Entrepreneurial Small Business 5th edition Katz Solutions Manual

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CHAPTER 2: SMALL BUSINESS ENTREPRENEURS: CHARACTERISTICS AND COMPETENCIES

Chapter Summary

This chapter explores entrepreneurial personalities and the career paths entrepreneurs may take. The competencies need to succeed are discussed along with the different levels of professionalism small businesses may chose. Focus is given to three types of entrepreneurs that face special challenges: the family business, women- and minority-owned businesses and late or second career entrepreneurs.

Learning Objectives

After studying this chapter, the student should be able to:

1. Recognize the key aspects of entrepreneurial personality.
2. Assess the operational competencies of the successful entrepreneur.
3. Recognize the stages of development entrepreneurs and their firms go through.
4. Recognize the special nature of entrepreneurial teams.
5. Describe the challenges of family businesses.
6. Identify the challenges women and minority business owners face.
7. Describe the situation of people who become business owners later in life.

Focus on Small Business:
Internet Entrepreneur, Laura Tidwell

A divorced, single mother at 18, Laura Tidwell knew she needed a business that would allow her to stay at home, earn a decent living and raise her daughter. Self-taught in the area of Internet advertising, she acquired big name clients such as Encyclopedia Britannica and Thomas Register by offering to do their online advertising buying for free for a period of time. If they were satisfied – and they were – they would become her clients.

Discussion Questions

1. **Why did Laura Tidwell decide to become an entrepreneur?**
   Using the rewards mentioned in Chapter 1, Laura was interested in flexibility and income rewards. The flexibility could be seen in her desire to work but also have time to raise her daughter. The idea of earning a "decent living" reflects the income sort of reward. Students might also see growth rewards in Laura's desire to grow into an expert in advertising.

2. **What skills did she develop to become a successful entrepreneur?**
   Laura developed technical skills in web design. She also developed people or networking skills through her building contacts through trade shows and

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industry associations. This also gave her knowledge about the industry (or market) into which she was entering. Given she was able to convince Encyclopedia Britannica and Thomas Register to give her a try, she must also have developed some very good selling skills along the way.

3. **What opportunities did Laura find and pursue?**
Laura found opportunities everywhere, from the dance partner who introduced her to the idea of the Internet, to developing contacts (and eventually business opportunities) through her involvement in trade shows and industry associations. She also used her initial knowledge to get a job in an Internet start-up to gain direct experience in an industry and a view of what an entrepreneurial small business looked like in operation.

Extended Chapter Outline

Note: Key terms are in boldface.

Objective 1: Recognize the key aspects of entrepreneurial personality

> **Teaching tool:** Collect a number of articles profiling entrepreneurs and small business people. *Entrepreneur Magazine*, *Inc. Magazine* or the business section of your local newspaper are good sources (or their Websites). Have students look for clues of how they exhibit these characteristics.

- Laura Tidwell in the opening vignette exhibited three traits of entrepreneurs previously discussed: self-belief, getting help and perseverance.
    - This view of herself and her world, called **cognition** was ultimately converted into **actions.**

- There is no single profile of entrepreneurial behavior of entrepreneurial type.
    - We have already looked at:
        - Opportunity-driven and necessity-driven types;
        - Corporate, social and independent focuses; and
        - The four types of growth strategies they may pursue.
    - There are many others ways – just like there are many types of entrepreneur.

- Most successful entrepreneurs exhibit these five aspects of behavior – the 5 P's
    - **Passion**
        - Comes from active involvement.
        - Benefits include increasing commitment to the business and perseverance.
        - Passion is displayed:
            - Looking at challenges creatively
            - Persistent focus on the business
            - Absorption in the tasks and concerns of the business

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- **Perseverance**
  - It's not only trying again as discussed in the first chapter, but thinking about what went wrong and making adjustments.
  - Learned optimism: knowing you can and will keep at this until you've mastered it.
  - Versus perseveration: a problem behavior of trying over and over without learning.
- Promotion/Prevention Focus:
  - Comes from two internal focuses:
    - **Promotion focus**: attention to maximizing gain.
    - **Prevention focus:** attention to minimizing loss.
  - These must be balanced.
  - Planning helps, but these also come into play when making decision.
- Planning style comes in five variations
  - **Comprehensive planners** who take the long view, are comfortable with planning and act based upon their plans.
  - **Critical-point planners** who plan around the most important aspect of the business and only consider other planning later.
  - **Opportunistic planners** start with a goal and look for opportunities and then act on them – even if they aren't a close fit with their original goal.
  - **Reactive planners** are passive and react only to external cues.
  - **Habit-based planners** are dictated by routine and rarely plan.

Small Business Insight: J. J. Rosen and Atiba Software and Consulting
J.J. came up with an idea from his first job as a child support coordinator. To realize this idea, he needed to teach himself computer programming. J.J. is a good example of an idea person.

This is also an opportunity to point out that entrepreneurial ideas may lead people into "learning opportunities."

- **Professionalization** is doing something better than the **standard business practice.**
  - **Expert business professionalization** is when most aspects meet or exceed industry standards.
  - **Specialized business professionalization** is when one or two aspects of the business are at this level.
  - **Minimalized business professionalization** is when none of the business can attain standard.
  - These traits are important for entrepreneurs, but also for business professionals of all types.

Skills Module 2.1: Entrepreneurial Personality Overview
A short survey helps students discover which of these traits they may have.

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Teaching tool: Use your clipping file or sources of entrepreneurial articles (like those mentioned in the previous Teaching Tool) for articles about small businesses that illustrate the three levels of professionalization or a critical incident that forced a business to move to a different level.

Have students consider the businesses they operate or hope to operate. What level of professionalization do they/should they have? One error students may assume is that the "best" answer is the highest level. This may not be necessarily true for a particular business and, indeed, too expensive for many, especially during start-up.

Objective 2: Assess the operational competencies of the successful entrepreneur.

- There are six areas of knowledge or **competencies** that successful entrepreneurs need to have:

Skills Module 2.2: Competency Self Assessment

This exercise leads the student through the five key areas in which he/she should have some expertise in order to be a successful entrepreneur. (Areas are discussed further below.)

Have the students check their results a couple times throughout the semester. Have they made any progress? Have them write up an action plan to strengthen the weaker areas. Pair them up with other students to get their feedback.

  - **Key Business Functions** of understanding sales, operations, accounting, finance and human resources are important for managing the business.
  - **Industry Specific Knowledge** covers things like industry expertise and skill, market knowledge and the ability to diagnose and see opportunities.
  - **Resource Competencies** include business information and financing, a space to locate your business, raw materials and support people.
  - **Determination Competencies** are having the business as your primary focus and being willing to act.
  - **Opportunity Competencies** mean that you have found an idea that is profitable, distinctive and hard to copy.

Objective 3: Recognize the stages of development entrepreneurs and their firms go through.

- Every business goes through a series of developmental phases known as the **business life cycle**.
  - Several models exist but all describe the same general ideas:
    - There are multiple stages;

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        - The key issues, actions and lessons at each stage are different from the other stages; and
        - The level of risk the business faces changes from stage to stage.

