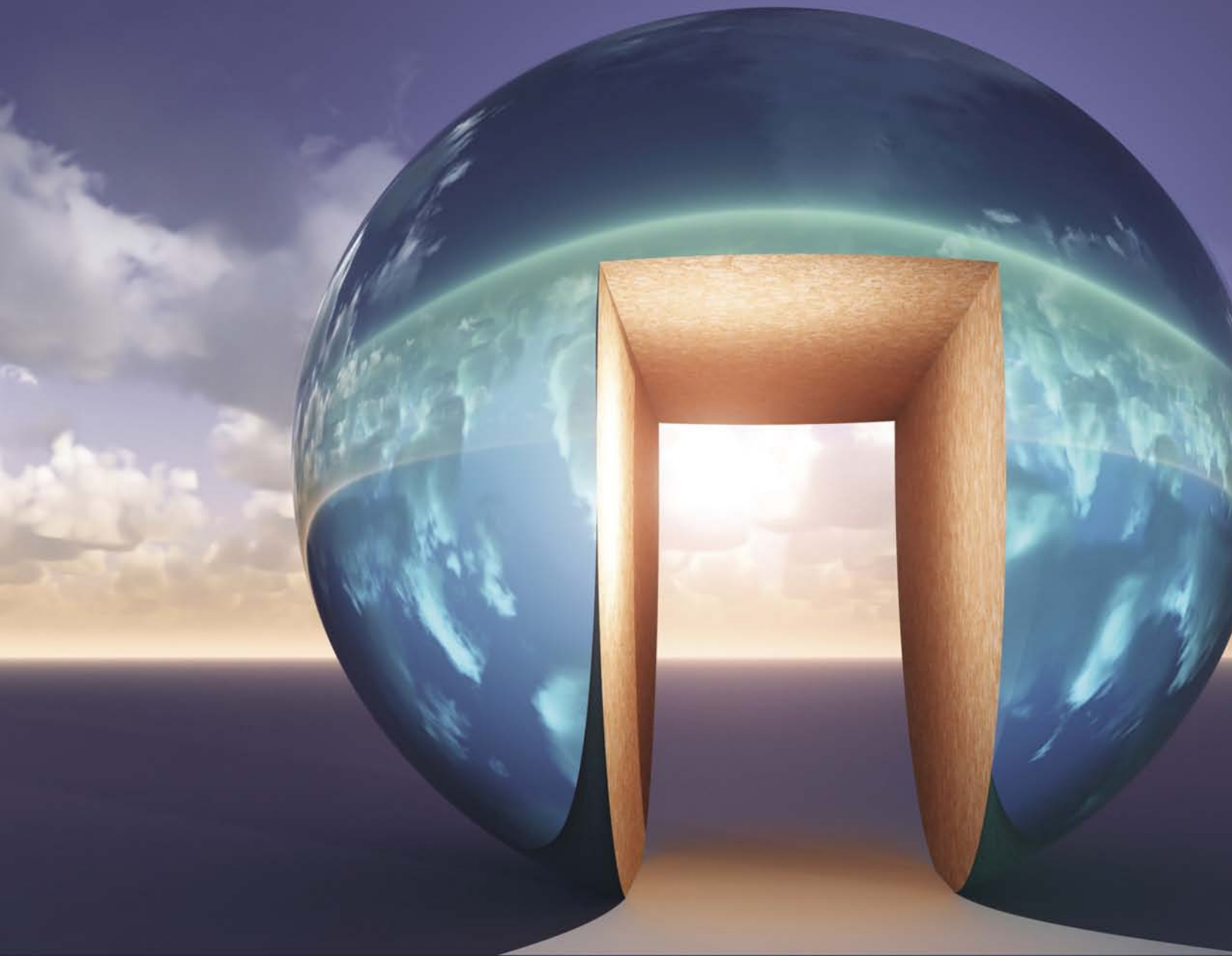


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THEORY, PROCESS, PRACTICE



Donald F. Kuratko

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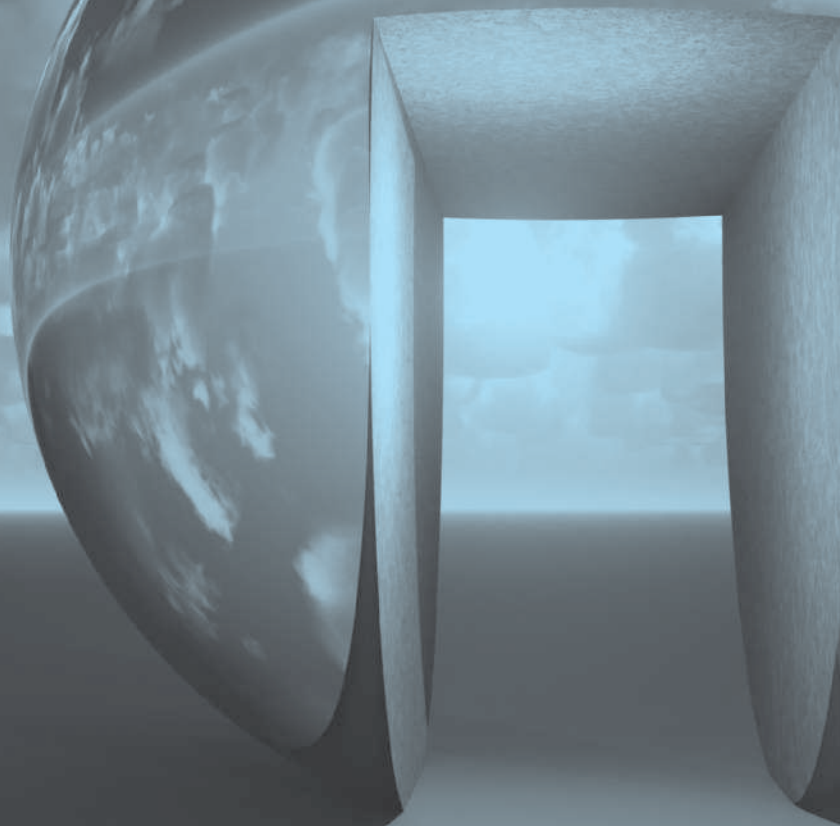
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TENTH EDITION

Entrepreneurship

THEORY, PROCESS, PRACTICE



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PREFACE

Entrepreneurship is the most powerful economic force known to human kind! The entrepreneurial revolution that captured our imagination during the last three decades has now permeated every aspect of business thinking and planning. As exemplified by the dynasty builders of the previous decades, such as Sam Walton of Walmart, Fred Smith of FedEx, Bill Gates of Microsoft, Herb Kelleher of Southwest Airlines, Steve Jobs of Apple, Andy Grove of Intel, Larry Page and Sergey Brin of Google, and Mark Zuckerberg of Facebook, the applications of creativity, risk taking, innovation, and passion led the way to economic development far greater than anyone could imagine. Today we witness the immense impact of entrepreneurial companies such as Google, Amazon, Facebook, Twitter, and LinkedIn, which have produced technological breakthrough after breakthrough. As the second decade of the twenty-first century ends, we continue to encounter newer and sometimes more complex challenges and pressures than ever before in the form of green technologies, social entrepreneurship, sustainability, health care, and technological change. The entrepreneurial drive and determination of yet-to-be-discovered dynasty builders will be our greatest solution to all of these challenges.

