Entrepreneurship Theory Process and Practice 10th edition Kuratko Solutions Manual

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

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LEARNING OBJECTIVES

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

CHAPTER SUMMARY

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

In attempting to explain the entrepreneurial mind-set within individuals, this chapter presents the concepts of entrepreneurial cognition and metacognition in examining the ways in

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which entrepreneurs view opportunities and make decisions. Concepts from cognitive psychology are increasingly being found to be useful tools to help probe entrepreneurial-related phenomena, and, increasingly, the applicability of the cognitive sciences to the entrepreneurial experience are cited in the research literature. The entrepreneurial cognitions view offers an understanding as to how entrepreneurs think and "why" they do some of the things they do. For example, Cognitive adaptability, which can be defined as the ability to be dynamic, flexible, and self-regulating in one's cognitions given dynamic and uncertain task environments, are important in achieving desirable outcomes from entrepreneurial actions.

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

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

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

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

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

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

It is also important for entrepreneurs to realize that many decisions are complex and that it can be difficult to deal with all of a decision's ethical considerations. Some of them may be overlooked, and some may be sidestepped because the economic cost is too high. In the final analysis, ethics is sometimes a judgment call, and what is unethical to one entrepreneur is viewed

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as ethical to another. Despite the ever-present lack of clarity and direction in ethics, however, ethics will continue to be a major issue for entrepreneurs during the new century.

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

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

LECTURE NOTES

I. The Entrepreneurial Mind-Set

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

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

II. Entrepreneurial Cognition

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

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

Metacognitive Perspective

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

Who Are Entrepreneurs?

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

Characteristics Associated with Entrepreneurial Mind-Set

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

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

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

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

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

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

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

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

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

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

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

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

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

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III. Dealing with Failure

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

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

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

The Grief Recovery Process

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

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

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

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

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

IV. The Entrepreneurial Experience

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

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

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

V. The Dark Side of Entrepreneurship

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

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The Entrepreneur's Confrontation with Risk

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

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

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

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

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

Stress and the Entrepreneur

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

WHAT IS ENTREPRENEURIAL STRESS?

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

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

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

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

SOURCES OF STRESS

Researchers Boyd and Gumpert identify four causes of entrepreneurial stress.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. Entrepreneurial Ethics

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

VII. Ethical Dilemmas

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

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

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

Ethical Rationalizations

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

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

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

The Matter of Morality

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

Some laws have no moral content whatsoever.

Some laws are morally unjust.

Some moral standards have no legal basis.

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

Legal requirements usually lag behind the acceptable moral standards of society

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Complexity of Decisions

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

- Ethical decisions have extended consequences.
- Ethical questions have multiple alternatives—the choices are not always "do" or "don't do."
- Ethical business decisions often have mixed outcomes.
- Most business decisions have uncertain ethical consequences.
- Most ethical business decisions have personal implications.

Online Ethical Dilemmas in E-Commerce

- Slow demise of face-to-face interactions cause entrepreneurs to find ways to build trust.
- Entrepreneurs recognize that online consumer reviews are used to inform purchasing decisions and are posted to reputation management systems (Amazon and Yelp).
- Entrepreneurs find it far greater to exhibit strong ethical responsibility in their actions.

VIII. Establishing a Strategy for an Ethical Enterprise

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

Ethical Codes of Conduct

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

Ethical Responsibility

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

IX. Ethical Considerations of Corporate Entrepreneurs

Recognize the fine line between resourcefulness and rule breaking.

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

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

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

X. Ethical Leadership by Entrepreneurs

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

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

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

XI. Entrepreneurial Motivation

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

- The individual's personal characteristics
- The individual's personal environment
- The relevant business environment
- The individual's personal goal set
- The existence of a viable business idea
- The comparison of probable outcomes with personal expectations
- The relationship between entrepreneurial behavior and the expected outcomes
- Entrepreneurial persistence—the choice to continue with an entrepreneurial opportunity regardless of counterinfluences or other enticing alternatives

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

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

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

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

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

Successful entrepreneurs are not gamblers—they are calculated risk takers. They do everything possible to get the odds in their favor, and they often avoid taking unnecessary

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risks. These strategies include getting others to share inherent financial and business risks with them—for example, by persuading partners and investors to put up money, creditors to offer special terms, and suppliers to advance merchandise.

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

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

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

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

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

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

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

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

The four specific areas of risk are as follows:

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

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

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

8. Describe factors associated with the entrepreneurial ego.

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

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

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

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

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

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

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

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

The reasons why business decisions of entrepreneurs are so complex are as follows: (l) ethical decisions have extended consequences, (2) business decisions involving ethical questions have multiple alternatives, (3) ethical business decisions often have mixed

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outcomes, (4) most business decisions have uncertain ethical consequences, and (5) there are personal implications in most ethical business decisions.

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

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

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

14. What is the concept of entrepreneurial motivation and how has it been depicted?

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

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

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

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

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ADDITIONAL ACTIVITIES

Short Cases

JANE'S EVALUATION

Paul Medwick is a commercial banker. In the past month, he has received loan applications from three entrepreneurs. All three have fledgling businesses with strong potential. However, Paul believes it is important to look at more than just the business itself; the individual also needs close scrutiny.

The three entrepreneurs are (1) Robin Wood, owner of a small delicatessen located in the heart of a thriving business district; (2) Richard Trumpe, owner of a ten-minute oilchange-and-lube operation; and (3) Phil Hartack, owner of a bookstore that specializes in best sellers and cookbooks. Paul has had the bank's outside consultant, Professor Jane Jackson, interview each of the three entrepreneurs. Jane has done a lot of work with entrepreneurs and—after a couple hours of discussion—usually can evaluate a person's entrepreneurial qualities. In the past, Jane has recommended 87 people for loans, and only two of these ventures have failed. This success rate is much higher than that for commercial loans in general.

Following is Jane's evaluation of the three people she interviewed.

Characteristic	**Robin Wood**	**Richard Trumpe**	**Phil Hartack**
Perseverance	H	M	M
Drive to achieve	M	H	M
Initiative	M	H	M
Persistent problem-solving	M	M	H
Tolerance for ambiguity	L	M	H
Integrity and reliability	H	M	H
Tolerance for failure	H	H	H
Creativity and innovativeness	M	H	M
Self-confidence	H	H	H
Independence	H	H	H

H = High; M = Medium; L = Low.

QUESTIONS

1. Which of the three applicants do you think comes closest to having the mind-set of an ideal entrepreneur? Why?
2. To which applicant would you recommend that the bank lend money? (Assume that each has asked for a loan of $150,000.) Defend your answer.
3. Can these three entrepreneurs do anything to improve their entrepreneurial profile and their chances for success? Be specific in your answer.

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A FRIEND FOR LIFE

The Glades Company is a small manufacturer. It has produced and marketed a number of different toys and appliances that have done very well in the marketplace. Late last year, the product designer at the company, Tom Berringer, told the president, Paula Glades, that he had invented a small, cuddly, talking bear that might have a great deal of appeal. The bear is made of fluffy brown material that simulates fur, and it has a tape inside that contains 50 messages.

The Glades Company decided to find out exactly how much market appeal the bear would have. Fifty of the bears were produced and placed in kindergartens and nurseries around town. The results were better than the firm had hoped. One of the nurseries reported: "The bear was so popular that most of the children wanted to take it home for an evening." Another said the bear was the most popular toy in the school.

Based on these data, the company decided to manufacture and market 1,000 of the bears. At the same time, a catchy marketing slogan was formulated: "A Friend for Life." The bear was marketed as a product a child could play with for years and years. The first batch of 1,000 bears sold out within a week. The company then scheduled another production run, this time for 25,000 bears. Last week, in the middle of the production run, a problem was uncovered. The process of making the bear fur was much more expensive than anticipated. The company is now faced with two options: It can absorb the extra cost and have the simulated fur produced, or it can use a substitute fur that will not last as long. Specifically, the original simulated fur will last for up to seven years of normal use; the less-expensive simulated fur will last for only eight months.

Some of the managers at Glades believe that most children are not interested in playing with the same toy for more than eight months; therefore, substituting the less-expensive simulated fur for the more-expensive fur should be no problem. Others believe that the company will damage its reputation if it opts for the substitute fur. "We are going to have complaints within eight months, and we are going to rue the day we agreed to a cheaper substitute," the production manager argues. The sales manager disagrees, contending that "the market is ready for this product, and we ought to provide it." In the middle of this crisis, the accounting department issued its cost analysis of the venture. If the company goes with the more-expensive simulated fur, it will lose $5.75 per bear. If it chooses the less-expensive simulated fur, it will make a profit of $14.98 per bear.

