for… (pg. 53)
A) Payroll
B) Accounting
C) Advertising
D) All of the above
E) None of the above

34. To reduce the cost of office space you may be able to convince a landlord to… (pg. 54)
A) Reduce rent
B) Defer rent payments for a period of time
C) Allow subletting of unused space
D) B and C
E) A and B

35. The factors that give birth to a new enterprise and influence its development can be categorized as (pg. 43)
A) Innovation, Triggering, Environmental, Growth
B) Sociological, Environmental, Innovation, Personal
C) Personal, Sociological, Organizational, Environmental
D) Innovation, Triggering Event, Implementation, Growth
E) Personal, External, Internal, Sociological

36. Sixty-one percent of companies on the 2013 list of companies founded by CEOs included in the *Inc.* 500 were started with? (pg. 56)
A) Less than $10,000
B) Less than $5,000

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C) More than $15,000
D) More than $20,000
E) More than $50,000

Open Ended

1. Give several examples of triggering events that give birth to a new organization. (pg. 43)
   - Job dissatisfaction
   - Loss of job
   - Dissatisfaction with current level of income
   - Desire to be independent

2. What are the stages described in the model of the entrepreneurial process? What are the factors that give birth to a new enterprise and influence how it develops from an idea to a viable enterprise? (pg. 43)
   - Stages: innovation => triggering event => implementation => growth
   - Factors: personal, sociological, organizational, and environmental

3. What are some of the sociological reasons that starting a company becomes more risky or difficult as people grow older? (pgs. 46-47)
   - When one has been in an industry a long time, that person knows so many pitfalls that he or she may become pessimistic about the chance of success of any new venture.
   - Young people, on the contrary, are usually optimistic about future and have the energy to implement their ideas, regardless of the current conditions.
   - A beginner's mind looks at situations from a new perspective.

4. What contacts will you need as an entrepreneur? (pg. 47)
   - Customers
   - Suppliers
   - Investors
   - Bankers
   - Accountants
   - Lawyers

5. Explain the rationale behind the statement, “A first class team with a second class idea is better than a second class team with a first class idea.” (pgs. 48-49)
   - If you have identified an excellent opportunity but your team lacks the experience to implement it, you will not be able to fulfill the idea’s potential.
   - The crucial ingredients for entrepreneurial success are: a superb entrepreneur with a first-rate management team and an excellent market opportunity.
   - Entrepreneurship is not a matter of luck, but of an ability to combine one’s experience with one’s knowledge and to bring an idea to life.

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6. Why do you suppose the authors say that in entrepreneurship, "Ideas are a dime a dozen,"? What does this statement imply about an idea's importance to a successful business? (pg. 49)

- Almost any idea that a would-be entrepreneur might have has also occurred to others.
- A good idea in itself is not guaranteed to become a profitable venture.
- Developing the idea, implementing it, and building a business are the important aspects of entrepreneurship.

7. Explain the benefits and drawbacks of debt and equity financing, respectively. (pgs. 54-56)

- Debt does not require an entrepreneur to give up any ownership stake in the business. However, debt does require the business to pay current interest and eventually repay the principal.
- Equity financing compels the founder to relinquish a portion of ownership in the business, but does not demand repayment or even a dividend.

8. Describe the likely progression of financing for a startup that achieves an IPO. (pgs. 54-55)

- The entrepreneurs develop a prototype with personal savings, contributions from friends and family, and sweat equity.
- Then a wealthy investor invests some personal money in return for equity.
- After the company begins generating revenue, it may be able to secure a bank line of credit by leveraging its inventory and accounts receivable.
- If the company is growing quickly in a large market, it may be able to raise capital from a formal venture capital firm in return for equity.
- Further expansion capital may come from additional rounds of venture capital founding or from a public stock offering.

9. What is 'free cash flow' and why is it such a critical factor for a growing business? (pg. 57)

- The ability to generate a positive free cash flow indicates that the business can sustain its operations and purchase the assets necessary to keep the company on its growth trajectory.
- If a venture does not generate enough cash to sustain its growth, it may self-destruct.
- The inability to generate free cash flow forces a firm to either dive more deeply into debt or dilute the owner's share in the venture in order for the business to finance further growth.

10. The three crucial components of a successful venture are the opportunity, the entrepreneur/management team, and the resources needed to start the company. Explain the interrelation of these items. (pgs. 47-49)

- The crucial driving force of any new venture is the lead entrepreneur and the founding management team.
- In entrepreneurship, success is a question of recognizing a good opportunity and having the skills to convert that opportunity into a thriving business.
- The ability to find the necessary resources and to use them efficiently is the metaphoric chain linking the entrepreneur and the opportunity.

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11. How do salary and return on investment, for the founding entrepreneur, factor into the regular operations of a startup? (pg. 56)

- A wage expenses for the founder and any family members working for the business should be considered in profitability calculations, regardless of whether or not cash has actually been paid to them.
- Any salary earned but not paid out by the business should be recorded as deferred compensation to be paid at a later date.
- The entrepreneur's investment in the business should earn a reasonable return to be paid as a dividend, or as capital gains, when the business is sold.

12. Discuss some issues around being secretive about your business idea (pg. 49)

- It complicates evaluating the idea for lack of others input
- It can prevent a poor idea from being abandoned before it absorbs too many resources
- It can let an excellent idea die for the entrepreneurs lack of confidence
- The idea itself is less critical than the ability to execute on it.

13. How can an entrepreneur's location improve chances for success? (pgs. 44-45)

- Locating in a hotbed of entrepreneurial activity can make role models more accessible, and lower barriers to starting.
- Places like Silicon Valley for tech start-ups have a high concentration of needed resources for high-potential start-ups, from money to talent.
- Institutions like MIT and Babson College generate many entrepreneurs. So many so that whereas other schools have entrepreneurship clubs, these schools effectively are giant entrepreneurship clubs.

14. Discuss the impact that greater family responsibilities may have on the decision to become an entrepreneur. (pg. 46)

- Clearly the risk is higher in terms of the financial and personal costs
- Such entrepreneurs may wish to spend more time preparing themselves financially to go without income for some time
- Entrepreneurs may choose to start a venture on the side, confirm the existence of a market and initial viable business model, before putting more time and effort into the company.
- Entrepreneurs may choose to start companies with different business models, such as online companies, that enable them flexible work locations.

15. Describe the importance of identifying how much start-up capital you will need to reach a positive cash flow. (pgs. 54-56)

- Without an understand of an initial figure, and the key drivers of the figure, an entrepreneur risks failure by running out of money, or by giving away too much equity to raise funds and thereby failing to achieve a sufficient return on investment.
- New ventures must have the resources need to growth fast enough to a position where it can sustain itself on its own cash flow from operations. Insufficient cash early on could do irreparable damage a venture likelihood of success.

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16. Discuss the importance of an entrepreneur calculating the sales revenue needed to ultimately generate an equivalent income level to their current job. (pg. 47)

- Generally, the annual sales revenue of a new business must be quite significant if an entrepreneur expects to make an equivalent income level at their current job. For example, if an entrepreneur wishes to make $70,000 plus benefits then the annual sales revenue of a new business will need to be at least $750,000.
- In addition, an entrepreneur will often be working much longer hours and bear much more responsibility in self-employment.

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