The process of transforming creative ideas into commercially viable businesses continues to be a major force in today's world economy. Successful entrepreneurship requires more than merely luck and money. It is a cohesive process of creativity, risk taking, and planning. Students today need courses and programs that set forth a basic framework for understanding the process of entrepreneurship. I wrote this textbook to structure and illustrate the discipline of entrepreneurship in a manner that is as unique and creative as entrepreneurship itself. The text and online materials included in *Entrepreneurship: Theory, Process, Practice*, 10th edition, to bring together in one place the most significant resources for exploring the development of new and emerging ventures and to present them in an exciting, organized, and challenging manner.

ORGANIZATION

The chapter sequence in *Entrepreneurship: Theory, Process, Practice*, 10th edition, is systematically organized around the initiation, planning, growth, and development of new and emerging ventures. Each major part of the text contains chapters that specifically address these pertinent concepts of entrepreneurship.

Part 1 (Chapters 1–4) introduces the entrepreneurial mind-set and examines the entrepreneurial revolution that has taken root across the globe. In it, we address the individual characteristics that shape entrepreneurs and their thinking, the “dark side” of entrepreneurship, and the ethical perspective that impels entrepreneurs in the development of morally conscious approaches to business. From an organizational perspective we introduce the concept of corporate entrepreneurship as a strategy to foster innovation within larger domains. Finally, and perhaps increasing in significance, we focus on social entrepreneurship and the global environment.

Part 2 (Chapters 5–8) examines the initiation of entrepreneurial ventures. We begin with the pursuit of ideas, with opportunity recognition, with creativity, and with innovation. We then examine the methods for assessing new ventures and business opportunities (including the Lean start-up methodology and design thinking), and the pathways to ventures, whether starting a brand new venture, acquiring an existing firm, or purchasing a franchise. This part concludes with a thorough examination of the sources of capital formation available to entrepreneurs.

Part 3 (Chapters 9–12) focuses on the development of entrepreneurial plans. We begin with the legal perspective, the critical legal issues (proprietary protections, patents, copyrights,



trademarks, and bankruptcy laws), and the structures of organizations (sole proprietorships, partnerships, and corporations). We then discuss the marketing issues that affect the preparing, planning, and operating of entrepreneurial start-ups (including social media marketing and mobile marketing) as well as the financial tools that entrepreneurs need. Finally, the development of a clear and comprehensive business plan is examined. A complete sample business plan appears in the appendix following Chapter 12.

Part 4 (Chapters 13–15) focuses on the growth, valuation, and harvesting of entrepreneurial ventures. The need for strategic planning, the challenge of managing entrepreneurial growth, and understanding the transition from the entrepreneurial to managerial are all discussed in this part. We then present the valuation process for an entrepreneurial venture as well as effective methods for valuation that need to be considered. Finally, we look at harvesting strategies available to entrepreneurial firms.

DISTINGUISHING FEATURES

Entrepreneurship: Theory, Process, Practice presents an organized, systematic study of entrepreneurship. Certain distinguishing features enhance its usefulness for both students and professors. Each chapter contains these specific learning items:

- **Opening Quotations.** Thought-provoking quotes titled “Entrepreneurial Thought” at the beginning of each chapter capture students’ interest about the basic idea for the chapter.
- **Objectives.** A clear set of learning objectives provides a preview of the chapter material and can be used by students to check whether they have understood and retained important points.
- **Figures and Tables.** Numerous charts and tables illustrate specific text material, expand chapter ideas, or refer to outside source material.
- **Summary and Discussion Questions.** Each chapter closes with a summary of key points to be retained. The discussion questions are a complementary learning tool that will enable students to check their understanding of key issues, to think beyond basic concepts, and to determine areas that require further study. The summary and discussion questions help students discriminate between main and supporting points and provide mechanisms for self-teaching.
- **Key Terms.** The most important terms appearing in each chapter are shown in boldface where they first appear. A list of the key terms appears at the end of each chapter, and a complete glossary appears at the end of the book.

INNOVATIVE CONTENT IN THE 10TH EDITION

Producing a new edition is always an ambitious undertaking, but we always welcome the opportunity to refocus and, if necessary, redefine content that makes entrepreneurship clear and engaging for learners and future entrepreneurs.

- **MindTap Digital Learning Suite.** This digital learning solution helps instructors engage and transform today’s students into critical thinkers. As a student using MindTap® you’ll explore up-to-the-minute entrepreneurial methodologies with hands-on learning experiences. Find out what it’s like to be an entrepreneur while building key skills you’ll need to invent and launch your brilliant idea. All activities are written exclusively by author “Dr. K” as author Dr. Donald F. Kuratko’s students call him and are designed for you to experience his famous “Spine Sweat” firsthand. Implement Design Methodology, the Lean Start-up Methodology, and the Business Model Canvas, and other frameworks within our exclusive learning suite, and gain an understanding of the most contemporary methods being employed in the marketplace.
- **The Entrepreneurial Process.** Short vignettes about the entrepreneurial process are included throughout the text to show how practicing entrepreneurs handle specific challenges and opportunities. Newer and updated process boxes reflect some of the more interesting stories on the various roads traveled by entrepreneurs, including entrepreneurial passion and



entrepreneurial fear in Chapter 2, Procter and Gamble's entrepreneurial engine in Chapter 3, social enterprising and incentivizing entrepreneurs in Chapter 4, the Franchise Disclosure Document in Chapter 7, guerrilla marketing in Chapter 10, and valuing a venture in Chapter 14.

- **New Topics, Models, and Processes.** This edition contains the most recent topics, models, and processes developed by scholars in the entrepreneurship field. Some examples include cognition, metacognition, and grief recovery with failure, and ethical challenges for entrepreneurs (Chapter 2); new illustrations and a training program for corporate entrepreneurship (Chapter 3); sustainable entrepreneurship, shared value and triple bottom line thinking, benefit corporations, global entrepreneurs, and diaspora networks (Chapter 4); franchise disclosure documents (Chapter 7); bootstrapping and crowdfunding as sources of capital (Chapter 8); parody, issues with mobile devices, and other new legal concepts (Chapter 9); social media marketing, mobile marketing, and pricing in the social media age (Chapter 10); new tips on business plans and effective “pitches” (Chapter 12); strategic entrepreneurship (Chapter 13); and harvesting issues (Chapter 15).
- **New References and Citations.** In an effort to make *Entrepreneurship: Theory, Process, Practice* the most comprehensive text available, every chapter contains a wealth of endnotes located at the end of each chapter. These references have been carefully selected to provide professors and students with a thorough background of the latest research that relates to the entrepreneurship material being presented. The focus here is on the “theoretical” component of entrepreneurship.
- **Online Ethical Dilemmas in E-Commerce**
Questions concerning the ethical challenges that now confront entrepreneurs in the social media age strike at the potential venture success, which is at stake in the hands of the social media reputation management sites. How should entrepreneurs proceed?
- **Social Impact Investing**
This type of investing has started to bring opportunities to harness entrepreneurial ideas and capital markets to finance social initiatives. Increasing the funding capability of social entrepreneurship will increase the likelihood of more efficient, sustainable, and effective social initiatives.
- **The Contemporary Methodologies for Venture Evaluation**
With newer movements taking shape in the ever changing entrepreneurial world, we provide sections that highlight some of the more contemporary methodologies being utilized for concept assessment and new venture evaluation.
 - **Design Methodology:** Design is now a hot topic in the business world. The demand is becoming so great that universities are now building programs that take a general approach to design rather than concentrating it in just technical schools like architecture and engineering. We present sections on:
 - Design and Learn
 - Design is a learning process that shapes and converts ideas into form, whether that is a plan of action, an experience, or a physical thing. *Learning from qualitative research—Learning from prototyping—Learning from feedback are all presented in this edition of the text.*
 - Design Development and Design Methodology
 - Taking an initial concept idea and developing a proof of concept that elicits feedback from relevant stakeholders. To accomplish this, several criteria must be met, including concept feasibility, concept desirability, and concept viability
 - Design-Centered Entrepreneurship
 - Researchers Michael G. Goldsby, Donald F. Kuratko, Matthew R. Marvel, and Thomas Nelson have introduced the concept of design-centered entrepreneurship with a conceptual model.
 - **The Lean Start-up Methodology:** Similar to design methodology, the Lean Start-up methodology provides a scientific approach to creating early venture concepts and