The final decision on the matter rests with Paula Glades. People on both sides of the issue have given her their opinion. One of the last to speak was the vice president of manufacturing, who said, "If you opt for the less-expensive fur, think of what this is going to do to your marketing campaign of 'A Friend for Life.' Are you going to change this slogan to 'A Friend for Eight Months'?" But the marketing vice president urged a different course of action: "We have a fortune tied up in this bear. If you stop production now or go to the more-expensive substitute, we'll lose our shirts. We aren't doing anything illegal by substituting the fur. The bear looks the same. Who's to know?"

QUESTIONS

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

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2. Would it be ethical if the firm used the less-expensive simulated fur but did not change its slogan of "A Friend for Life" and did not tell the buyer about the change in the production process? Why or why not?
3. If you were advising Paula, what would you recommend?

Reflection Exercise: *EXUDING PASSION IN YOUR VENTURE*

People are drawn to passion, so emphasizing the passion you have for your business is an effective method for getting people's attention. By being self-confident and articulating the value your business provides your clients, people will in turn share your enthusiasm and grow more comfortable maintaining their business relationship with you. Your customers will not believe in someone who does not believe in him- or herself, so be confident and outspoken about what you have to offer. The following steps will get you started:

1. Be genuine in your excitement. Do not put up a façade in an attempt to win customers. Keeping customers happy is hard enough without having to maintain a false image. People are more inclined to buy from businesses they trust, and the entrepreneurs associated with those businesses are instrumental in building their confidence. To start a business requires a tremendous amount of enthusiasm and energy; do not be afraid to let it show when you talk with potential customers. If people are excited about you, they are more willing to compromise when it comes time to do business.
2. Redefine rejection as learning. You can please some of the people all of the time and all of the people some of the time, but you cannot please all of the people all of the time. Remembering this truism is important when trying to win customers. Embracing rejection is a trait that all successful entrepreneurs eventually develop: You will learn much more from your failures than you will from your successes. When people are not receptive to what you have to say, tweak your message or find another group of people. Even the best ideas will have their naysayers, so listen to both positive and negative feedback, improve your message, and start again.
3. Convey personal successes. Do not hide your accomplishments. Starting a business is hard work—when your dedication pays off, let it be known. People like to believe that they are backing a winner, so talking about your victories is a sure way to get people to see you in that light. Also, remember that lessons learned are milestones; relaying your experiences and what you have gained from them demonstrates that you are wise enough to learn and grow so that you will not make the same mistakes twice.
4. Empathize with others. Empathizing with your customers lets them know that you understand their position and, more importantly, you are interested in helping them. Regardless of whether you are speaking with the CEO or her assistant, showing that you care about the other person's problems helps to build a rapport. Once your listeners grow comfortable, they will be more willing to share information that you could use to better cater to your industry's needs. Being creative and willing to customize your product to fit the needs of an organization will show the people involved how much their business means to you.

   Source: Adapted from Romanus Wolter, "Let It Shine," *Entrepreneur* (February 2008): 130–31.

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Examine these steps and reflect on your own passions. Are you ashamed to be proud of your accomplishments and what you have to offer? Do you think that if people believe in you, they will believe in your business, and if they believe in your business, they will most likely become a customer? Explain your thinking here.

Reflection Exercise: *HOW ETHICAL ARE YOU??*

Directions:
Please read the following business situations and write the number in the blank that shows the degree to which you personally feel they are ethically acceptable.

Never Acceptable		**Indifferent**			**Always Acceptable**	
1	**2**	**3**	**4**	**5**	**6**	**7**

1. An executive earning $50,000 per year padded his expense account by almost $1,500 per year. ____
2. In order to increase profits, a general manager used a production process that exceeded legal limits for environmental pollution. ____
3. Because of pressure from his brokerage firm, a stockbroker recommended a type of bond that he did not consider to be a good investment. ____
4. A small business received one-fourth of its gross revenue in the form of cash. The owner reported only one-half of the cash receipts for income tax purposes. ____
5. A company paid a $350,000 "consulting" fee to an official of a foreign country. In return, the official promised assistance in obtaining a contract that should produce a $10 million profit for the contracting company. ____
6. A company president found out that a competitor had made an important scientific discovery that would sharply reduce the profits of his own company. He then hired a key employee of the competitor's in an attempt to learn the details of the discovery. ____
7. A highway building contractor deplored the chaotic bidding situation and cutthroat competition. He reached an understanding with other major contractors to permit bidding that would provide a reasonable profit. ____
8. A company president recognized that sending expensive Christmas gifts to purchasing agents might compromise their positions. However, he continued the policy because it was common practice and changing it might result in loss of business. ____
9. A corporate director learned that his company intended to announce a stock split and increase its dividend. On the basis of this information, he bought additional shares and sold them at a gain following the announcement. ____
10. A corporate executive promoted a loyal friend and competent manager to the position of divisional vice president in preference to a better-qualified manager with whom he had no close ties. ____

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11. An engineer discovered what he perceived to be a product design flaw that constituted a safety hazard. His company declined to correct the flaw. The engineer decided to keep quiet rather than take his complaint outside the company. ____
12. A comptroller selected a legal method of financial reporting that concealed some embarrassing financial facts that would otherwise have become public knowledge. ____
13. An employer received applications for a supervisor's position from two equally qualified applicants but hired the male applicant because he thought some employees might resent being supervised by a female. ____
14. As part of the marketing strategy for a product, the producer changed its color and marketed it as "new and improved," even though its other characteristics were unchanged. ____
15. A cigarette manufacturer launched a publicity campaign challenging new evidence from the Surgeon General's office that cigarette smoking is harmful to the smoker's health. ____
16. An owner of a small firm obtained a free copy of a copyrighted computer software program from a business friend rather than spending $500 to obtain his own program from the software dealer. ____

Survey Results: Here is how 240 entrepreneurs responded.

1. Mean response = 2.0
2. Mean response = 1.5
3. Mean response = 1.7
4. Mean response = 2.7
5. Mean response = 3.3
6. Mean response = 3.9
7. Mean response = 3.2
8. Mean response = 3.2
9. Mean response = 2.8
10. Mean response = 3.5
11. Mean response = 2.3
12. Mean response = 4.1
13. Mean response = 3.1
14. Mean response = 3.2
15. Mean response = 3.5
16. Mean response = 3.6

Application Exercise: *AVOIDING ANOTHER ENRON DISASTER*

After reading through the material below, discuss the "grey" areas involved with ethics. Provide some examples from your own experiences at school, work, or sports. Are there other ways that the "grey" areas can be eliminated? Be specific from your own examples.

Enron, Tyco, Arthur Andersen, and Computer Associates were all guilty of unethical practices during a period of economic prosperity. Why? Historically, misconduct and bad judgment often have coincided with periods of great prosperity. When attitudes are characterized by "anything

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goes," and the market is typified by expanding profits and stocks at full throttle, the economy is at peak danger—greed and prosperity blur the line between right and wrong.

The greatest equivalent of today's ethical lapses is the Roaring Twenties and the stock market crash of 1929. This period was made notorious by, among other people, Ivar Kreuger. Kreuger founded an international conglomerate in wooden matches by lending money to foreign governments in return for nationwide match monopolies—the money from such loans came from the sale of stock. Later, an audit of his books revealed that $250 million in assets never really existed. Eventually, all this activity led to the creation of the Securities and Exchange Commission (SEC).

Today, the possibilities to create spectacular financial debacles have increased due to more complex financial vehicles that take advantage of the "gray" areas in accounting. The following list explains five ways investors are demanding more information from companies to ensure that corporate accounting is not finagling the financials.

Bring hidden liabilities back onto the balance sheet. It was the disclosure of billions of dollars in offbalance-sheet debt tucked away in special purpose entities, or SPEs (entities created to hide potential losses or debt from public view), that brought Enron's problems to the forefront. Though they are legitimate, SPEs have been controversial for nearly 30 years. Current practices allow removal of an SPE from the balance sheet if an investor is willing to contribute just 3 percent of its capital.

Highlight the things that matter. Anything less than 5 or 10 percent of earnings or assets generally was considered immaterial to overall performance and allowed to be left off the statements. Now the SEC and the Financial Accounting Standards Board are evaluating the qualitative factors in addition to the quantitative factors.

List the risks and assumptions built into the numbers. Corporate "guesstimations" can play a large role in corporate earnings; from future demand of a product line to discounted rates due to risk factors, investors are demanding to know the assumptions.

Standardize operating income. Standard & Poor's has made a proposal for what should be included and excluded from pro forma operating earnings. Currently, there is no uniformity to detail what companies add and subtract from the net income to generate their pro formas.