- Most small businesses go through emergence, existence, success, and resource maturity.
    - **Emergence** is the process of thinking about starting a business. Two tools to help include:
        - BRIE discussed in Chapter 1; and
        - Starting off part time as will be discussed in Chapter 5
        - Existence means that the business has just started but has not achieved stability in markets, operations, or finances.
    - **Existence** is the second riskiest period after emergence.
        - This is due to **liabilities of newness**, or lacking information or experience in marketing, production or management.
        - Getting expertise as soon as possible can take too long.
        - Getting help from others by establishing a social network can help.
    - Success is the point where the firm now has relatively stable markets and operations.
        - Success firms have growing financial performance, usually with slowly rising sales.
        - While profits are growing, these profits are not only taken in the form of money, but time off work and other ways to make the owner's life easier.
        - These extra profits are known as **slack resources**, because they could be re-channeled into the business if needed.
    - **Resource maturity** follows success in most small businesses.
        - Sales and profits are stable and all functions of the business perform consistently and efficiently.
        - The challenge is to avoid complacency.
        - Complacency can be avoided by:
            - Recency – be among those they've seen in the last few days.
            - Frequency – stay in touch on a regular basis.
            - Potency – remind them of your firm's values.
            - Recommendation – be the expert your customers seek for advice.
    - One deviation from the business life cycle that occurs for a few firms is when success is followed by **take-off** rather than resource maturity.
        - This occurs from an unexpectedly large contract, expanding into multiple locations of just being in the right place at the right time.
        - Being in control on such rapid growth can be problematic, especially if unexpected.
        - Demands increase of financial needs and other key resources as well.

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- Outsourcing is a good option for easing the growth pains.

Small Business Insight: Success = Opportunity + Danger

Stuff-a-Pumpkin was a good example of the right idea at the right time, but the owner struggled with getting the financing he needed and pirating of his idea.

Sometimes success can be too much of a good thing. As discussed earlier, many entrepreneurs seek to keep their businesses small and manageable, partially to avoid the potential problems success might bring.

- The lesson of the business life cycle is that there is some predictability in the stages your firm will encounter and the issues you will face.
- Entrepreneurs can be identified by sociological characteristics, too, particularity the social group to which they belong: family, gender, race, nationality, religion, age and other sorts.
  - Some of these offer the entrepreneur special protection under the law.
  - Others, while not offering protection, are still powerful influences on entrepreneurs.

Objective 4: Recognize the special nature of entrepreneurial teams

Small Business Insight: Managing Idea Ownership on a Team

A person with an idea took on two team members to help develop the idea. When the first person decided to put it on the back burner for a while, the other two continued to pursue it, leading to a confrontation about who the idea belong to.

Tips are given on how to resolve and avoid such problems.

- A majority of all businesses have a team of two or more co-owners.
  - These are frequently family teams.
    - Spouses and life partners make up 53% of the teams while another 18% are with other family members.
    - Family teams have the advantage from knowing and trusting one another.
  - Teams face certain issues which should be worked out ahead of time:
    - Partners may differ in terms of money or time supplied.
    - Partners may differ on outcomes expected
    - Joint decision making may pose problems especially if each has equal weight.
  - In picking teams, it's often better to pick others passionate about the idea.
    - This provides stronger o**rganizational culture.**
  - Entrepreneurial culture includes:
    - Passion for the mission.

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- Passion for the team.
- Passion for the customer.
- Passion for innovation.
- Passion for fairness.

Objective 5: Describe the challenges of family business owners

- Fully one-third of the S&P 500 companies are **family businesses**. Family businesses make up over half of the businesses in the United States as well and employ 58% of America's workforce.

- Family businesses have many advantages:
  - Communication can be more effective.
  - Decision making may be easier and quicker.
  - Strong family bonds may lead to strong corporate culture.
  - The pre-established family relationship carries over into the workplace.
  - Families are often the first source for business capital.
  - Entrepreneurial parents often serve as the first entrepreneurship teachers for their children, who often go on to become entrepreneurs themselves.

Small Business Insight: Two Paths to the Family Business

Victoria Ross grew up waiting tables in her family's Ross' Teal Lake Lodge and worked her way up the ranks.

Jamee Enstrom Simons worked in her family's Enstrom's Almond Toffee shop as a child, but left to pursue a nursing career. Later, when her parents wanted to sell, she and her husband purchased the business.

In both cases, the entrepreneurs got both experience and opportunity by being from an entrepreneurial family – a case that often occurs.

Ask students if they feel company from a family of entrepreneurs helps or is a hindrance to becoming an entrepreneur. It certainly is a learning opportunity and a chance to inherit, but sometimes the negatives – family expectations, succession issues, feelings of inequity, etc. – can be a detriment.

- Family businesses have two major challenges.
  - **Role conflict** occurs when family issues bleed into the workplace and vice versa. This can be resolved by setting boundaries and clear expectations about what is allowed and not allowed.
    - Role conflict also leads to shortage of time.
    - The following collection of **time management** skills can help meet this overload.
      - ✓ List your to-do tasks.

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- ✓ 123 Prioritize them, ranking the most important as 1 and the least as 3.
- ✓ Delegate whatever can be delegated.
- ✓ Repeat your prioritization several times a day.
- ✓ Strategize by looking over those things you failed to do. Are these criical items?

Small Business Insight: Boyd Coffee

David Boyd succeeded his father only to be replaced several years later by his brother, Dick. This forced demotion caused friction and hard feelings within the family and within the workplace. Only after a near dissolution of the business did Dick and David work through reconciliation. One of the first things they instituted was a succession plan so their children did not have to face the same issues they did.

Continuing with the question posed in the previous *Small Business Insight,* here is an example of the detriments – friction, succession issues, etc. – leading the next generation to make improvements (a learning opportunity).

- **Succession** issues are the second problem faced by small businesses.
  - Only one-third of all small family businesses survive beyond the first generation.
  - Often this may be the case of a founder refusing to let go, or appointing a new manager, but then interfering and undermining him/her.
  - Founders get suddenly ill, become incapacitated or die leaving no clear-cut succession plan and a family member is thrust into the position with little or no preparation.
  - In other cases, the loss of the founder causes dissension between family members competing for the top position or taking sides on who they'd like to see in that position.
  - A professional succession plan is the best solution.
    - This plan identifies who will take over.
    - It sets up the necessary training for the successor.
    - Problems rise where there are no family members to take over.
    - A good plan will also handle the assets so as to minimize the tax burden on the family and firm.
  - There are solutions:
    - Family councils maximize communication prior to and during the succession process and other family business issues.
    - Advisory boards, with outside members, can also aid in the transition process and bring skills to assist the successor.
    - A special succession problem – a weakness of the family team – occurs when a married couple owns a business and divorces.

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Objective 6: Identify the challenges women and minority business owners face

- Women and minority owned businesses are the fastest growing segment of small businesses. While they tend to account for much less revenue, there are several good reasons:
  - This is partially explained by the sorts of businesses they are likely to start.
  - Additionally, they are less motivated in money than by flexibility.
  - Minority-owned businesses are growing at the highest rate.

- Despite the growth, these businesses face access issues.
  - Access problem occur in not hearing about and being able to bid on jobs; this access problem is not so much discrimination as a lack of the same sort of network of contacts that firms with white, male owners have established.
  - A second access problem is in the discrimination in the availability of financing; minority business loan applicants experience higher rejection rates and often pay higher interest rates.