delivers a desired product to customers' hands faster. The Lean Start-up methodology was first developed in 2011 by Eric Ries, founder of IMVU Inc., as a way to prevent waste in start-ups and ensure that the business plan remains a living document. We include Key Lean Startup Key Terminology in this section.

- **Peer-to-Peer Lending (P2P)**

Peer-to-peer lenders are Internet-based sites that pool money from investors willing to lend capital at agreed-upon rates.

- **Crowdfunding**

This practice seeks funding for a venture by raising monetary contributions from a large number of people, typically via the Internet. In the United States, legislation that is mentioned in the 2012 Jobs Act will allow for a wider pool of small investors with fewer restrictions following the implementation of the act.

- **Updated information on IPOs, Venture capitalists, Angel investors, B Corporations, and LC3s**

- **Business Model Canvas**

The essential elements of the Business Model Canvas are presented and discussed in Chapter 12.

UPDATED AND ENHANCED SUPPLEMENTARY MATERIALS

The following resources and ancillaries have been created to support users of *Entrepreneurship*, 10th edition:

- **MindTap Digital Learning Suite.** Through paths of dynamic assignments and applications that you can personalize, real-time course analytics, and an accessible reader, MindTap helps you turn cookie cutter into cutting edge, apathy into engagement, and memorizers into higher-level thinkers. As an instructor using MindTap, you have at your fingertips engaging, challenging, rigorous learning activities written exclusively by Dr. Kuratko. Students learn firsthand what it's like to be an entrepreneur as they complete challenges that develop their creative and critical thinking skills. Give your students a powerful learning experience while saving time planning lessons and course structure using our exclusive interface designed to improve your workflow. All activities are written and produced exclusively by Dr. Donald F. Kuratko to help students and instructors experience his innovative teaching methodology first hand.

Self-Assessments engage students by helping them make personal connections to the content presented in the chapter.

Reading Quizzes assess students' basic comprehension of the reading material to help you gauge their level of engagement and understanding of the content.

Video Case Activities engage students by presenting everyday businesses facing managerial challenges, placing concepts in real-world context and making for great points of discussion.

Experiential Exercises challenge students to work in teams in our one-of-a-kind collaborative environment to create their own venture from concept to investor pitch. Carry out Dr. K's famous Spine Sweat Experience in your course for an extra challenge.

- **Instructor's Manual.** The Instructor's Manual contains chapter outlines, lecture outlines, answers to review and case questions, teaching notes for the comprehensive part cases, and similar content, as well as methods for incorporating the MindTap digital learning suite into your course. It is available on the text website at www.cengagebrain.com.
- **Cognero.** This program is easy-to-use test-creation software that is compatible with Microsoft Windows. Instructors can add or edit questions, instructions, and answers, and select questions by previewing them on the screen, selecting them randomly, or selecting them by number. Instructors can also create and administer quizzes online, whether over the Internet, a local area network (LAN), or a wide area network (WAN).



- **Test Bank.** Thoroughly revised and enhanced, test bank questions are linked to each chapter's knowledge objectives and are ranked by difficulty and question type. An ample number of challenging questions are provided that are tagged according to learning objectives, difficulty, and Bloom's Taxonomy.
- **LivePlan Business Software.** Students can create robust, polished business plans worthy of the most distinguished investor using the LivePlan business software.
- **PowerPoint® Slides.** PowerPoint presentations for instructors and students are colorful and varied, designed to hold students' interest and reinforce all of each chapter's main points. The PowerPoint presentations are available on text website at www.cengagebrain.com.
- **Website.** A dynamic, comprehensive website at <http://academic.cengage.com/management/kuratko> features an Interactive Study Center with quizzes that allow students to test and retest their knowledge of chapter concepts. In addition, the website features downloadable flashcards of key terms, additional sample business plans, and much more. Instructors can download resources including the Instructor's Manual, Test Bank, and PowerPoint® presentation slides.

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ABOUT THE AUTHOR



DR. DONALD F. KURATKO (known as “Dr. K”) is the Jack M. Gill Distinguished Chair of Entrepreneurship; Professor of Entrepreneurship; Executive & Academic Director of the Johnson Center for Entrepreneurship & Innovation, at the Kelley School of Business, Indiana University–Bloomington. Dr. Kuratko is considered a prominent scholar and national leader in the field of entrepreneurship. He has published over 190 articles on aspects of entrepreneurship, new venture development, and corporate entrepreneurship. His work has been published in journals such as *Strategic Management Journal*, *Academy of Management Executive*, *Journal of Business Venturing*, *Entrepreneurship Theory & Practice*, *Journal of Operations Management*, *Journal of Product Innovation Management*, *Small Business Economics*, *Journal of Small Business Management*, *Family Business Review*, *Business Horizons*, and the *Journal of Business Ethics*. Professor Kuratko has authored 30 books, including one of the leading entrepreneurship books in universities today, *Entrepreneurship: Theory, Process, Practice*, 10th edition (Cengage/South-Western Publishers, 2017), as well as *Corporate Entrepreneurship & Innovation*, 3rd edition (South-Western/Thomson Publishers, 2011),

Innovation Acceleration (Pearson/Prentice Hall Publishers, 2012), and *New Venture Management* (Pearson/Prentice Hall Publishers, 2009). In addition, Dr. Kuratko has been consultant on corporate innovation and entrepreneurial strategies to a number of major corporations such as Anthem Blue Cross/Blue Shield, AT&T, United Technologies, Ameritech, Walgreens, McKesson, Union Carbide Corporation, ServiceMaster, SPX Corp., Molex Corp., and TruServ. Dr. Kuratko also serves as the Executive Director of the Global Consortium of Entrepreneurship Centers (GCEC), an organization comprising over 300 top university entrepreneurship centers throughout the world.