Provide aid in figuring free-cash flow. Analysts currently calculate free-cash flow themselves by utilizing past results. Investors are, therefore, left to guess what information should be used.

Source: Heesun Wee, "The Dirt a Bull Market Leaves Behind," *BusinessWeek Online,* June 13, 2002, http://www.businessweek.com/bwdaily/dnflash/jun2002/nf20020613_1338.htm (accessed April 10, 2008); and Nanette Byrnes, "Commentary: Five Ways to Avoid More Enrons," *BusinessWeek Online,* February 18, 2002, http://www.businessweek.com/magazine/content/02_07/b3770056.htm (accessed April 10, 2008).

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CHAPTER 2: THE ENTREPRENEURIAL MIND-SET IN INDIVIDUALS: COGNITION AND ETHICS

True/False

1. The generation of the twenty-first century may become known as generation E because it is becoming the most entrepreneurial generation since the Industrial Revolution.

   ANS: T

2. Entrepreneurial cognition is, in part, about understanding how entrepreneurs use simplifying mental models to make assessments, judgments, and decisions about opportunities.

   ANS: T

3. Commitment, determination, and perseverance are the only characteristics one needs to become a successful entrepreneur.

   ANS: F

4. There is a certain psychic risk involved with entrepreneurship.

   ANS: T

5. The "dark side" of entrepreneurship refers to the stress that entrepreneur's experience.

   ANS: F

6. According to the Model of Entrepreneurship Motivation, the entrepreneur's expectations are not compared with the actual or perceived outcomes of the firm.

   ANS: F

7. A loss orientation toward grief recovery in dealing with failure can sometimes lessen negative emotional reactions.

   ANS: F

8. Today's entrepreneurs are faced with few ethical decisions because the legal system imposes greater penalties on wrongdoers.

   ANS: F

9. Ethics represents a set of principles prescribing a behavioral code that does not include moral duty and obligations.

   ANS: F

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

    ANS: T

Multiple Choice

1. Every person has the _____ and _____ to pursue a career as an entrepreneur
   a. stubbornness; stupidity
   b. potential; free choice
   c. rights; regulations
   d. obligation; duty

   ANS: B

2. Entrepreneurs
   a. are driven by intense commitment and perseverance.
   b. are egomaniacs.
   c. loners who never fit in to typical firms.
   d. are never satisfied.

   ANS: A

3. Characteristics often attributed to the entrepreneur include:
   a. Commitment, determination, and perseverance
   b. Prefers to be a loner
   c. Power hungry
   d. Ability to be indecisive

   ANS: A

4. Which of the following is not a trait of successful entrepreneurs?
   a. initiative
   b. frustration
   c. perseverance
   d. strategic thinking

   ANS: B

5. When entrepreneurs believe that their accomplishments and setbacks are within their own control and influence, they are exhibiting
   a. persistent problem-solving.
   b. internal locus of control.
   c. external locus of control.
   d. opportunity orientation.

   ANS: B

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6. Areas of risk to the entrepreneur include
   a. career, family, psychic.
   b. family, business, social.
   c. psychic, social, physical.
   d. financial, product, market

   ANS: A

7. Which of the following may be the greatest risk to the well-being of the entrepreneur?
   a. social risk
   b. financial risk
   c. psychic risk
   d. family risk

   ANS: C

8. Generally, entrepreneurial stress is due to
   a. being surrounded by incompetents.
   b. fear of failure.
   c. the discrepancy between the entrepreneur's expectations and the ability to meet demands.
   d. caused by a big ego.

   ANS: C

9. Entrepreneurial stress can be caused by having a type A personality which can be defined as
   a. having a chronic sense of time urgency
   b. taking too little responsibility
   c. getting away from business
   d. taking things personally

   ANS: A

10. The entrepreneurial ego can cause the entrepreneur to
    a. have a sense of pessimism.
    b. take characteristics that usually lead to success to the extreme.
    c. ignore government regulations.
    d. take too few risks.

    ANS: B

11. Which of the following is not characteristic of the "dark side" of entrepreneurship?
    a. an external optimism
    b. a desire for success
    c. knowing when to take a vacation
    d. a sense of distrust

    ANS: C

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12. The decision to behave entrepreneurially is the result of the interaction of:
    a. the individual's personal entrepreneurial mind-set and an opportunity
    b. the existence of a viable business idea
    c. the relevant business environment
    d. a new market

    ANS: A

13. A decision to sell pharmaceuticals that have not been cleared with the Federal Drug Administration is an example of a(n)
    a. illegal and ethical decision.
    b. legal and unethical decision.
    c. illegal and unethical decision.
    d. legal and ethical decision.

    ANS: C

14. A decision to sell toys that pass minimum safety standards but can often result in minor accidents to children is an example of a(n)
    a. illegal and ethical decision.
    b. legal and unethical decision.
    c. illegal and unethical decision.
    d. legal and ethical decision.

    ANS: B

15. A _____ is a statement of ethical practices or guidelines to which an enterprise adheres.
    a. code of conduct
    b. code of ethics
    c. code of honor
    d. code of silence

    ANS: B

Short Answer

1. Explain and discuss the "dark side" of entrepreneurship.

    ANS:

    The entrepreneurial profile has its destructive side. First, the need for control can become an obsession. The need for control can cause problems in networking and in an entrepreneurial team. A sense of distrust can cause the entrepreneur to lose sight of reality or focus on trivial things. An entrepreneur's desire for success can also be destructive if the individual becomes more important than the venture itself. The last "dark side" trait is external optimism. When the entrepreneur takes optimism to the extreme, he or she may begin using a fantasy approach to the business. Trends, facts, and reports are ignored because the entrepreneur thinks everything will turn out fine.

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2. Discuss the specific areas of entrepreneurial risk.

   ANS:

   The four areas of risk are financial risk, career risk, family and social risk, and psychic risk. First, financial risk deals with the amount of savings or resources that the entrepreneur puts into venture. If the venture is not successful, the money or resources will most likely be lost. The entrepreneur will probably sign obligations that exceed his or her personal wealth. The second risk is career. The would-be entrepreneur frequently asks if he or she will be able to find a job or go back to a previous job. The new venture has no guarantees about career security. Family and social risk are also to be considered.

3. Name the sources of entrepreneurial stress and discuss the ways of dealing with stress.

   ANS:

   Entrepreneurs experience four types of stress. The first is loneliness. Although there are many people around the entrepreneur, there are few in whom he can confide. Another stress is immersion in business. A successful entrepreneur may make enough money for vacations, but never have the time to go because the business would not allow it. People problems are another type of stress. The entrepreneur may get frustrated, disappointed, and aggravated by employees or other individuals upon whom the venture's work depends. Usually this happens when the entrepreneur's expectations of a high performance are not met. The last source of stress is the need to achieve. The entrepreneur usually attempts to accomplish too much and sometimes cannot manage to control the need for achievement. The three steps an entrepreneur can take to reduce stress are acknowledging its existence, developing coping mechanisms, and probing for personal unacknowledged needs. There are five ways in which an entrepreneur can cope with stress. First is networking. Networking involves sharing experiences with other business owners. Another coping mechanism is to get away from it all. These interludes help combat immersion in business. Communicating with subordinates may help to cope with stress. The entrepreneur can be aware of the concerns employees have about their jobs.

   Finding satisfaction outside of the company is also important. The entrepreneur needs to get away and enjoy life. The last way an entrepreneur can deal with stress is by delegating. Appropriate delegates need to be found and trained so the entrepreneur can gain time away from the business.

4. Define ethics and discuss some conflicts over the ethical nature of decisions.

   ANS:

   In a broad sense, ethics is the rules or parameters for conduct in any activity as long as it is done in an "acceptable" manner. Ethics can also be described as a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong. Even though society is in an ever-changing state, this definition implies that universal principles remain intact. An entrepreneur faces many conflicts for many reasons. One conflict arises as a business is faced with outside as well as inside interests. Some examples are stockholders, the community, the government, employees, and unions. Also, as society changes, the values and mores of society must change.