- There are two solutions for access issues:
  - There are **set asides** which are funds or a percentage of projects earmarked for women or minority businesses.

Teaching tip: In summer of 2005, the Missouri and Illinois state governments budgeted $240 million for a new bridge across the Mississippi at Saint Louis. 22% of this money was to be allotted to women and minority owned businesses.

    - Set asides may require **certification** as a woman- or minority-owned business.
    - Set asides require extensive paperwork and this cost must be balanced with the potential profits of the job.
- Women- and minority-owned businesses need to be diligent about establishing networks – both among other women- and minority-owned businesses and with the more traditional small business owners.

Objective 7: Describe the situation of people who become business owners later in life.

- **Second career entrepreneurs** begin their entrepreneurial careers after leaving, retiring, or resigning from other jobs.
  - Early or forced retirements often spur this entrepreneurial career.
  - Downsized or laid-off employees are another source of these entrepreneurs.
  - Others leave the armed forces or other industry.

- Second career entrepreneurs face three main problems:

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- These people often have difficulty adjusting to entrepreneurial life.
  - They are used to having others handle many of the "little" day-to-day jobs – paperwork, cleaning, answering telephones, etc.
  - They now must take on some of these tasks and may not know how to do it.
  - There are two aids to this problem:
    - ✓ Ask advice from SBA, SCORE or via networking.
    - ✓ Figure out what jobs you really don't want to do and outsource, subcontract or hire someone to do it.
- Second career entreprenuers are likely to mix personal and business finances.
  - Lump-sum financial settlements received are tempting to use as business capital, however there's the risk that you'll lose your retirement nest egg.
  - Treat this as an outside investment and only use this money if the numbers justify it.
- Second career entrepreneurs may face loss of confidence, depending on how they ended up facing a second career.
  - This is particularly true if fired, downsized or forced into retirement.
  - There are also two aids to this problem:
    - ✓ Take some time to adjust to this change in your life, seeking counseling if necessary. Look at this as a new beginning rather than an end.
    - ✓ Networking also helps here as there are lots of other late career entrepreneurs out there who have faced the same problem.

Small Business Insight: Donna Herrle

Donna successfully used networking to establish her late career Drawing Conclusions graphic design business.

Key Terms

Action: the visible behavior a person takes.

Business life cycle: the sequence or pattern of developmental stages any business goes through during its life span.

Certification: an examination based acknowledgement that the firm is owned and operated as specified.

Cognition: a person's way of perceiving and thinking about their experience.

Competencies: forms of business related expertise.

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Comprehensive planner: Entrepreneurs who develop long-range plans for all aspects of the business.

Critical-point planner: Entrepreneurs who develop plans focused on the most important aspect of the business first.

Determination competencies: skills identified with the energy and focus needed to bring a business into existence.

Emergence: the first step of the small business life cycle where the entrepreneur moves from thinking about starting a business to actually doing it.

Existence: the second step of the small business life cycle marked by the business being in operation but not yet stable in terms of market, operations or finances.

Expert business professionalization: a situation that occurs when all the major functions of the firm are conducted according to standard business practices of the industry.

Family business: a firm in which one family owns a majority stake and is involved in the daily management of the business.

Habit-based planner: Entrepreneurs who do not plan preferring to let all action be dictated by their routines.

Industry specific knowledge: activities, knowledge and skills specific to businesses in a particular industry.

Key business functions: activities common to all businesses such as sales, operations (also called production), accounting, finance, and human resources.

Liability of newness: the set of risks faced by firms early in their life cycles that come from a lack of knowledge, by the owners about the business they are in and by customers about the new business.

Minimalized business professionalization: a situation that occurs when the entrepreneur does nearly everything in the simplest way possible.

Opportunistic planner: entrepreneurs who start with a goal instead of a plan and look for opportunities to achieve it.

Opportunity competencies: skills necessary to identify and exploit elements of the business environment that can lead to a profitable and sustainable business.

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Organizational culture: a set of shared beliefs, basic assumptions, or a common accepted way of dealing with problems and challenges within a company that demonstrate how the get things done.

Passion: an intense positive feeling an entrepreneur has toward the business of the idea behind the business.

Perseverance: the ability to stick with some activity even when it takes a long time and its outcome is not immediately known.

Prevention focus: An entrepreneur's attention to minimizing losses, with a bias toward inaction or protective action to prevent loss.

Professionalization: the extent to which a firm meets or exceeds the standard business practices for that industry.

Promotion focus: an entrepreneur's attention to maximizing gains and pursuing opportunities likely to lead to gains.

Reactive planner: Entrepreneurs with a passive approach, who wait for cues from the environment to determine what actions to take.

Resource competencies: The ability or skill of the entrepreneur at finding expendable components necessary to the operation of the business such as time, information, location, financing, raw materials and expertise.

Resource maturity stage: The resource maturity stage is the most typical fourth state of the small business life cycle. It is characterized by relatively stable or slowly rising sales and profits over several years. In a firm that has a take-off stage following the success stage, the resource maturity stage occurs after take-off.

Role conflict: the kind of problem that arises when people hold multiple responsibilities, such as parent and boss, and these make different demands.

Second career entrepreneurs: people who begin their businesses after having left, retired, or resigned from work. These can include veterans of the armed forces and civilians from a broad range of businesses.

Set asides: government contracting funds which are earmarked for particular kinds of firms, such as small businesses, minority-owned firms, women-owned firms, etc.

Slack resources: profits that are available to be used to satisfy the preferences of the owner in how the business is run.

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Specialized business professionalization: a situation that occurs when businesses have founders or owners who are passionate about one or two of the key business functions, such as sales, operations, accounting, finance, or human resources.

Standard business practice: a business action that has been widely adopted within an industry or occupation.

Success: the third step of the small business life cycle where the firm is established in its market, operation and finance.

Succession: the process of intergenerational transfer of a business.

Take-off: this stage occurs after the success stage for a small percentage of businesses. It is characterized by rapid growth (5–10 percent a month or more). When this growth levels off, the firm enters the resource maturity stage.

Time management: the organizing process to help make the most efficient use of the day.

Discussion Questions

NOTE: many questions allow for a number of different answers. Below are some suggestions

1. **What are the different aspects of entrepreneurial personality?**

   Passion, perseverance, promotion/prevention focus, planning style, professionalization.

2. **What would be the likely impact on a start-up if the entrepreneur had a strong promotion focus and a weak prevention focus?**

   This person would be likely to jump at every opportunity without considering the cost. While the pursuit of opportunities has the chance of great riches, not considering the cost could lead as quickly to bankruptcy.

3. **Could someone with good industry specific knowledge but low competency in basic business skills be successful as an entrepreneur in that industry? Why or why not?**

   They could be successful if they take steps to get the basic business skills they need. This could come from taking a partner with the needed business skills, hiring or subcontracting for the skills necessary, or even learning the skills on their own. In fact, they might combine these, having others perform the skills as they start out, and as they learn how it is done, take it over themselves.