Under Professor Kuratko’s leadership and with one of the most prolific entrepreneurship faculties in the world, Indiana University’s Entrepreneurship Program has consistently been ranked as the #1 university for entrepreneurship research by the *Global Entrepreneurship Productivity Rankings*; the #1 University Entrepreneurship Program in the United States (public universities) by *Fortune*; and the #1 Graduate Business School (Public Institutions) for Entrepreneurship and the #1 Undergraduate Business School for Entrepreneurship (Public Institutions) by *U.S. News & World Report*. In addition, Indiana University was awarded the *National Model MBA Program in Entrepreneurship* for the MBA Program in Entrepreneurship & Innovation developed by Dr. Kuratko. Before coming to Indiana University he was the Stoops Distinguished Professor of Entrepreneurship and Founding Director of the Entrepreneurship Program at Ball State University. In addition, he was the Executive Director of the Midwest Entrepreneurial Education Center. Dr. Kuratko was the first professor ever to be named a Distinguished Professor for the College of Business at Ball State University and held that position for 15 years. The Entrepreneurship Program that Dr. Kuratko developed at Ball State University continually earned national rankings including: Top 20 in *Business Week* and *Success* magazines; Top 10 business schools for entrepreneurship research by the *Journal of Management*; Top 4 in *U.S. News & World Report* (including the #1 public university for entrepreneurship); and the #1 Regional Entrepreneurship Program by *Entrepreneur*.

Dr. Kuratko’s honors include earning the Entrepreneur of the Year for the state of Indiana (sponsored by Ernst & Young and *Inc.* magazine) and being inducted into the Institute of

American Entrepreneurs Hall of Fame. He has been honored with the George Washington Medal of Honor; the Leavey Foundation Award for Excellence in Private Enterprise; the NFIB Entrepreneurship Excellence Award; and the National Model Innovative Pedagogy Award for Entrepreneurship. In addition, he was named the National Outstanding Entrepreneurship Educator by the U.S. Association for Small Business and Entrepreneurship and he was selected one of the Top Entrepreneurship Professors in the United States by *Fortune*. He has been honored with the Thomas W. Binford Memorial Award for Outstanding Contribution to Entrepreneurial Development by the Indiana Health Industry Forum and he was named a 21st Century Entrepreneurship Research Fellow by the Global Consortium of Entrepreneurship Centers. In his years at Ball State University he earned the College of Business Teaching Award for 15 consecutive years as well as being the only professor in the history of Ball State University to achieve all four of the university's major lifetime awards, which included the Outstanding Young Faculty Award, Outstanding Teaching Award, Outstanding Faculty Award, and Outstanding Researcher Award. Dr. Kuratko was honored by his peers in *Entrepreneur* magazine as one of the Top Entrepreneurship Program Directors in the nation for three consecutive years including the #1 Entrepreneurship Program Director in the nation. The U.S. Association for Small Business & Entrepreneurship honored him with the John E. Hughes Entrepreneurial Advocacy Award for his career achievements in entrepreneurship and corporate innovation and the National Academy of Management honored Dr. Kuratko with the Entrepreneurship Advocate Award for his career contributions to the development and advancement of the discipline of entrepreneurship. Professor Kuratko has been named one of the Top 50 Entrepreneurship Scholars in the world and was the recipient of the Riata Distinguished Entrepreneurship Scholar Award. He was the inaugural recipient of the Karl Vesper Entrepreneurship Pioneer Award for his career dedication to developing the field of entrepreneurship and in 2014 he was honored by the National Academy of Management with the Entrepreneurship Mentor Award for his exemplary mentorship to the next generation of entrepreneurship scholars and professors.

IN REMEMBRANCE

Dr. Richard M. Hodgetts (1942–2001)

On November 17, 2001, Dr. Richard M. Hodgetts passed away after a 3½-year battle with bone marrow cancer. The field of Management lost one of its most significant scholars and teachers.

Dr. Hodgetts earned a Ph.D. from the University of Oklahoma, an M.B.A. from Indiana University, and a B.S. from New York University. A prolific scholar and author Dr. Hodgetts published more than 125 articles on a variety of topics ranging from entrepreneurship to strategic management to total quality management. His articles appeared in a host of leading journals including the *Academy of Management Journal*, *Academy of Management Executive*, *Organizational Dynamics*, *Business Horizons*, *Personnel*, *Personnel Journal*, and the *Journal of Small Business Management*. He was also the editor of *Journal of Leadership Studies* and served on a number of editorial boards. He was the author or coauthor of 49 books. Some of the most recent include *International Business*, *International Management*, *Modern Human Relations at Work*, *Measures of Quality and High Performance*, and *Entrepreneurship, A Contemporary Approach*, which he wrote with Dr. Kuratko.

Dr. Hodgetts was an active Academy of Management member his whole career, serving as program chair in 1991, chair of the Management History Division, editor of the New Time special issue of *Academy of Management Executive*, and member of the Board of Governors from 1993 to 1996. For all of his dedicated service, he was inducted into the prestigious *Academy of Management Fellows*.

Besides his tremendous contributions to the knowledge base of management, Dr. Hodgetts was a truly outstanding teacher. He won every Distinguished Teaching Award offered at both his first job of 10 years at the University of Nebraska and his home school for 25 years at Florida International University, including Faculty Member of the Year by the Executive MBA students in the year of his passing. Some of his more notable honors included the Outstanding Educator Award from the National Academy of Management in 1999; the John F. Mee Management Contribution Award, from the Management History Division of the Academy of Management in 1998; the Professor Excellence Program Award from FIU in 1997, a Teaching Improvement Program Award from FIU in 1996; and an Excellence in Teaching Award from FIU in 1995.

Dr. Hodgetts consulted for a number of Fortune 500 firms and provided training for a wide variety of companies, including AT&T, Delco Electronics, Eastman Kodak, GE, IBM, Motorola, Texas Instruments, and Walmart. He has also lectured in Mexico, Venezuela, Peru, Chile, Jamaica, Trinidad, Denmark, Kuwait, and at a host of U.S. colleges and universities.

He literally developed thousands of students at all levels—undergraduate, MBA, executive development, and doctoral—and millions across the world were influenced by his texts and innovative distance education materials and courses. Simply put, he was the ultimate scholar and educator!

Dr. Hodgett's distinguished career as a scholar and educator was exemplified in his humor, his dedication to research, his genuine interest in his students, his compassion, and his true courage. Millions of students and practicing leaders have been, and will continue to be, influenced by his teaching and publications. His legacy will live forever!

INTRODUCTION

THEORY, PROCESS, AND PRACTICE

I have subtitled this book on entrepreneurship as *Theory, Process, Practice* for two specific reasons, of which one is emotional and the other is logical. First, I wanted to honor my former mentor, coauthor, and friend, Dr. Richard M. Hodgetts, in selecting a subtitle that he developed for one of his most successful management books decades ago. The sad loss of Dr. Hodgetts to cancer in 2001 will always leave a void for all of us who knew him and recognized his powerful influence on the entire field of management in business schools. (See my remembrance of Dr. Hodgetts located just after the Preface.) The second reason I selected this subtitle is its representation of the book's focus. I believe that students studying entrepreneurship must be exposed to the "theory development" of the field, the "processes" by which we now teach and study entrepreneurship, and the actual "practice" of entrepreneurship by those individuals and organizations that have been successful. Thus, in order to completely understand and appreciate this emerging discipline we call entrepreneurship, students must learn from theory, process, and practice. The subtitle represents the complete foundation of a discipline. Let's begin by briefly examining each facet.