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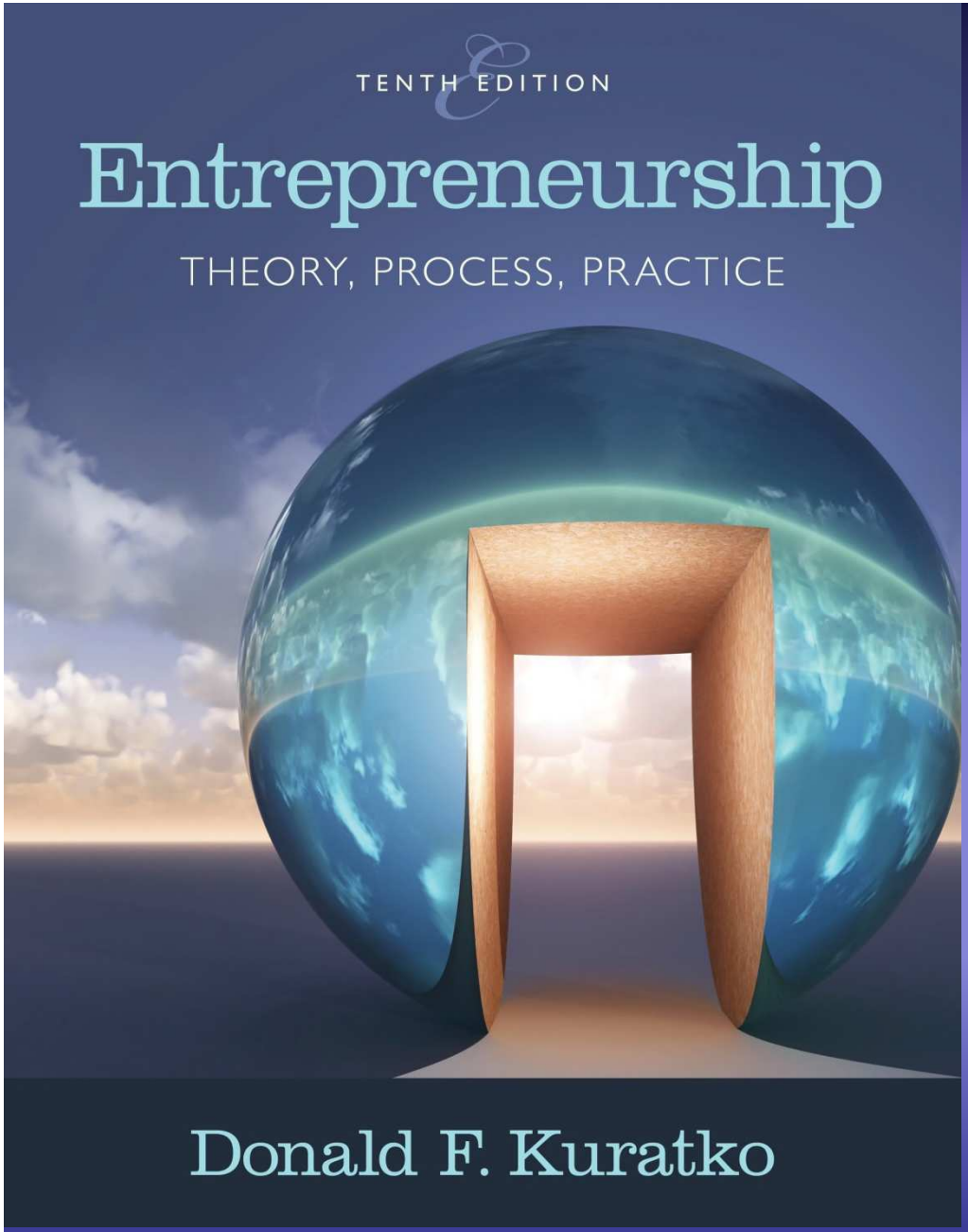
5. Give some in-depth examples of the dilemmas entrepreneurs face with ethics and laws.

   ANS:
   One dilemma entrepreneurs face is managerial rationalization. Managers may use rationalizations to justify questionable conduct. Some examples are: believing that the activity is not "really" illegal or immoral, the act is in the company's best interest, the behavior will not be found out, and the company will condone the act. The questionable act may seem all right to the manager using these rationalizations, yet is against the laws of the business world and society.

   Another dilemma concerns the matter of morality. Using LaRue Hosmer's conclusions concerning legal requirements and moral judgments, the requirements might overlap but not duplicate the moral standards of society. First, this results from laws not having any moral content, laws being morally unjust, and moral standards having no legal basis. Second, legal requirements tend to be negative whereas morality tends to be positive. Third, legal requirements can lag behind the acceptable moral standards of society.

   Another dilemma entrepreneurs are often faced with concerns economic trade-offs. Economic trade-offs occur when innovations, risk taking, or venture creation are used to stimulate the economic system to create new jobs and new growth. These qualities produce the trade-off between economic and social welfare. Some examples are, advertising for cigarettes with death as a possible result; toxic waste dumps invading lakes, streams, and eventually drinking water; minorities being laid off only because they were the last to be hired, and capital gains realized through the advance information of mergers.

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Part I
The Entrepreneurial Mind-Set in the 21st Century

Chapter 2

The Entrepreneurial Mind-Set in Individuals: Cognition and Ethics

PowerPoint Presentation by Charlie Cook

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Learning Objectives

1. To describe the entrepreneurial mind-set and entrepreneurial cognition
2. To identify and discuss the most commonly cited characteristics found in successful entrepreneurs
3. To discuss the “dark side” of entrepreneurship
4. To identify and describe the different types of risk entrepreneurs face as well as the major causes of stress for these individuals and the ways they can handle stress
5. To discuss the ethical dilemmas confronting entrepreneurs

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Learning Objectives (cont'd)

6. To study ethics in a conceptual framework for a dynamic environment
7. To present strategies for establishing ethical responsibility and leadership
8. To examine entrepreneurial motivation

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The Entrepreneurial Mind-Set

- Entrepreneurial Mind-Set
  - Describes the most common characteristics associated with successful entrepreneurs as well as the elements associated with the “dark side” of entrepreneurship.
- Who Are Entrepreneurs?
  - Independent individuals, intensely committed and determined to persevere, who work very hard.
  - They are confident optimists who strive for integrity.
  - They burn with the competitive desire to excel and use failure as a learning tool.

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Entrepreneurial Cognition

Cognition	Social Cognition Theory	Entrepreneurial Cognition
The mental functions, processes (thoughts), and states of intelligent humans—attention, remembering, producing and understanding language, solving problems, and making decisions.	Posits that knowledge structures (mental models of cognitions) can be ordered to optimize personal effectiveness within given situations.	The knowledge structures that people use to make assessments, judgments, or decisions involving opportunity evaluation, venture creation, and growth.

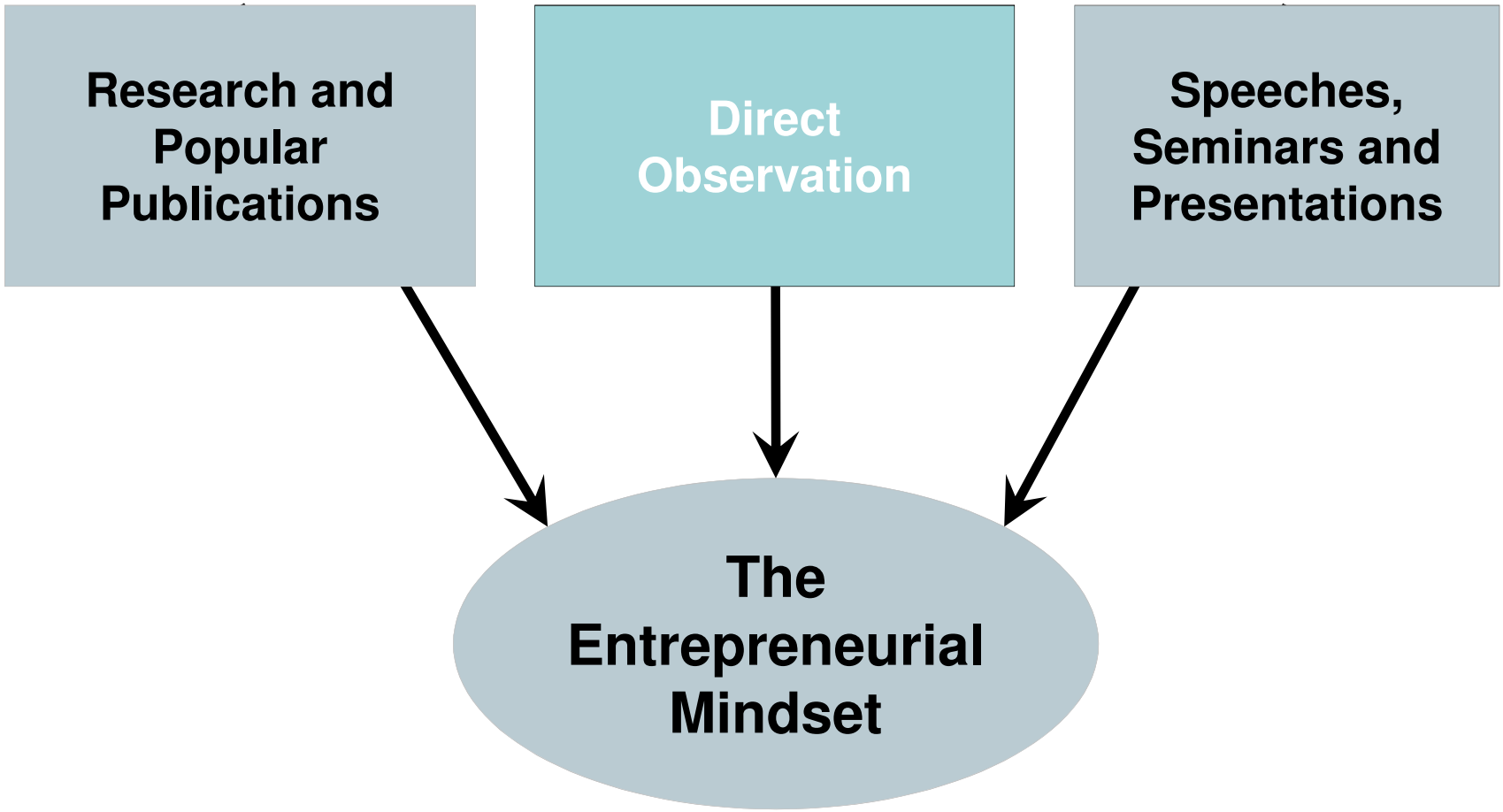
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Metacognitive Perspective