   For the using others' skills approach to work, the entrepreneur needs to know

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what skills are necessary and what skills they lack. This usually requires getting some expert opinion from people outside the business, such as SCORE, SBDC, or paid professional consultants.

Why could this work? The key in a business is for the firm to have the requisite skills. Any individual entrepreneur is not required to personally have all the necessary skills, but to be successful, the firm needs to cover all the major types of work that needs to be done.

While the industry knowledge and contacts might mean that the firm can get the right products or services for the market, and sell to that market through a network of acquaintances and industry contacts the business is less likely to make profits. This is because lacking knowledge of how business should operate, the firm is likely to spend more on fixing problems, or on doing business activities in a less efficient way.

4. **When does it make sense to create a business using a minimalized approach to professionalization? Why is that so?**

   If you are running a business over a very short run (e.g. a weekend, a concert, etc.) just doing enough to get the business operating as quickly as possible is central. When there is a small window of opportunity to make sales, you do not want to spend a lot of time setting up the business. You want to go as directly as possible into making sales.

   In general, if the business is unlikely to make a lot of money, it might not make sense to spend a lot of time, energy or money creating or running a professionalized business.

   Similarly, if getting sales does not require making your customers feel a high level of confidence in your business (for example, they are buying a known brand, like Coke from your stand), having a very minimalized business is not necessarily a problem, since the brand will carry enough credibility to satisfy most customers.

5. **What are the stages of the small business life cycle? What stage do high-growth ventures go through that other forms of small business do not?**

   The stages are emergence, existence, success, takeoff and resource maturity. High growth ventures go through a stage called takeoff, which other forms of small business do not.

6. **What are the strengths and weaknesses of a team?**

   A team can get more work done than an individual, and often more than a group of individuals working without coordination. Teams benefit from situations where trust simplifies the work which needs to be done. Married teams can share family

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resources to let them work cheaper in the short run than teams of unrelated people.

The weaknesses of teams come from situations that negate the advantages. The biggest one is where the team spends time fighting among themselves, or a team lets one or more members slack off.

7. What is the major challenge facing woman and minority owned firms? How can this be solved?

The key problem noted in the book is access – to markets, opportunities and financing. Access means that minority- or women-owned firms are not informed about or do not get the chance to participate in business activities in their target markets.

There are two types of solutions. A macro or institutional solution comes from US government programs called set asides in which a portion of government procurement or contracting funds are specifically allocated (or set aside) for firms certified as minority-owned or woman-owned. Following the government lead, many big businesses also have set-aside programs. Also, businesses contracting with the government are obligated to have set-aside programs too.

The second solution involves networking by the business, not only among other minority or women owned firms, but in the larger local economy – industry and trade associations, chambers of commerce, etc.. In these settings, the minority or woman entrepreneur might feel less comfortable, and less representative, but success comes from having a diverse set of contacts, and this means networking in the larger community.

8. What make the situation of the second career entrepreneur problematic? What can they do to smooth their way?

Second career entrepreneurs face three challenges - adjusting to the entrepreneurial life, re-establishing self-confidence, and keeping personal finances out of the business.

In adjusting to the entrepreneurial life the problem is getting used to having responsibility for getting everything done. They need to get advice from people in their line of business, or from consultants about the basic activities of the small business, and make sure they are all covered. If something is particularly hard or onerous, subcontract it to others.

The problem of self-confidence comes if the person feels they "lost" their job. Focusing on the positive – the chance to do things their own way, to start over in another location or industry, can help refocus attention toward positives. Networking with other entrepreneurs can help through the opportunity to see and

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share the energy and enthusiasm common to the self-employed.

Keeping finances separate hinges on limiting how much of a severance or retirement package is used for the new business. A good business idea should be able to get funding from family or friends. If the idea can only be funded by the individual, it is important to be very careful in limiting financial exposure until the business has proven itself in terms of sales. In short treat your own business as if it were someone else's – be objective.

Experiential Exercises

1. **Which of the aspects of the entrepreneurial personality fit you the best? Be ready to explain why you made this choice.**

   This exercise places a premium on self-awareness and willingness to disclose. In every class there are a few students who are quite willing to give their self-analysis. Let them start. You can then ask which other folks felt that was "their" strength, and ask those who raise their hands for some examples from their lives that point up this personality aspect in practice. It generally works better to ask for behaviors or episodes from life (it does not have to be work related), than to try and get examples that talk about personality itself.

2. **Which entrepreneurial competencies to you possess? Be ready to provide examples and explain why you made this choice. You can use the result of Skill Module 2.2 to aid you in this.**

   The process for this exercise can follow that from Experiential Exercise 1 above. Start with the students who are willing to speak up, in order to get the ball rolling, and have others join in. Think about building a list of activities that help develop, build or test skills. Ask people where they got lessons on how to master the competencies they needed. Also ask for people who did not have a particular competency, how they did (or might) compensate.

   The key use of the competency list is to get students to think about what kinds of skills they need to be successful. Help remind them that the firm needs the skills – not them personally. A lot of being a good entrepreneur is taking responsibility to make sure the necessary work of the business gets done. Competencies tell you what that work needs to entail. Whether you do it yourself, outsource it, or have employees do it, as long as it is done, and done well enough, everything is fine

3. **Pick small businesses with which others in the class are familiar and analyze what level of professionalization they display. Be ready to explain the basis for your classification.**

   This exercise works best with a couple of different types of businesses. Virtually all medical offices are highly professionalized. But so are small franchised

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operations such as Play It Again Sports, Subway and others.

Specialized businesses are often seen where the owner displays a true passion for one aspect of the business. Gourmet or specialty restaurants (bar-b-q restaurants are notorious for this) and bars specializing in music or the latest scene are popular examples of specialized firms. When one aspect of the business seems far ahead of everything else, that is a likely candidate for a specialized business. In these cases, it is worth getting the students to explore what needs to happen to get the rest of the business strong enough for the whole operation to survive.

Minimalized businesses are often all around, but often hard to see because we take them for granted. The individual selling newspaper morning on a street corner, the person who comes around sharpening knives or selling firewood from the back of a truck, the woman who takes in sewing or laundry – these are often businesses run in a minimalized way. A one-time eBay seller is another popular example. In these kinds of situations, it is worth evaluating if the minimalized approach makes sense. Sometimes it does because the stakes are low or the time is short. For folks who plan to repeat their work, minimalized approaches have inefficiencies that rapidly make the business untenable or marginal. See if the students can imagine a few simple fixes to help make a minimalized business more successful or stable.

4. **Select a local family business owner or female or minority entrepreneur whom you admire and research the person's business and professional background. Interview this person if possible. What particular challenges were faced? What competencies were used to overcome them?**

This exercise can become a source of inspiration for the students and the class. It also can help the students to begin networking with accomplished entrepreneurs in the locality. Instructors get divided over whether it is ok to let students interview their parents (if they qualify) for this. It depends on your faith in the student actually doing the interview, and your faith that their relationship is a good one. When everything works out right, students discover a whole different side of their parents, since these issues are not typical discussions around the dinner table.

As noted above, one interesting challenge for the brave of heart is to get people thinking about the locally famous family/minority/women entrepreneurs and see if someone is willing to seek an interview from those people. It is often amazing to the students how accessible many of these people are. By the way, if someone has the nerve, ask the class as a whole if they know the individual, or know someone who does – the "six degrees of freedom" idea. It might be possible to get the student a personal introduction to the famous entrepreneur.