THE THEORY OF ENTREPRENEURSHIP

Not too long ago the field of entrepreneurship was considered little more than an applied trade as opposed to an academic area of study. There was no "research" to be accomplished because it was thought that those who could not attend college would simply "practice" the concept of new business start-up. Yet our economy was actually based upon entrepreneurship, and history has proven that with each downturn in the economy it is entrepreneurial drive and persistence that bring us back. Thus, individual scholars began to examine entrepreneurship from a research perspective, and in doing so they initiated an academic field of scholarly pursuit. So we look back at some of the "believers" among the academic community, such as Arnold C. Cooper (Purdue University), Karl A. Vesper (University of Washington), Donald L. Sexton (Ohio State University), Robert C. Ronstadt (Babson College), and Howard H. Stevenson (Harvard University), who are all examples of the "pioneering" researchers in the embryonic days of entrepreneurship. Their wisdom, scholarship, and persistence guided the field of entrepreneurship from what was once considered a disrespected academic area to a field that has now gained unimaginable respect and admiration among business schools in the twenty-first century. Their willingness to delve into the research issues important to this developing discipline provided motivation for the next generation of scholars to pursue the entrepreneurship field with greater vigor.

Today we celebrate the immense growth in entrepreneurship research as evidenced by the number of academic journals devoted to entrepreneurship (44), the number of endowed professorships and chairs in entrepreneurship (more than 400), the development of the 21st Century Entrepreneurship Research Fellows by the Global Consortium of Entrepreneurship Centers, and the increasing number of top scholars devoting much of their valuable research time and efforts to publishing on aspects of entrepreneurship in the top academic journals. It is indeed gratifying to see *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Journal of Operations Management*, and the *Journal of Management* publishing more entrepreneurship research; this increase is in direct proportion to the change in the journals' editorial review boards to include more scholars in the

entrepreneurship field. Finally, many universities are now including certain entrepreneurship journals in their lists of top journals for the faculty to publish in. Many of the top business schools in the United States have accepted the *London Times* list of the top 45 academic journals, which includes the *Journal of Business Venturing and Entrepreneurship Theory & Practice*. Additionally, a number of major academic institutions have developed programs in entrepreneurial research, and every year Babson College conducts a symposium titled “Frontiers in Entrepreneurship Research.” Since 1981 the conference has provided an outlet for the latest developments in entrepreneurship.

In 1998 the National Consortium of Entrepreneurship Centers (NCEC) was founded for the purpose of continued collaboration among the established entrepreneurship centers, as well as the newer emerging centers, to work together to share information, develop special projects, and assist one another in advancing and improving their centers’ impact. Today that organization has changed its name to the Global Consortium of Entrepreneurship Centers (GCEC) to better reflect the international growth of entrepreneurship centers. As mentioned earlier, this consortium also established the 21st Century Entrepreneurship Research Fellows, a growing collection of scholars in the field of entrepreneurship who have developed a mission to identify leading-edge research issues and domains and develop high-profile research initiatives that demonstrate the highest level of scholarship to entrepreneurship centers and the academic community at large. Research drives business schools. Today we see research in entrepreneurship as an accepted and respected part of this drive.

THE PROCESS OF ENTREPRENEURSHIP

Beginning with the “early adopters” of the discipline of entrepreneurship, such as the University of Southern California (USC), Babson College, Harvard University, and Indiana University, the number of schools teaching and researching entrepreneurship has exploded to more than 1,000 schools with majors in entrepreneurship, an additional 1,000 with concentrations in entrepreneurship, and at least one course in entrepreneurship now taught at over 3,000 universities worldwide! Some of the more prestigious research universities in the United States, such as Indiana University, Syracuse University, Oklahoma State University, University of Colorado, University of Louisville, and University of Washington, have developed Ph.D. programs in entrepreneurship in order to prepare the next generation of scholars and researchers. The academic field of entrepreneurship has evolved dramatically over the last 40 years! In the midst of this huge expansion of courses remains the challenge of teaching entrepreneurship more effectively.

It has become clear that entrepreneurship, or certain facets of it, *can* be taught. Business educators and professionals have evolved beyond the myth that entrepreneurs are born, not made. Peter Drucker, recognized as one of the leading management thinkers of the twentieth century, said, “The entrepreneurial mystique? It’s not magic, it’s not mysterious, and it has nothing to do with the genes. It’s a discipline. And, like any discipline, it can be learned.”¹ Additional support for this view comes from a 10-year literature review of enterprise, entrepreneurship, and small-business management education that reported, “Most of the empirical studies surveyed indicated that entrepreneurship can be taught, or at least encouraged, by entrepreneurship education.”²

Given the widely accepted notion that entrepreneurial ventures are the key to innovation, productivity, and effective competition, the question of whether entrepreneurship can be taught is obsolete. Robert C. Ronstadt posed the more relevant question regarding entrepreneurial education: What should be taught, and how should it be taught? He proposed that entrepreneurial programs should be designed so that potential entrepreneurs are aware of barriers to initiating their entrepreneurial careers and can devise ways to overcome them. He contended that an effective program must show students how to behave entrepreneurially and should also introduce them to people who might be able to facilitate their success.³

Four years later, researchers Robinson and Hayes conducted a survey of universities with enrollments of at least 10,000 students to determine the extent of the growth



in entrepreneurship education.⁴ While significant growth was cited, two specific challenges were pointed out: developing existing programs and personnel, thus improving the quality of the field. There are several obstacles that need to be overcome to facilitate the development of quality in the field. At the heart may be the lack of solid theoretical bases upon which to build pedagogical models and methods, and the lack of formal academic programs, representing a lack of commitment on the part of institutions. Professors Robinson and Hayes believed that entrepreneurship education had come a long way in 20 years, yet there were several weak points in the field that were identified through their research. Of primary concern is the lack of depth in most of the programs that were then started. Further growth would depend upon how new programs were integrated with and nurtured by the established entrepreneurship education system. In the years that followed, we experienced a greater depth in the academic programs as well as newer initiatives to integrate entrepreneurship throughout the campuses.

In more recent times, researchers Solomon, Duffy, and Tarabishy conducted one of the most comprehensive empirical analyses on entrepreneurship education. In their review of entrepreneurship pedagogy, they stated, “A core objective of entrepreneurship education is that it differentiates from typical business education. Business entry is fundamentally a different activity than managing a business.”⁵ They concluded that pedagogy is changing based on a broadening market interest in entrepreneurial education. New interdisciplinary programs use faculty teams to develop programs for the nonbusiness student, and there is a growing trend in courses specifically designed for art, engineering, and science students. In addition to courses focused on preparing the future entrepreneur, instructional methodologies are being developed for those who manage entrepreneurs in organizations, potential resource people (accountants, lawyers, consultants) used by entrepreneurs, and top managers who provide vision and leadership for corporations, which must innovate in order to survive. Today’s entrepreneurship educators are challenged with designing effective learning opportunities for entrepreneurship students.