- Cognitive Adaptability
  - The ability to be dynamic, flexible, and self-regulating in one's cognitions given dynamic and uncertain task environments.
- Metacognitive Model
  - Describes the higher-order cognitive process that results in the entrepreneur framing a task effectually, and thus why and how a particular strategy was included in a set of alternative responses to the decision task (metacognition).

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Sources of Research on Entrepreneurs



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Sources of Research on Entrepreneurs (cont'd)

- Publications
  - Technical and professional journals
  - Textbooks on entrepreneurship
  - Books about entrepreneurship
  - Biographies or autobiographies of entrepreneurs
  - Compendiums about entrepreneurs
  - News periodicals
  - Venture periodicals
  - Newsletters
  - Proceedings of conferences
  - The Internet
- Direct Observation of Practicing Entrepreneurs
  - Interviews
  - Surveys
  - Case studies
- Speeches, Seminars, and Presentations by Practicing Entrepreneurs

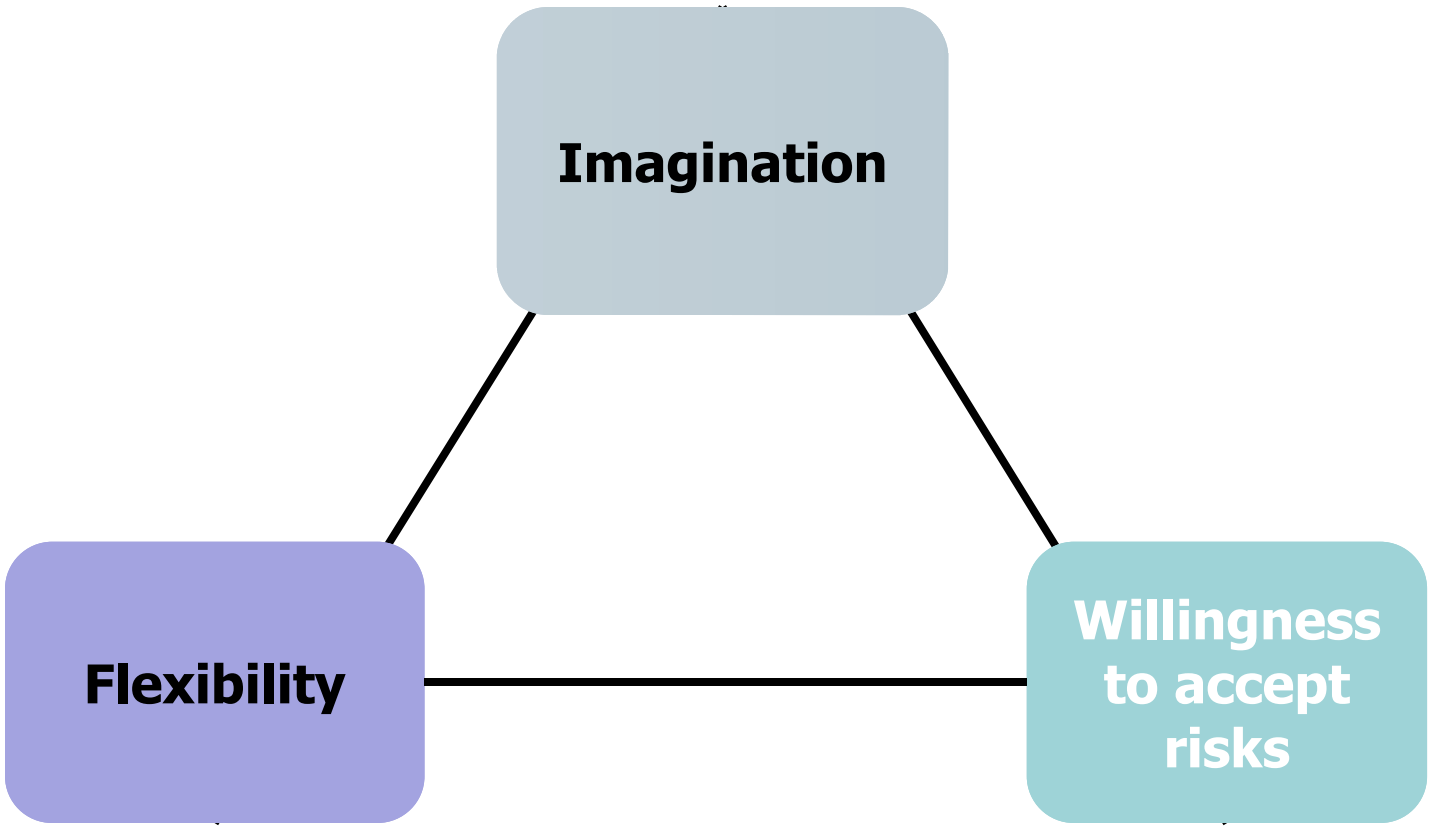
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Characteristics of the Entrepreneurial Mind-Set

- Determination and perseverance
- Drive to achieve
- Opportunity orientation
- Initiative and responsibility
- Persistent problem solving
- Seeking feedback
- Internal locus of control
- Tolerance for ambiguity
- Calculated risk taking
- High energy level
- Creativity and innovativeness
- Vision
- Passion
- Independence
- Team building

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Outline of the Entrepreneurial Organization



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Table 2.1 Characteristics Often Attributed to Entrepreneurs

1. Confidence
2. Perseverance, determination
3. Energy, diligence
4. Resourcefulness
5. Ability to take calculated risks
6. Dynamism, leadership
7. Optimism
8. Need to achieve
9. Versatility; knowledge of product, market, machinery, technology
10. Creativity
11. Ability to influence others
12. Ability to get along well with people
13. Initiative
14. Flexibility
15. Intelligence
16. Orientation to clear goals
17. Positive response to challenges
18. Independence
19. Responsiveness to suggestions and criticism
20. Time competence, efficiency
21. Ability to make decisions quickly
22. Responsibility
23. Foresight
24. Accuracy, thoroughness
25. Cooperativeness
26. Profit orientation
27. Ability to learn from mistakes
28. Sense of power
29. Pleasant personality
30. Egotism
31. Courage
32. Imagination
33. Perceptiveness
34. Toleration of ambiguity
35. Aggressiveness
36. Capacity for enjoyment
37. Efficacy
38. Commitment
39. Ability to trust workers
40. Sensitivity to others
41. Honesty, integrity
42. Maturity, balance

***Source*:** John A. Hornaday, "Research about Living Entrepreneurs," in *Encyclopedia of Entrepreneurship,* ed. Calvin Kent, Donald Sexton, and Karl Vesper (Englewood Cliffs, NJ: Prentice Hall, 1982), 26–27. Adapted by permission of Prentice-Hall, Englewood Cliffs, NJ.

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Entrepreneurship Theory

- Entrepreneurs cause entrepreneurship.
  - Entrepreneurship is a function of the entrepreneur:

$$E = f(\mathrm{e})$$

  - Entrepreneurship is characterized as the interaction of skills related to inner control, planning and goal setting, risk taking, innovation, reality perception, use of feedback, decision-making, human relations, and independence.