In Chapter 1 students were asking about reasons for entry. In this case, students are asking about the problems the entrepreneur (or at the time, prospective

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entrepreneur) faced, and how these challenges were met. Most entrepreneurs have talked about this before, so the student should be prepared to ask questions to determine which competencies were in play. It is fine to share the list of competencies with the entrepreneur and see their reaction and thoughts about the different skills and the role these played (if any) – after the story is told and the interview is done.

As in Chapter 1, before you send the students out, decide (and tell them) what information you want from them when they report back to the class – which competencies, the exact form of the competency used that the entrepreneur mentions, etc.

CRITICAL THINKING EXERCISES

Learning Objective 1

1. *Hobart, Harry, Henry, Herman and Howard all have been in business for a number of years. One Saturday, while their children play soccer, they discuss what traits they have that they think makes them a great entrepreneur.*

   Hobart says, "I'd run this business even if I didn't make a dime. I LOVE doing it. I wake up thinking about it and sleep at night dreaming about it."

   Harry speaks next. "I'm forever examining what I'm doing and learning from it. If something doesn't work, I figure out what I might do better the next time – and do it. I truly think there is nothing I can't figure out if I keep trying."

   Henry remarks, "That trying again and again might work for some of you, but I really prefer having a road map. I've got strategies and contingencies and really try not to leave anything to chance."

   Herman countered: "There needs to be a balance, too. You can't over analyze and be too cautious, but need to be on the look-out for opportunities when they arise."

   Howard states, "I believe in good solid skills and striving to be as good as or better than the competition in all business areas."

   You have been eavesdropping and realize that they have nailed down key aspects of entrepreneurial behavior. Identify each one's key aspect.

Answer:

Hobart: passion
Harry: perseverance
Henry: planning style (probably a comprehensive planner)

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Herman: promotion/prevention focus
Howard: professionalism

Learning Objective 2

2. *Tam wanted to open a Vietnamese take-out restaurant. He has a degree in Business Administration from a reputable west coast university and worked most of his life in his parent's Vietnamese (eat-in) restaurant. The area in which he's thinking about opening his restaurant is heavily populated by Vietnamese Americans and is close to the current trendy restaurant row. While there are a lot of eat-in Vietnamese restaurants, there are no carryout restaurants in this category. He is not married and lives at home, so he has few expenses and feels he can devote 100% of his time and effort to making his dream come true.*

   Evaluate Tam's operational competencies.

Answer

Basic Business Functions: Tam's business degree means that he should be pretty competent in this area.
Industry Specific Knowledge: Tam's experience in his family's restaurant should have given him industry expertise and skills. He has considered his target market (heavily Vietnamese American area) and saw the opportunity for a carry out restaurant. Tam, again rates relatively well in these areas.
Resource Competencies: There is no information in this story to indicate that Tam has any resource competencies. He mentions that he has low expenses and has found a likely area but this doesn't mean that he has either money or a physical location. With his family's connections, he is likely to have knowledge of good sources for ingredients and supplies, but this is the only conclusion that can readily be drawn from this information. Tam may need to do more work in this area.
Determination Competencies: Tam seems to do well here; he lives at home and has minimal expenses so he feels he can forego a "real" job and concentrate on this for the time being.
Opportunity Competencies: Tam's idea is distinctive – for this area – as there are currently no take-out Vietnamese restaurants in this area. The idea is probably profitable, although there is no information in the case to prove this. The idea is, unfortunately, easy to copy.

Learning Objective 3

3. *Each of the following entrepreneurs is at a different stage of their business life cycle. Can you identify which stage?*
   a. *Missy is finally in production of her new make-up line, but markets are unsure and her financial picture is unsettled.*
   b. *Marty is working hard to avoid customer complacency.*

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c. Maude is preparing her firm for exceptional growth through an IPO.
d. Mila is considering opening a small business consulting firm.
e. Misha heaves a sigh of relief. Sales are stable and slowly growing and the firm has established itself in the market.

Answer:

The stage that most fits each of these entrepreneurs is:
a. Existence
b. Resource maturity
c. Take-off
d. Emergence
e. Success

Learning Objective 4

4. *Darrel had a terrific idea, but little money. David had the money, but no ideas. They decided to partner up and start a small business. Darrel was really excited about his idea and spent long hours trying to get the business up and running. David laughed, "Darrel's the idea guy. I don't know much at all about this and probably would mess things up if I got involved." When it came time to market their product, Darrel thought an infomercial would be a good idea so they could demonstrate how their creation worked. David balked at the cost and wanted to do a mailer.*

These two exhibit which of the common pitfalls unconnected entrepreneurial teams?

Answer:

David contributed the money, but Darrel the idea and the time. Darrel could be feeling that he's doing all the work and David is just waiting for the profits. David could feel that he's the major investor and that he's done his part. Now that it's decision time, they are deadlocked.

Learning Objective 5

5. *Wilma's Wonderful Winterwear makes stylish coats and jackets for the businesswoman. Wilma started this business 30 years ago when her children (three boys and a girl) were just babies and has grown it into a size suitable for supporting her, her children and the spouses two of them have. (One son and her daughter are not yet married.) Two of her sons have degrees in accounting and law and specialize in those areas of the firm. These sons are married and their wives supervise shipping and production.*

Her oldest son, John, did not go to college, but has pretty much worked his way through the business and has competent skills in all areas. He serves as Wilma's second-in-charge. Her daughter, the baby of the family, just

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completed her business degree and has entered the business. In addition to her business training, she has a flair for design and insight into what businesswomen like.

Wilma started having some problems last year when her daughter, Kay, entered the company. Wilma decided to set Kay up as an equal second-in-charge with John. Kay has some good ideas learned in school and wants to make some changes. John has experience and does have an instinct about what will work and what will not, but maybe it's Kay's turn to try out her ideas? How much of John's protest are because he doesn't believe Kay's ideas are good and how much of these are because he can't believe that "Baby Kay" has grown up and is a competent businesswoman. Kay's always complaining that John is picking on her and insists on calling her "Punky," a nickname she had as a child, in front of customers and suppliers.

To make matters worse, Wilma's health is a bit shaky. It's nothing serious yet, but the 60 hour weeks she used to work are too much for her any more. She'd really like to have more free time and maybe travel a bit as well while she can still do so.

What main problems does Wilma's Wonderful Winterwear have? What would you suggest they do to alleviate these?

Answer:

Wilma's Wonderful Winterwear is experiencing problems that many family businesses do, namely role conflict and succession issues. The role conflict is visible between Kay and John. While Kay may very well be a competent businessperson, John is treating her like a baby sister and not a colleague. While John may have valid reasons for discounting Kay's ideas, she "runs to Mom" and complains about her brother – like she might have done as a child at home.

Wilma may also be exhibiting role conflict. Being a good mother means showing no favorites - like creating two second-in-charge positions. Being a good manager means knowing that this overlapping of responsibilities rarely works.