The current trend in most universities is to develop or expand entrepreneurship programs and design unique and challenging curricula specifically designed for entrepreneurship students. One shining example of this expansionary trend is Dr. Michael H. Morris at the University of Florida, who developed one of the most powerful educational programs for faculty to learn how to teach entrepreneurship. Titled “The Entrepreneurship Experiential Classroom,” this uniquely designed entrepreneurship program has touched the lives of over a thousand faculty members who have experienced the latest curriculum techniques and methods to enhance their own classrooms across the world. Another significant example is the national recognition now being given to the top entrepreneurial schools through awards such as the United States Association for Small Business and Entrepreneurship (USASBE) National Model Programs and the national rankings such as those done by *U.S. News & World Report* and *Fortune Small Business* magazine. This kind of experience is offered to students in innovative entrepreneurship programs recognized by the USASBE. Highlights of these programs can be found at www.usasbe.org. These awarded model programs include undergraduate majors and concentrations, graduate-level programs, innovative pedagogy, and specialized programs. All of these universities have produced entrepreneurship education that has had real impact on students and a lasting impact on the entrepreneurship field.

THE PRACTICE OF ENTREPRENEURSHIP

The final aspect of entrepreneurship is its application in practice. We have seen this exhibited by the thousands of successful entrepreneurs throughout the last 40 years. They and their new ventures have changed our world ... forever! However, it is important to understand the differences between mere opportunistic moneymaking and the real practice of entrepreneurship. For example, in the late 1990s we experienced the dot-com frenzy in which everyone thought they were entrepreneurs simply because they put a business title on the Internet. As



I have pointed out many times, in the 1940s it cost \$20 billion to invent the atomic bomb. It took another \$20 billion to put man on the moon 20 years later. In 1999, the dot-coms burned right through \$20 billion to achieve ... well, nothing really. The dot-com bust hurt more than the cash-burning Internet start-ups and the venture capitalists that funded them. This plague spread like wildfire, collapsing the true entrepreneurial spirit of building one's dream into an enduring entity. Our classrooms became infatuated with the drive for investment and liquidity, fast cash, quick exits, and no real commitment. We pursued an "investment mentality" rather than facilitating the search for an "enduring enterprise." We have survived that time, but it did leave us a legacy to *learn* from. We must again focus on the real goals of entrepreneurs and the motivation that permeates from them. We must educate our next generation of entrepreneurs to learn from the dot-com evaporation and return to the roots of business formation and development. Exit strategies are fine, but they should not dominate the pursuit of entrepreneurial opportunity. One author referred to the dot-com individuals as "opportuneurs" rather than entrepreneurs because they uncoupled wealth from contribution, replaced risk taking with risk faking, and exploited external opportunity rather than pursuing inner vision.⁶

It should be the mission of all entrepreneurship educators to teach the students of today about the *true* entrepreneur. It is the mission of this book to provide an integration of entrepreneurs and their entrepreneurial pursuits into the text material. I want to be sure that today's practicing entrepreneurs and their interesting stories are presented in order to illustrate the real problems and issues involved with their ventures. Students need the exposure to those entrepreneurs who have paid the price, faced the challenges, and endured the failures. I want the lessons learned from our experienced entrepreneurs to "make a difference." It is only by reading about and studying their practices that we can truly learn the real application of the entrepreneurial theories and processes.

FINAL THOUGHTS BEFORE VENTURING INTO THE TEXT

After reviewing the major facets of theory, process, and practice that are so integral to the study of entrepreneurship, the question remains: So how do I approach this subject? The answer is neither complex nor profound. The answer is really an appreciation for your abilities and recognizing that each one of us can make a difference if we try. Remember, the journey of 10,000 miles always starts with the first step! Let this book and your entrepreneurial course be your first step.

Entrepreneurship is the new revolution, and it's about continual innovation and creativity. It is the future of our world economy. Today, the words used to describe the new innovation regime of the twenty-first century are: *dream, create, explore, invent, pioneer, and imagine!* I believe we are at a point in time when the gap between what can be imagined and what can be accomplished has never been smaller. This is the challenge for all of today's entrepreneurship students. To paraphrase the late Robert F. Kennedy in a speech made more than 40 years ago: You are living in one of the rarest moments in education history—a time when all around us the old order of things is crumbling, and a new world society is painfully struggling to take shape. If you shrink from this struggle and the many difficulties it entails, you will betray the trust that your own position forces upon you. You possess one of the most privileged positions; for you have been given the opportunity to educate and to lead. You can use your enormous privilege and opportunity to seek purely your tenure and security. But entrepreneurial history will judge you, and as the years pass, you will ultimately judge yourself on the extent to which you have used your abilities to pioneer and lead into new horizons. In your hands ... is the future of your entrepreneurial world and the fulfillment of the best qualities of your own spirit.⁷



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PART 1



The Entrepreneurial Mind-Set in the Twenty-First Century

CHAPTER 1

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CHAPTER 1



Entrepreneurship: Evolutionary Development— Revolutionary Impact

LEARNING OBJECTIVES

- 1 To examine the historical development of entrepreneurship
- 2 To explore and debunk the myths of entrepreneurship
- 3 To define and explore the major schools of entrepreneurial thought
- 4 To explain the process and framework approaches to the study of entrepreneurship
- 5 To set forth a comprehensive definition of entrepreneurship
- 6 To examine the entrepreneurial revolution taking place today
- 7 To illustrate today's entrepreneurial environment

Entrepreneurial Thought

Most of what you hear about entrepreneurship is all wrong. It's not magic; it's not mysterious; and it has nothing to do with genes. It's a discipline and, like any discipline, it can be learned.

— Peter F. Drucker *Innovation and Entrepreneurship*



1-1 ENTREPRENEURS—BREAKTHROUGH INNOVATORS

Entrepreneurs are individuals who recognize opportunities where others see chaos, contradiction, and confusion. They are aggressive catalysts for change within the marketplace. They have been compared to Olympic athletes challenging themselves to break new barriers, to long-distance runners dealing with the agony of the miles, to symphony orchestra conductors balancing different skills and sounds into a cohesive whole, and to top-gun pilots continually pushing the envelope of speed and daring. Whatever their passion, entrepreneurs are the heroes of today's marketplace. They start companies and create jobs at a breathtaking pace. The global economy has been revitalized because of their efforts, and the world now embraces free enterprise as the most significant force for economic development. The passion and drive of entrepreneurs moves the world of business forward. They challenge the unknown and continuously create breakthroughs for the future.

One anonymous quote sums up the realities for entrepreneurs: "Anyone [can be an entrepreneur] who wants to experience the deep, dark canyons of uncertainty and ambiguity; and who wants to walk the breathtaking highlands of success. But I caution, do not plan to walk the latter, until you have experienced the former."¹

1-2 ENTREPRENEURS VERSUS SMALL-BUSINESS OWNERS: A DISTINCTION

The terms *entrepreneur* and *small-business owner* sometimes are used interchangeably. Although some situations encompass both terms, it is important to note the differences in the titles. Small businesses are independently owned and operated, are not dominant in their fields, and usually do not engage in many new or innovative practices. They may never grow large, and the owners may prefer a more stable and less aggressive approach to running these businesses; in other words, they manage their businesses by expecting stable sales, profits, and growth. Because small firms include those purchased as already established businesses as well as franchises, small-business owners can be viewed as *managers* of small businesses.

On the other hand, entrepreneurial ventures are those for which the entrepreneur's principal objectives are innovation, profitability, and growth. Thus, the business is characterized by innovative strategic practices and sustainable growth. Entrepreneurs and their financial backers are usually seeking rapid growth and immediate profits. They may even seek the sale of their businesses if there is potential for large capital gains. Thus, entrepreneurs may be viewed as having a different perspective from small-business owners on the development of their firms.