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Dealing with Failure: The Grief Recovery Process

- Loss Orientation
  - Involves focusing on the particular loss to construct an account that explains why the loss occurred.
- Restoration Orientation
  - Involves both distracting oneself from thinking about the failure event and being proactive towards secondary causes of stress.

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The Entrepreneurial Experience

- Entrepreneurs
  - Create ventures much as an artist creates a painting.
  - Are formed by the lived experience of venture creation.
- Experiential Nature of Creating a Sustainable Enterprise
  - Emergence of the opportunity
  - Emergence of the venture
  - End emergence of the entrepreneur

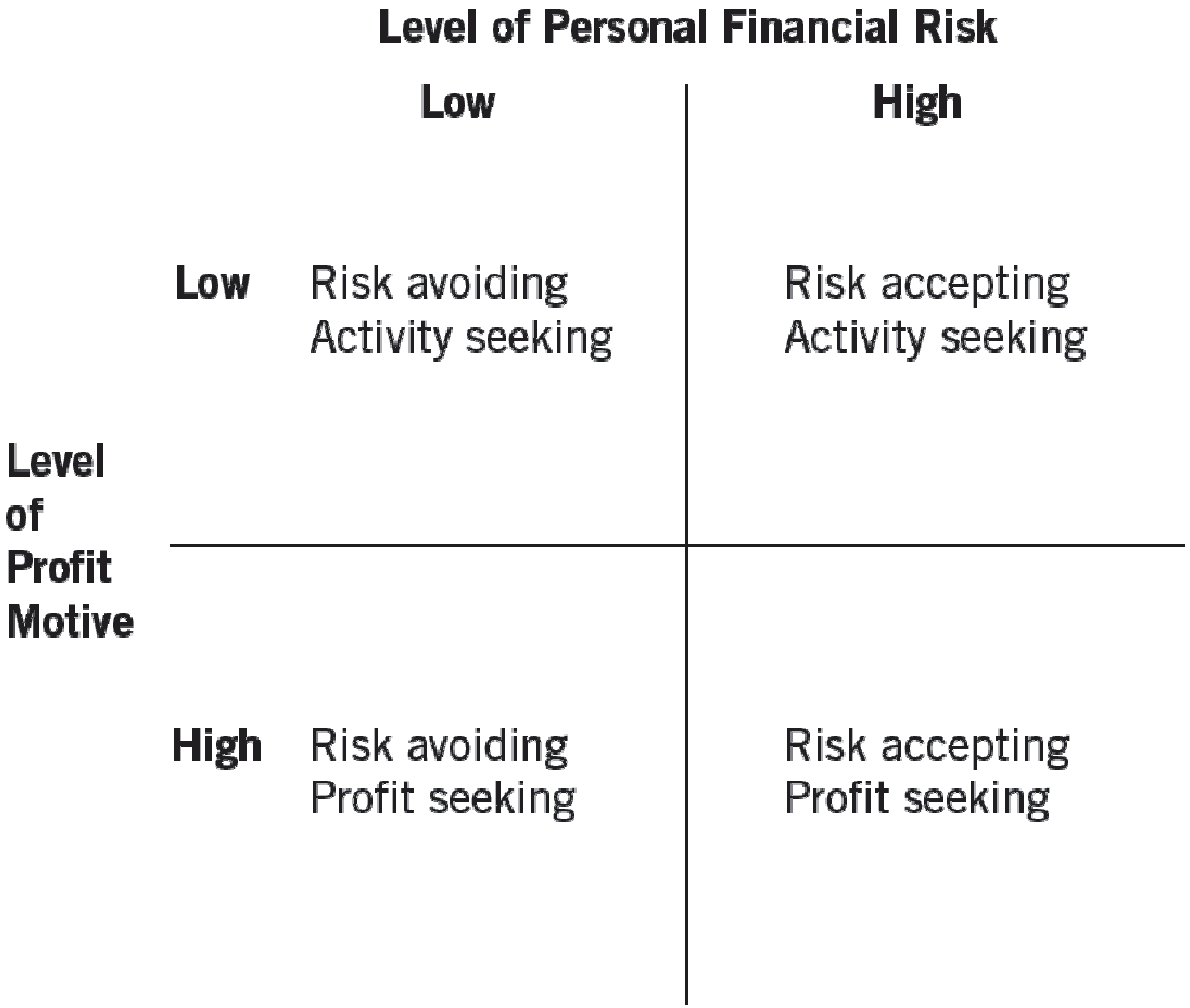
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The Dark Side of Entrepreneurship

- The Entrepreneur's Confrontation with Risk
  - Financial risk versus profit (return) motive varies in entrepreneurs' desire for wealth.
  - Career risk—loss of employment security
  - Family and social risk—competing commitments of work and family
  - Psychic risk—psychological impact of failure on the well-being of entrepreneurs

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Figure 2.1 Typology of Entrepreneurial Styles



***Source*:** Thomas Monroy and Robert Folger, "A Typology of Entrepreneurial Styles: Beyond Economic Rationality," *Journal of Private Enterprise* 9, no. 2 (1993): 71.

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Entrepreneurs: Type A Personalities

- Chronic and severe sense of time urgency.
- Constant involvement in multiple projects subject to deadlines.
- Neglect of all aspects of life except work.
- A tendency to take on excessive responsibility, combined with the feeling that “Only I am capable of taking care of this matter.”
- Explosiveness of speech and a tendency to speak faster than most people.

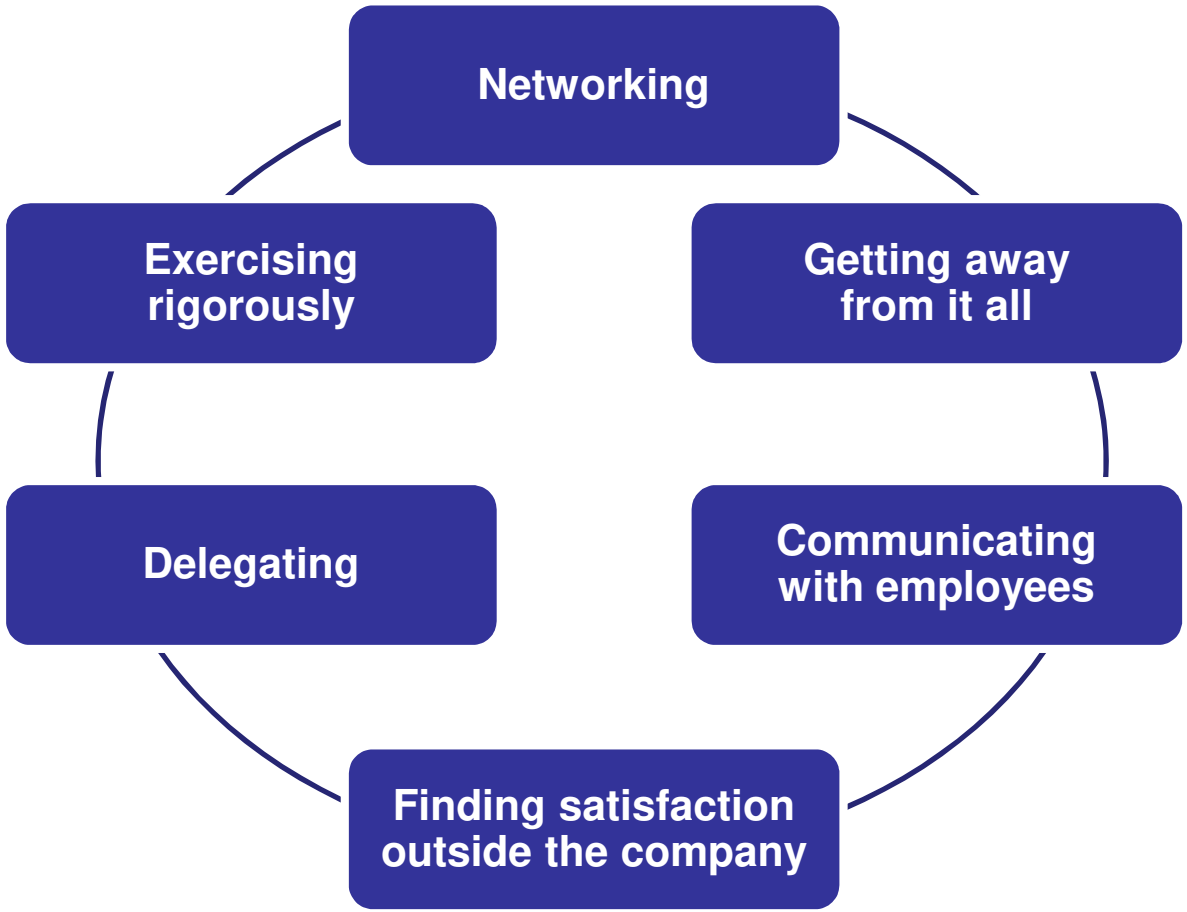
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Stress and the Entrepreneur