Wilma does not appear to have a succession plan in place although she is considering taking a more minor role or even retiring. As her health is not what it used to be, this could become critical should she become suddenly worse. From the case, it appears that two of the sons and their wives may have "niche" positions and may not be in the running for the top spot (but appearances could be VERY deceiving). It is likely that John and Kay will both want the top spot and their current conflict indicates that should this happen without an agreed upon succession plan, things could get very ugly.

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Wilma should consider setting up a family council to discuss succession along with role conflict and division of duties. Her four children and her two daughters-in-law should be on the council. Should the other concur, some more equitable division of responsibilities should be set up between John and Kay. An advisory board of people outside the company may also be helpful, especially if the family cannot resolve these issues amicably.

Learning Objective 6

6. *Terry complains, "I seem to have two strikes against me: I'm black and I'm a woman. I am competent construction engineer but it seems like my company just doesn't get a chance. Projects come up and I only hear about them AFTER the bid has been awarded. Once someone called and I answered the phone. The man on the other end asked to speak to the owner and I told him that I WAS the owner. He said that he thought Terry was a man and hung up. It's a good thing he didn't have a picture phone and saw me, or he'd really have been shocked! Now I'm getting concerned that I won't be able to make payroll this month. What am I to do?"*

   What is Terry's main problem? How might she handle it?

Answer:

Terry is facing discrimination, mostly through lack of access. The first thing she can do about it is to become certified and go after government and big business set asides, funds earmarked for minority and woman-owned businesses. The second this to do is to network. By getting out into the community through various organizations, she will begin to here about these projects earlier and will have a chance to bid on them. She will also begin to establish her credibility and legitimacy in the business community and fewer potential customers will be concerned about her being black or a woman.

Learning Objective 7

7. *After years of entertaining clients on the golf course, Will's company downsized him and he decided to turn his forced unemployment into the chance to own his own golf course. A course he had played on a number of times came up for sale and Will invested his buyout money into the down payment. Six months later, he's panicking as the business seems to be way too much for him to handle and not going as well as he hoped. He's come to you for advice. What can you tell him?*

Answer:

First of all, it sounds like Will is suffering from the three problems most second career entrepreneurs have: Having to do everything himself (stating

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that he was "overwhelmed"), lack of confidence ("he was downsized") and using too much of his personal money in the business ("used his buyout to buy the golf course").

For the first problem, he needs to list all the tasks that need to be done and decide which ones he likes to do, feels competent doing, and feels that he should do in order to stay on top of things. Others he should delegate, get assistance with, or even eliminate if unnecessary. He can find help, suggestions, and assistance through networking.

For the second problem, counseling might help, especially if he's really feeling like his downsizing was a sign that he was "deadwood" and not just "bad luck" or something less personal. Again, networking will help him by being around other entrepreneurs – especially other late career entrepreneurs – who have gone through similar things.

For the third problem, the money is already gone, but he should look into small business loans or other ways of extracting some of this. As the golf course turns a profit, he should consider reinvesting some of those profits to replenish his nest egg.

Mini-Case:

George Washington, Distiller and Seventh-Career Entrepreneur

Our first president had many careers – farmer, surveyor, soldier, commander, legislator, President and distiller. During his presidency, his Mount Vernon plantation suffered and was on the brink of bankruptcy. Partnering with James Anderson, Washington saw an opportunity to compete with expensive imports and open a distillery in 1797 making 110 proof rye whiskey.

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Mini-Case Questions

1. **What advantages would George Washington bring to James Anderson's idea for a Virginia distillery??**

   Washington had a lot of experience in managing and organizing. His experience also brought him into contact with many people who could prove helpful for his distillery operation and marketing. He has faced seemingly insurmountable odds in the past and won.

2. **Washington's farm was operating even as he got the distillery off the ground. What kind of problems could that raise for the ex-President?**

   Washington's attention was divided. It is nearly certain that he would not sacrifice his farm for the distillery. Things that may have been better for the distillery were

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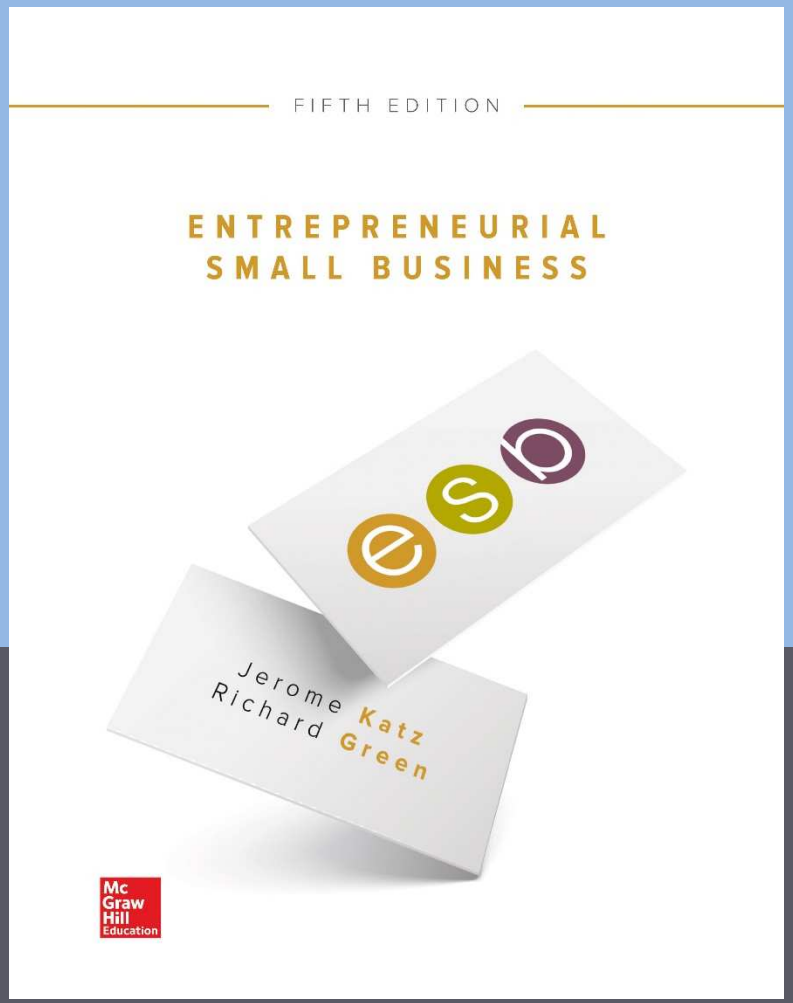
likely passed over should the farm be hurt in any way.

3. **At his death, Washington's distillery was the largest in the USA. Did this make Washington a high-growth entrepreneur, or a small business owner? Why??**

   A high growth entrepreneur grows a business in order to sell it. Washington showed no indication that selling was in his plan. He was a small business owner.

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Small Business Entrepreneurs: Characteristics and Competencies

Chapter 2

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Learning Objectives (1 of 2)

LO 2-1 Recognize the key aspects of the entrepreneurial personality.

LO 2-2 Assess the operational competencies of the successful entrepreneur.

LO 2-3 Recognize the stages of development entrepreneurs and their firms go through.

LO 2-4 Recognize the special nature of entrepreneurial teams.

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Learning Objectives (2 of 2)

LO 2-5 Describe the challenges of family business owners.