In this book, we concentrate on entrepreneurs and the effective development of entrepreneurship, including the entrepreneurial mind-set in established organizations. Some of the particular points in this book may apply to both small-business owners and entrepreneurs; however, keep in mind that our focus is on the aspects of innovation and growth associated with entrepreneurs.

1-3 ENTREPRENEURSHIP: A MIND-SET

Entrepreneurship is more than the mere creation of business. Although that is certainly an important facet, it's not the complete picture. The characteristics of seeking opportunities, taking risks beyond security, and having the tenacity to push an idea through to reality combine into a special perspective that permeates entrepreneurs. As we will illustrate in Chapter 2, an entrepreneurial mind-set can be developed in individuals. The term, "entrepreneurial mindset" represents the cognition and commitment to view the world with an innovative perspective. This composes the entrepreneurial potential in every individual. This mind-set can be exhibited inside or outside an organization, in for-profit or not-for-profit enterprises, and in business or nonbusiness activities for the purpose of bringing forth



creative ideas. Thus, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner. It is this mind-set that has revolutionized the way business is conducted at every level and in every country. It is clear that the world has embraced entrepreneurship and innovation, and the way we view business will never be the same. So it is. The entrepreneurial revolution has taken hold in an economic sense, and the entrepreneurial mind-set is the dominant force.

1-4 THE EVOLUTION OF ENTREPRENEURSHIP

LO5 Set forth a comprehensive definition of entrepreneurship

The word **entrepreneur** is derived from the French *entreprendre*, meaning “to undertake.” The entrepreneur is one who undertakes to organize, manage, and assume the risks of a business. In recent years, entrepreneurs have been doing so many things that it is now necessary to broaden this definition. Today, an entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these efforts.²

The entrepreneur is the aggressive catalyst for change in the world of business. He or she is an independent thinker who dares to be different amid a background of common events. The literature of entrepreneurial research reveals some similarities, as well as a great many differences, in the characteristics of entrepreneurs. Chief among these characteristics are personal initiative, the ability to consolidate resources, management skills, a desire for autonomy, and risk taking. Other characteristics include aggressiveness, competitiveness, goal-oriented behavior, confidence, opportunistic behavior, intuitiveness, reality-based actions, the ability to learn from mistakes, and the ability to employ human relations skills.³

Although no single definition of *entrepreneur* exists and no one profile can represent today's entrepreneur, research is beginning to provide an increasingly sharper focus on the subject. A brief review of the history of entrepreneurship illustrates this.

The world currently is in the midst of a new wave of business and economic development, and entrepreneurship is its catalyst. Yet the social and economic forces of entrepreneurial activity existed long before the new millennium. In fact, the entrepreneurial spirit has driven many of humanity's achievements.

Humanity's progress—from caves to campuses—has been explained in numerous ways. But central to virtually all of these theories has been the role of the “agent of change,” the force that initiates and implements material progress. Today we recognize that the agent of change in human history has been, and most likely will continue to be, the entrepreneur.⁴

The recognition of entrepreneurs dates back to eighteenth-century France, when economist Richard Cantillon associated the “risk-bearing” activity in the economy with the entrepreneur. The Industrial Revolution was evolving in England during the same period, with the entrepreneur playing a visible role in risk taking and the transformation of resources.⁵

The association of entrepreneurship and economics has long been the accepted norm. In fact, until the 1950s, the majority of definitions and references to entrepreneurship had come from economists. For example, the aforementioned Cantillon (1725), the French economist Jean Baptiste Say (1803), and twentieth-century economist Joseph Schumpeter (1934) all wrote about entrepreneurship and its impact on economic development.⁶ Since that time, researchers have continued to try to describe or define what entrepreneurship is all about. Following are some examples:

Entrepreneurship . . . consists in doing things that are not generally done in the ordinary course of business routine; it is essentially a phenomenon that comes under the wider aspect of leadership.⁷

Entrepreneurship, at least in all nonauthoritarian societies, constitutes a bridge between society as a whole, especially the noneconomic aspects of that society, and the profit-oriented institutions established to take advantage of its economic endowments and to satisfy, as best they can, its economic desires.⁸

In . . . entrepreneurship, there is agreement that we are talking about a kind of behavior that includes: (1) initiative taking, (2) the organizing or reorganizing of social economic mechanisms to turn resources and situations to practical account, and (3) the acceptance of risk of failure.⁹

LO1 Examine the historical development of entrepreneurship



After reviewing the evolution of entrepreneurship and examining its varying definitions, Robert C. Ronstadt put together a summary description:

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources.¹⁰

Entrepreneurship as a topic for discussion and analysis was introduced by the economists of the eighteenth century, and it continued to attract the interest of economists in the nineteenth century. In the twentieth century, the word *entrepreneurship* became synonymous—or at least closely linked—with free enterprise and capitalism. Also, it was generally recognized that entrepreneurs serve as agents of change; provide creative, innovative ideas for business enterprises; and help businesses grow and become profitable.

Whatever the specific activity they engage in, entrepreneurs in the twenty-first century are considered the heroes of free enterprise. Many of them have used innovation and creativity to build multimillion-dollar enterprises from fledgling businesses—some in less than a decade! These individuals have created new products and services, and have assumed the risks associated with these ventures. Many people now regard entrepreneurship as “pioneer-ship” on the frontier of business.

In recognizing the importance of the evolution of entrepreneurship in the twenty-first century, we have developed an integrated definition that acknowledges the critical factors needed for this phenomenon.

Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion toward the creation and implementation of innovative ideas and creative solutions. Essential ingredients include the willingness to take calculated risks—in terms of time, equity, or career; the ability to formulate an effective venture team; the creative skill to marshal needed resources; the fundamental skill of building a solid business plan; and, finally, the vision to recognize opportunity where others see chaos, contradiction, and confusion.

1-5 AVOIDING FOLKLORE: THE MYTHS OF ENTREPRENEURSHIP

LO2 Explore and debunk the myths of entrepreneurship

Throughout the years, many myths have arisen about entrepreneurship—primarily because of a lack of research on the subject. As many researchers in the field have noted, the study of entrepreneurship is still emerging, and thus “folklore” tends to prevail until it is dispelled with contemporary research findings. Ten of the most notable myths (and an explanation to dispel each myth) are as follows.

1-5a Myth 1: Entrepreneurs Are Doers, Not Thinkers

Although it is true that entrepreneurs tend toward action, they are also thinkers. Indeed, they are often very methodical people who plan their moves carefully. The emphasis today on the creation of clear and complete business plans (see the chapter on the Business Plan Process) is an indication that “thinking” entrepreneurs are as important as “doing” entrepreneurs.

1-5b Myth 2: Entrepreneurs Are Born, Not Made

The idea that the characteristics of entrepreneurs cannot be taught or learned—that they are innate traits one must be born with—has long been prevalent. These traits include aggressiveness, initiative, drive, a willingness to take risks, analytical ability, and skill in human relations. Today, however, the recognition of entrepreneurship as a discipline is helping to dispel this myth. Like all disciplines, entrepreneurship has models, processes, and case studies that allow the topic to be studied and the knowledge to be acquired.