- Entrepreneurial Stress
  - The extent to which entrepreneurs' work demands and expectations exceed their abilities to perform as venture initiators, they are likely to experience stress.
- Sources of Entrepreneurial Stress
  - Loneliness
  - Immersion in business
  - People problems
  - Need to achieve

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Dealing with Stress



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The Entrepreneurial Ego

- Self-Destructive Characteristics
  - Overbearing need for control
  - Sense of distrust
  - Overriding desire for success
  - Unrealistic externalized optimism



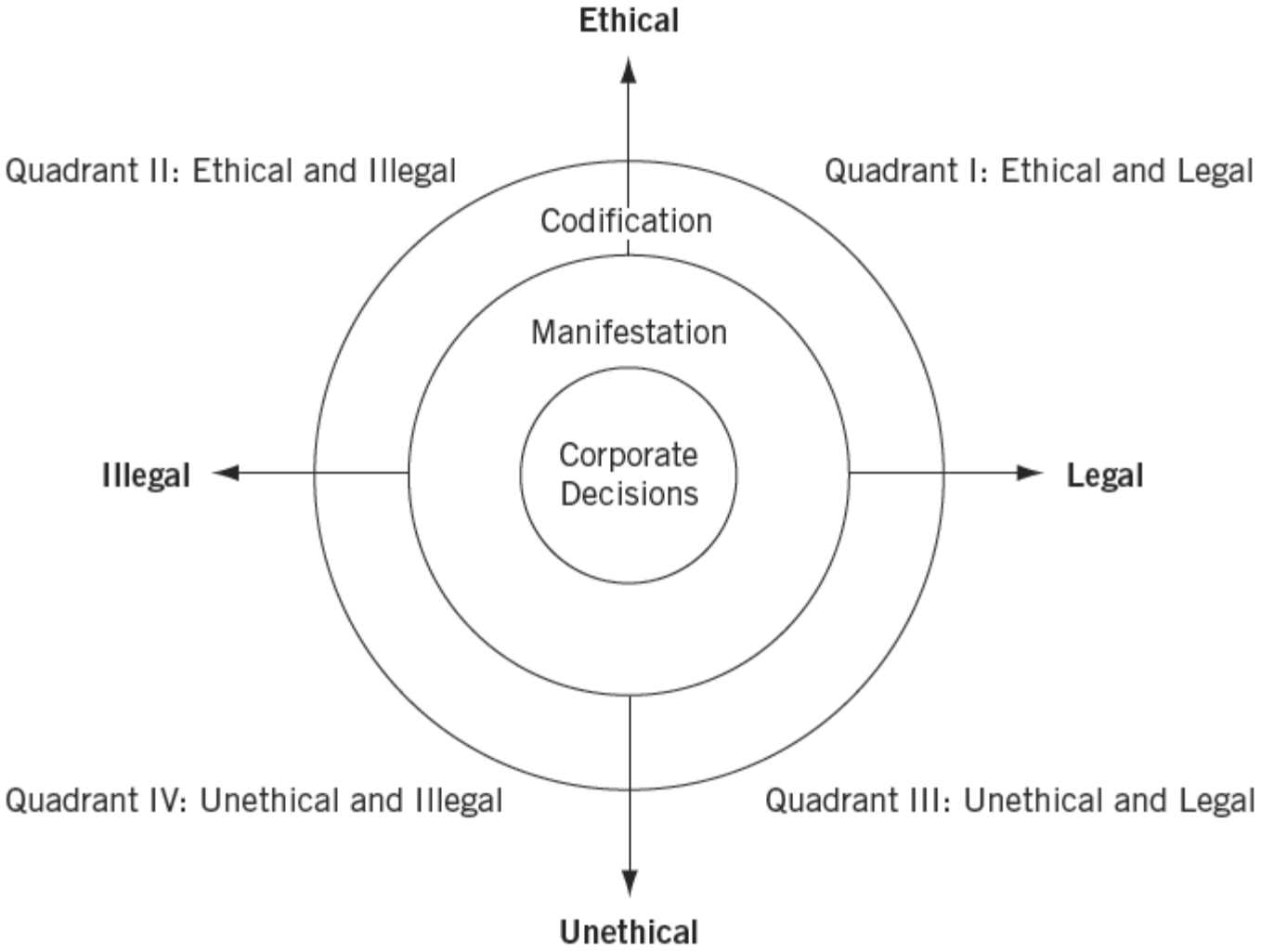
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Entrepreneurial Ethics

- Ethics
  - Provides the basic rules or parameters for conducting any activity in an “acceptable” manner.
  - Represents a set of principles prescribing a behavioral code of what is good and right or bad and wrong
  - Defines “situational” moral duty and obligations.
- Sources of Ethical Dilemmas
  - Pressure from inside and outside interests
  - Changes in societal values, mores, and norms

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Figure 2.2 Classifying Decisions Using a Conceptual Framework



***Source*:** Verne E. Henderson, "The Ethical Side of Enterprise," *Sloan Management Review* (Spring 1982): 42.

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Entrepreneurial Ethics (cont'd)

- Ethical rationalizations used to justify questionable conduct involve believing that the activity:
  - Is not "really" illegal or immoral.
  - Is in the individual's or the firm's best interest.
  - Will never be found out.
  - Helps the firm so the firm will condone it.



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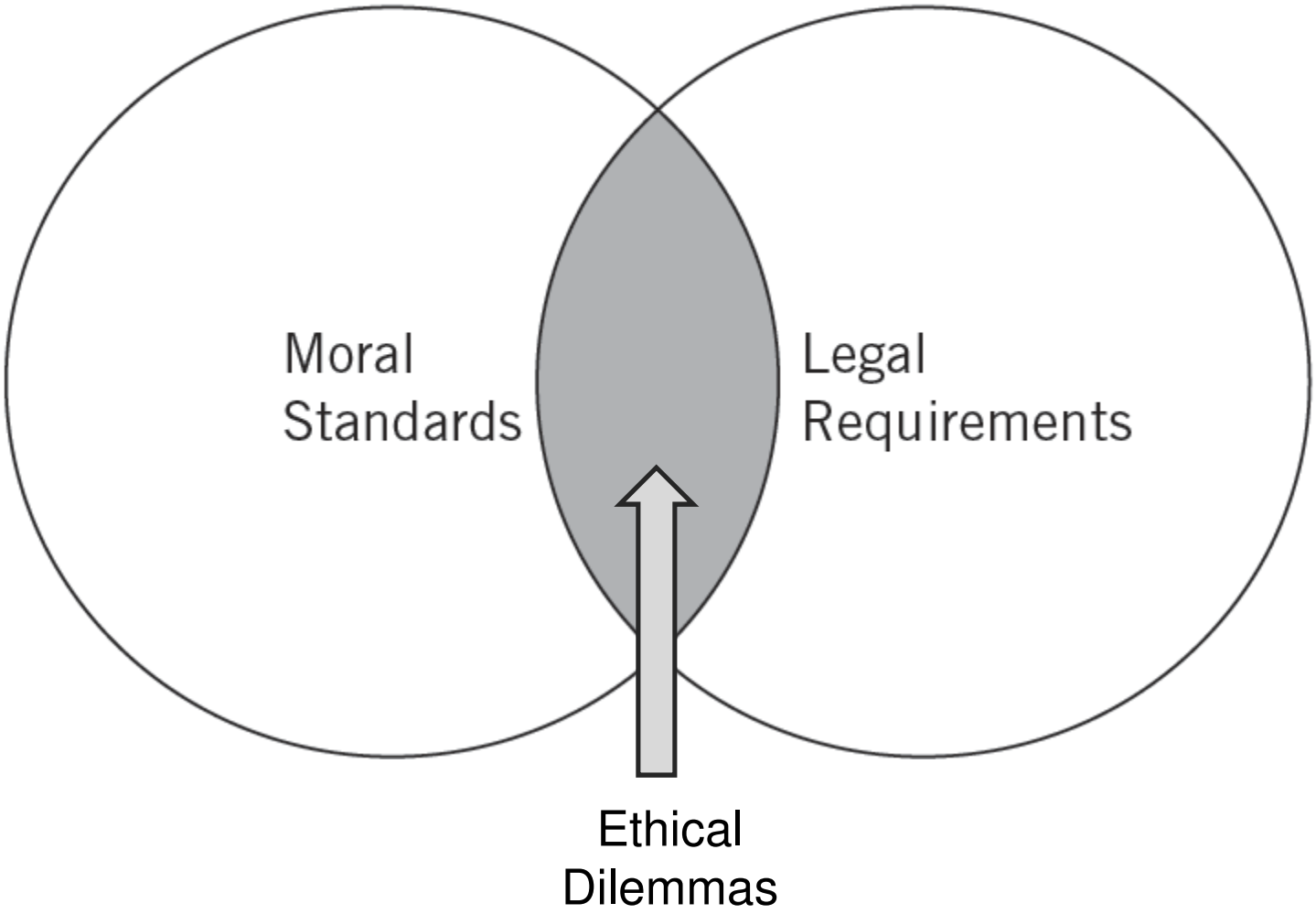
Table 2.2 Types of Morally Questionable Acts