LO 2-6 Identify the challenges women and minority business owners face.

LO 2-7 Describe the situation of people who become business owners later in life.

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The Psychology of Entrepreneurs

- **Cognition**
  - A person's way of perceiving and thinking about his or her experience
- **Action**
  - The visible behavior a person takes.

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The Five Ps of Entrepreneurial Behavior (1 of 12)

- Passion
- Perseverance
- Promotion/ Prevention Focus
- Planning Style
- Professionalization

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The Five Ps of Entrepreneurial Behavior (2 of 12)

- **Passion**
  - An intense positive feeling an entrepreneur has toward the business or the idea behind the business.

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The Five Ps of Entrepreneurial Behavior (3 of 12)

Passion is displayed in three ways:

1. by looking at the challenges of the business in a creative way
2. by being persistently focused on the business
3. by being absorbed by the tasks and concerns of the business

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The Five Ps of Entrepreneurial Behavior (4 of 12)

- **Perseverance**
  - the ability to stick with some activity even when it takes a long time, and when a successful or unsuccessful outcome is not immediately known
  - learned optimism

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The Five Ps of Entrepreneurial Behavior (5 of 12)

- **Promotion focus**
  - An entrepreneur's attention to maximizing gains and pursuing opportunities likely to lead to gains
- **Prevention focus**
  - An entrepreneur's attention to minimizing losses, with a bias toward inaction or protective action to prevent loss.

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The Five Ps of Entrepreneurial Behavior (6 of 12)

- **Comprehensive planners**
  - Entrepreneurs who develop long-range plans for all aspects of the business
- **Critical-point planners**
  - Entrepreneurs who develop plans focused on the most important aspect of the business first.

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The Five Ps of Entrepreneurial Behavior (7 of 12)

- **Opportunistic planners**
  - Entrepreneurs who start with a goal instead of a plan and look for opportunities to achieve it.

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The Five Ps of Entrepreneurial Behavior (8 of 12)

- **Reactive planners**
  - Entrepreneurs with a passive approach, who wait for cues from the environment to determine what actions to take.
- **Habit-driven planners**
  - Entrepreneurs who do not plan, preferring to let all actions be dictated by their routines

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The Five Ps of Entrepreneurial Behavior (9 of 12)

- **Standard business practice**
  - A business action that has been widely adopted within an industry or occupation

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The Five Ps of Entrepreneurial Behavior (10 of 12)

- **Expert business professionalization**
  - A situation that occurs when all the major functions of a firm are conducted according to the standard business practices of its industry.

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The Five Ps of Entrepreneurial Behavior (11 of 12)

- **Specialized business professionalization**
  - A situation that occurs when businesses have founders or owners who are passionate about one or two of the key business functions, such as sales, operations, accounting, finance, or human resources

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The Five Ps of Entrepreneurial Behavior (12 of 12)

- **Minimalized business professionalization**
  - A situation that occurs when the entrepreneur does nearly everything in the simplest way possible

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Entrepreneurial Operational Competencies

(1 of 4)

- **Competencies**
  - forms of business-related expertise
- **Basic business competency**
  - understanding the organizational and business processes of a firm

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Entrepreneurial Operational Competencies

(2 of 4)

- **Key business functions**
  - activities common to all businesses
  - sales, operations, accounting, finance, and human resources
- **Industry-specific knowledge**
  - activities, skills, and knowledge, specific to businesses in an industry

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Entrepreneurial Operational Competencies

(3 of 4)

- **Resource competencies**
  - the ability or skill of the entrepreneur at finding expendable components necessary to the operation of the business
  - Time, information, location, financing, raw materials, expertise

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Entrepreneurial Operational Competencies

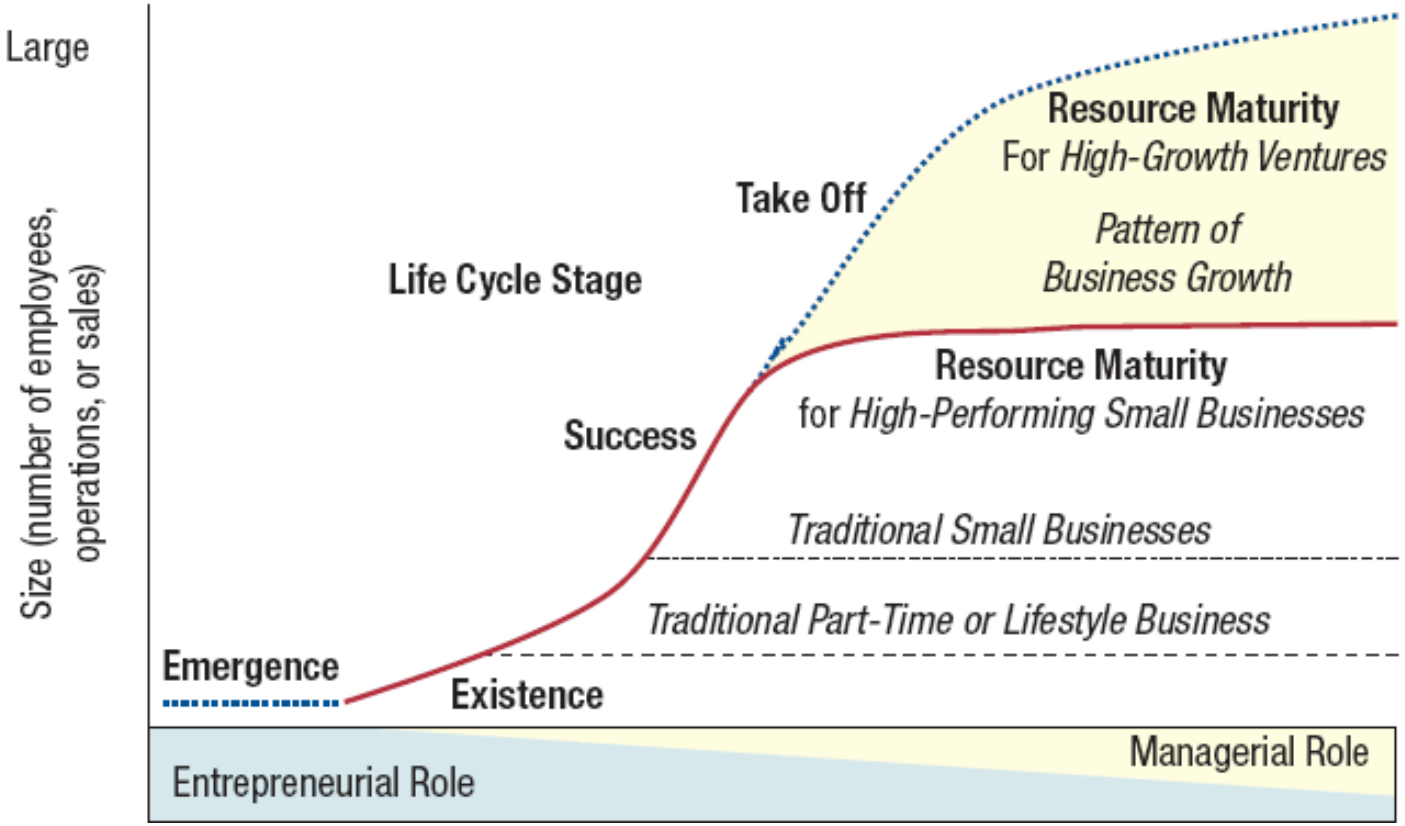
(4 of 4)

- **Determination competencies**
  - skills identified with the energy and focus needed to bring a business into existence
- **Opportunity competencies**
  - skills necessary to identify and exploit elements of the business environment that can lead to a profitable and sustainable business

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The Small Firm Life Cycle Figure 2.1



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The Entrepreneurial Life Cycle (1 of 6)

- **Business life cycle**
  - The sequence or pattern of developmental stages any business goes through during its life span.