Type	Direct Effect	Examples
Nonrole	Against the firm	Expense account cheating Embezzlement Stealing supplies
Role failure	Against the firm	Superficial performance appraisal Not confronting expense account cheating Palming off a poor performer with inflated praise
Role distortion	For the firm	Bribery Price fixing Manipulating suppliers
Role assertion	For the firm	Investing in unethically governed countries Using nuclear technology for energy generation Not withdrawing product line in face of initial allegations of inadequate safety

Source: James A. Waters and Frederick Bird, "Attending to Ethics in Management," *Journal of Business Ethics* 5 (1989): 494.

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Figure 2.3 Overlap Between Moral Standards and Legal Requirements



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Reasons for Unethical Behaviors Occur



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Entrepreneurial Ethics (cont'd)

- Extended consequences
- Multiple alternatives
- Mixed outcomes
- Uncertain ethical consequences
- Personal implications

Complexity of Ethical Decisions



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Entrepreneurial Ethics (cont'd)

- Online Ethical Dilemmas in E-Commerce
  - Continuing to obtain consumer trust.
  - Protecting their business's online reputation.
  - Avoiding tactics that betray trust.
  - Continuing to exhibit strong ethical responsibility.
  - Establishing an ethical strategy.

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Establishing a Strategy for an Ethical Venture

- Ethical Code of Conduct
  - Is a statement of ethical practices or guidelines to which an enterprise adheres.
  - Are becoming more prevalent in industry.
  - Are proving to be more meaningful in terms of external legal and social development.
  - Are more comprehensive in terms of their coverage.
  - Are easier to implement in terms of the administrative procedures used to enforce them.

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"Always Do the Right Thing"

- Reasons for management to adhere to a high moral code:
  - It is good business because unethical practices have a corrosive effect not only on the firm itself, but on free markets and free trade which are fundamental to the survival of the free enterprise system.
  - Improving the moral climate of the firm will eventually win back the public's confidence in the firm.

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Ethical Responsibility

Establish a strategy for ethical responsibility that encompasses:

- Ethical consciousness
- Ethical process and structure
- Institutionalization

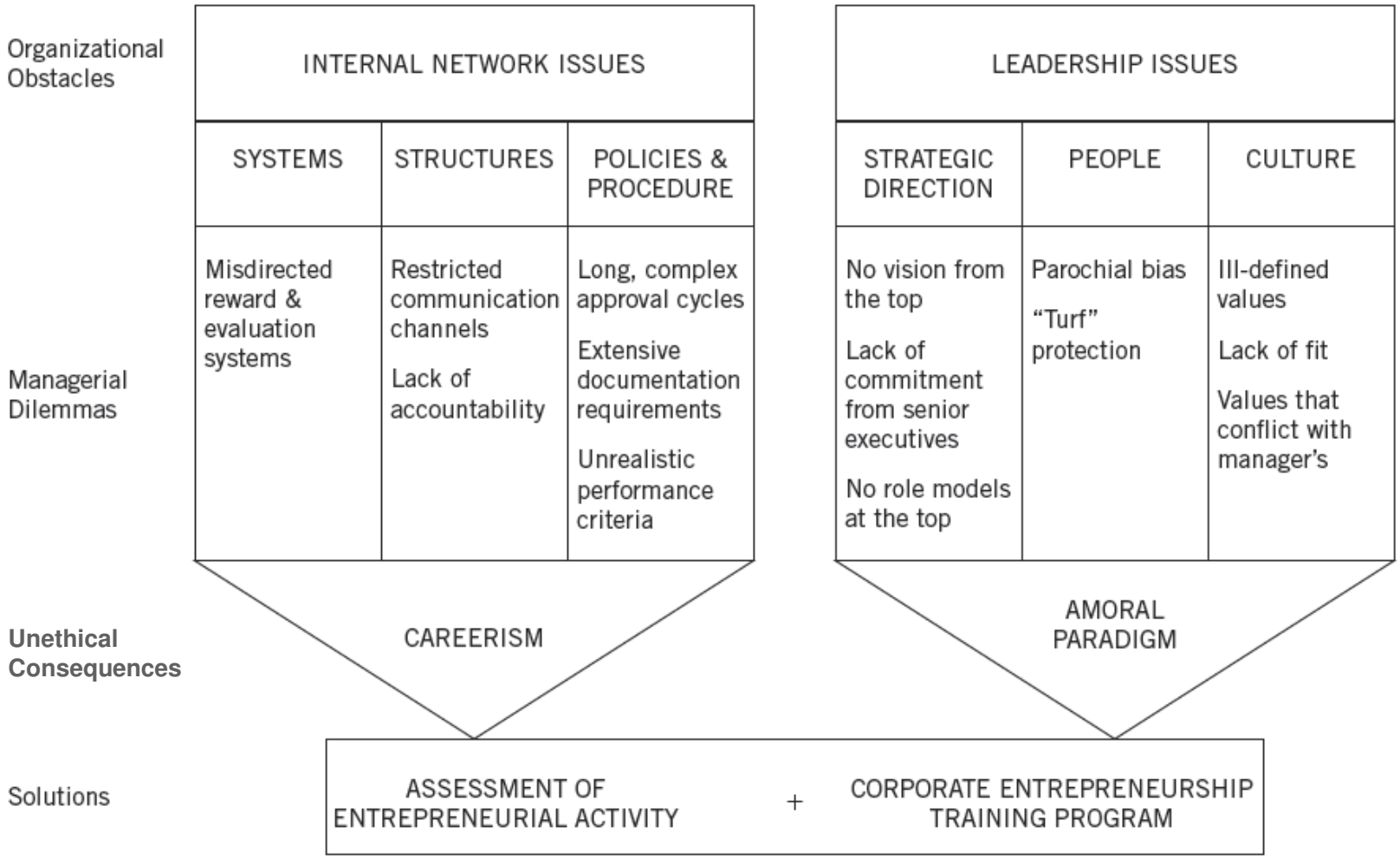
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Ethical Considerations of Corporate Entrepreneurs

- Organizational barriers that invite unethical behaviors:
  - Systems
  - Structures
  - Policies and Procedures
  - Culture
  - Strategic Direction
  - People
- Promote ethical employee behaviors by:
  - Providing flexibility, innovation, and support of initiative and risk taking
  - Removing barriers for entrepreneurial middle managers
  - Including an ethical component to corporate training

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Figure 2.4 Ethical Challenges for Corporate Entrepreneurship



***Source*:** Donald F. Kuratko and Michael G. Goldsby, "Corporate Entrepreneurs or Rogue Middle Managers? A Framework for Ethical Corporate Entrepreneurship," *Journal of Business Ethics 55* (2004): 18.

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Ethical Leadership by Entrepreneurs

- The value system of an owner/entrepreneur is the key to establishing an ethical organization.
  - A code of ethics provides a clear understanding of the need for:
    - Ethical administrative decision-making
    - Ethical behavior of employees
    - Explicit rewards and punishments based on ethical behavior

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Entrepreneurial Motivation

- Entrepreneurial Motivation
  - The quest for new-venture creation as well as the willingness to sustain that venture
    - Personal characteristics, personal environment, business environment, personal goal set (expectations), and the existence of a viable business idea
- Entrepreneurial Persistence
  - An entrepreneur's choice to continue with an entrepreneurial opportunity regardless of counterinfluences or other enticing alternatives

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Key Terms and Concepts

- career risk
- code of conduct
- cognition
- cognitive adaptability
- dark side of entrepreneurship
- entrepreneurial behavior
- Entrepreneurial cognition
- entrepreneurial experience
- entrepreneurial mind-set
- entrepreneurial motivation
- entrepreneurial persistence
- ethics
- failure
- family and social risk
- financial risk
- grief recovery
- metacognitive model
- psychic risk
- rationalizations
- risk
- role assertion
- role distortion
- role failure
- social cognition theory
- stress

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