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The Entrepreneurial Life Cycle (2 of 6)

- **Emergence**
  - The first stage of the small business life cycle, where the entrepreneur moves from thinking about starting the business t actually starting the business.
- **Existence**
  - The second stage of the business life cycle marked by the business being in operation but not yet stable in terms of markets, operations, or finances.

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The Entrepreneurial Life Cycle (3 of 6)

- **Liability of newness**
  - The set of risks faced by firms early in their life cycles that comes from a lack of knowledge by the owners about the business they are in and by customers about the new business.

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The Entrepreneurial Life Cycle (4 of 6)

- **Success**
  - The third stage of the business life cycle marked by the firm being established in its market, operation, and finances.
- **Resource maturity**
  - The resource maturity stage is the most typical fourth stage of the small business
  - Characterized by relatively stable or slowly rising sales and profits over several years.
  - In a firm that has a takeoff stage following the success stage, the resource maturity stage occurs after takeoff.

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The Entrepreneurial Life Cycle (5 of 6)

- **Slack resources**
  - Profits that are available to be used to satisfy the preferences of the owner in how the business is run.

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The Entrepreneurial Life Cycle (6 of 6)

- **Takeoff**
  - This stage occurs after the success stage for a small percentage of businesses.
  - Characterized by rapid growth (5–10 percent a month or more).
  - When this growth levels off, the firm enters the resource maturity stage.

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Entrepreneurial Teams (1 of 2)

- Majority of new businesses have a team of two or more co-owners
- Most teams are family related
- More than half of teams are spouses or life partners working together

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Number of Owners Involved in Start-Ups

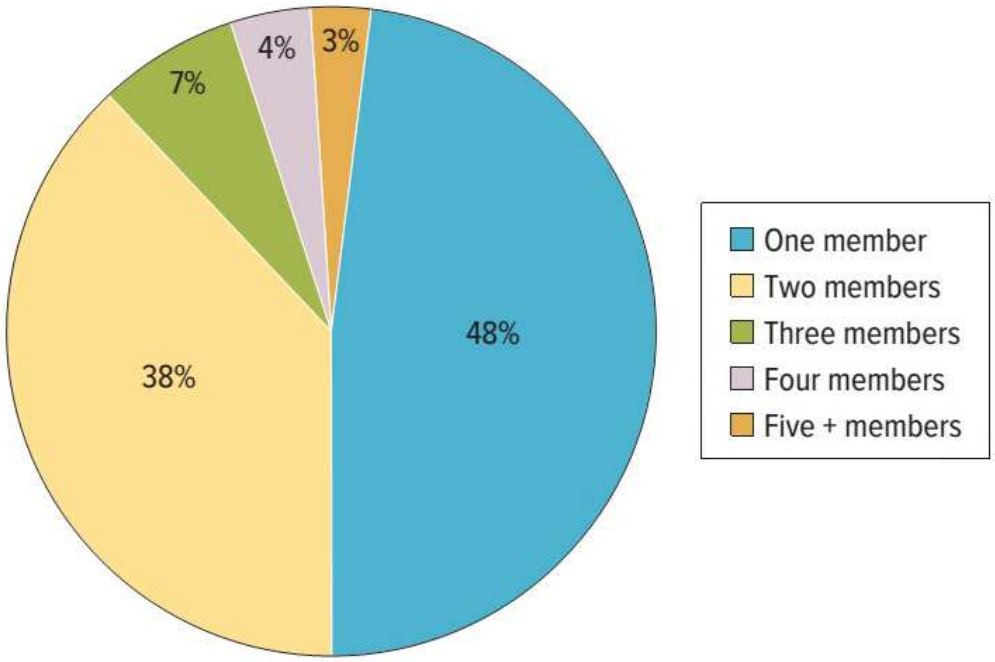


FIGURE 2.2

Number of Owners Involved in Start-Ups from the Panel Study of Entrepreneurial Dynamics

Source: Adapted from Howard E. Aldrich, Nancy M. Carter, and Martin Ruef, "Teams," in William B. Gartner, Kelly G. Shaver, Nancy M. Carter, and Paul D. Reynolds (eds.), *Handbook of Entrepreneurial Dynamics: The Process of Business Creation* (Thousand Oaks, CA: Sage, 2004), Table 27.1, p. 307.

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Entrepreneurial Teams (2 of 6)

- **Organizational culture**
  - A set of shared beliefs, basic assumptions, or common, accepted ways of dealing with problems and challenges within a company that demonstrate how things get done.

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Family Businesses (1 of 5)

- **Family business**
  - a firm in which one family owns a majority stake and is involved in the daily management of the business
- **1/3** of the Standard & Poor's 500 are family owned and managed

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Family Businesses (2 of 5)

- 39% of businesses in the United States are small family businesses.
- Almost 10.8 million firms
- They employ 58% of America's workforce.

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Family Businesses (3 of 5)

- **Role conflict**
  - the kind of problem that arises when people have multiple responsibilities, such as parent and boss, and the different responsibilities make different demands on them
- Whenever possible, make decisions based on business necessities.

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Family Businesses (4 of 5)

- **Time management**
  - organizing process to help make the most efficient use of the day
  - List, 123 Prioritize, Delegate, Repeat, Strategize

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Family Businesses (5 of 5)

- **Succession**
  - the process of intergenerational transfer of a business
  - Lack of clear transition plan is the death knell

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Women and Minorities in Small Business (1 of 5)

- Women-owned businesses are one of the fastest-growing sectors of all United States businesses
- 29.6% of all businesses are majority owned by women, with 17.5% equally owned by men and women

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Women and Minorities in Small Business (2 of 5)

- Minority-owned businesses represent 14.6% of all United States businesses.
- 2007-2012 Growth rates
  - General Business 10%
  - Minority-owned 27%

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Women and Minorities in Small Business (3 of 5)

- **Discrimination in financing**
  - Minority applicants were denied at twice the rate of whites.
  - Asian and Hispanic owners pay higher interest rates on their loans

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Women and Minorities in Small Business (4 of 5)

- **Set asides**
  - Government contracting funds which are earmarked for particular kinds of firms, such as small businesses, minority-owned firms, and women-owned firms

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Women and Minorities in Small Business (5 of 5)

- **Certification**
  - an examination base acknowledgement that the firm is owned and operated as specified

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Second Career Entrepreneurs

- **Second career entrepreneurs**
  - People who begin their businesses after having left, retired, or resigned from work.
  - Can include veterans of the armed forces and civilians from a broad range of industries.

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