1-5c Myth 3: Entrepreneurs Are Always Inventors

The idea that entrepreneurs are inventors is a result of misunderstanding and tunnel vision. Although many inventors are also entrepreneurs, numerous entrepreneurs encompass all sorts of innovative activity.¹¹ For example, Ray Kroc did not invent the fast-food franchise, but his innovative ideas made McDonald's the largest fast-food enterprise in the world. A contemporary understanding of entrepreneurship covers more than just invention; it requires a complete understanding of innovative behavior in all its forms.

1-5d Myth 4: Entrepreneurs Are Academic and Social Misfits

The belief that entrepreneurs are academically and socially ineffective is a result of some business owners having started successful enterprises after dropping out of school or quitting a job. In many cases, such an event has been blown out of proportion in an attempt to “profile” the typical entrepreneur. Historically, in fact, educational and social organizations did not recognize the entrepreneur. They abandoned him or her as a misfit in a world of corporate giants. Business education, for example, was aimed primarily at the study of corporate activity. Today the entrepreneur is considered a hero—socially, economically, and academically. No longer a misfit, the entrepreneur is now viewed as a professional role model.

1-5e Myth 5: Entrepreneurs Must Fit the Profile

Many books and articles have presented checklists of characteristics of the successful entrepreneur. These lists were neither validated nor complete; they were based on case studies and on research findings among achievement-oriented people. Today we realize that a standard entrepreneurial profile is hard to compile. The environment, the venture, and the entrepreneur have interactive effects, which result in many different types of profiles. Contemporary studies conducted at universities across the world will, in the future, provide more accurate insights into the various profiles of successful entrepreneurs. As we will show in Chapter 2, an “entrepreneurial mind-set” within individuals is more understandable and realistic than a particular profile.

1-5f Myth 6: All Entrepreneurs Need Is Money

It is true that a venture needs capital to survive; it is also true that a large number of business failures occur because of a lack of adequate financing. However, money is not the only bulwark against failure. Failure due to a lack of proper financing often is an indicator of other problems: managerial incompetence, lack of financial understanding, poor investments, poor planning, and the like. Many successful entrepreneurs have overcome a lack of money while establishing their ventures. To those entrepreneurs, money is a resource but never an end in itself.

1-5g Myth 7: All Entrepreneurs Need Is Luck

Being in “the right place at the right time” is always an advantage—but “luck happens when preparation meets opportunity” is an equally appropriate adage. Prepared entrepreneurs who seize the opportunity when it arises often seem “lucky.” They are, in fact, simply better prepared to deal with situations and turn them into successes. What appears to be luck is actually preparation, determination, desire, knowledge, and innovativeness.

1-5h Myth 8: Entrepreneurship Is Unstructured and Chaotic

There is a tendency to think of entrepreneurs as gunslingers—people who shoot from the hip and ask questions later. They are assumed by some to be disorganized and unstructured, leaving it to others to keep things on track. The reality is that entrepreneurs are heavily involved in all facets of their ventures, and they usually have a number of balls in the air at



THE ENTREPRENEURIAL PROCESS

The E-Myth

Michael E. Gerber has written a book titled *The E-Myth: Why Most Businesses Don't Work and What to Do About It*, in which he clearly delineates the differences among the types of people involved with contemporary small businesses:

- The *entrepreneur* invents a business that works without him or her. This person is a visionary who makes a business unique by imbuing it with a special and exciting sense of purpose and direction. The entrepreneur's far-reaching perspective enables him or her to anticipate changes and needs in the marketplace and to initiate activities to capitalize on them.
- The *manager* produces results through employees by developing and implementing effective systems and, by interacting with employees, enhances their self-esteem and ability to produce good results. The manager can actualize the entrepreneur's vision through planning, implementation, and analysis.
- The *technician* performs specific tasks according to systems and standards management developed. The technician, in the best of businesses, not only gets the work done but also provides input to supervisors for improvement of those systems and standards.

Understanding these definitions is important, because Gerber contends that most small businesses **don't work**—their owners do. In other words, he believes that today's small-business owner works too hard at a job that he or she has created for himself or herself rather than working to create a business. Thus, most small businesses fail because the owner is more of a technician than an entrepreneur. Working only as a technician, the small-business owner realizes too little reward for so much effort, and eventually, according to Gerber, the business fails.

The e-myth is that today's business owners are not true entrepreneurs who create businesses but merely technicians who have created a job for themselves. The solution to this myth lies in the owner's willingness to begin thinking and acting like a true entrepreneur: to imagine how the business would work without him or her. In other words, the owner must begin working **on** the business, in addition to working **in** it. He or she must leverage the company's capacity through systems development and implementation. The key is for a person to develop an "entrepreneurial perspective."

Source: Adapted from Michael E. Gerber, *The E-Myth Revisited: Why Most Businesses Don't Work and What to Do About It* (New York: Harper Collins, 1995, 2001) and personal interview.

the same time. As a result, they are typically well-organized individuals. They tend to have a system—perhaps elaborate, perhaps not—that is personally designed to keep things straight and maintain priorities. In fact, their system may seem strange to the casual observer, but it works.

1-5i Myth 9: Most Entrepreneurial Initiatives Fail

The common mythical statement is that 9 out of 10 new ventures fail. The facts do not support such a contention. The statistics of entrepreneurial failure rates have been misleading over the years. In fact, one researcher, Bruce A. Kirchoff, has reported that the "high failure rate" most commonly accepted might be misleading. In 1993, Kirchoff traced 814,000 businesses started in 1977 and found that more than 50 percent were still surviving under their original owners or new owners. Additionally, 28 percent voluntarily closed down, and only 18 percent actually "failed" in the sense of leaving behind outstanding liabilities.¹² More recent studies have supported the fact that new ventures do not fail at such an alarming rate.¹³

While many entrepreneurs do suffer a number of failures before they are successful, they follow the adage "If at first you don't succeed, try, try, again." In fact, failure can teach many lessons to those willing to learn, and often it leads to future successes. This is clearly shown by the **corridor principle**, which states that, with every venture launched, new and unintended opportunities often arise.

1-5j Myth 10: Entrepreneurs Are Extreme Risk Takers

As we will show in Chapter 2, the concept of risk is a major element in the entrepreneurial process. However, the public's perception of the risk most entrepreneurs assume is distorted. Although it may appear that an entrepreneur is "gambling" on a wild chance, the



entrepreneur is usually working on a moderate or “calculated” risk. Most successful entrepreneurs work hard—through planning and preparation—to minimize the risk involved and better control the destiny of their vision.

These ten myths have been presented to provide a background for today’s current thinking on entrepreneurship. By sidestepping the folklore, we can build a foundation for critically researching the contemporary theories and processes of entrepreneurship.

1-6 APPROACHES TO ENTREPRENEURSHIP

To understand the nature of entrepreneurship and better recognize its emerging importance, it is important to consider some of its theory development. The research on entrepreneurship has grown dramatically over the years. As the field has developed, research methodology has progressed from empirical surveys of entrepreneurs to more contextual and process-oriented research. Theory development is what drives a field of study. Entrepreneurship theory has been developing for the last 40 years, and it is apparent that the field is growing. We need to understand some of that development to better appreciate the discipline of entrepreneurship. The study of the basic theories in entrepreneurship also helps to form a foundation upon which a student can build an understanding of the process and practice of entrepreneurship.

A *theory of entrepreneurship* is a verifiable and logically coherent formulation of relationships, or underlying principles, that either explain entrepreneurship, predict entrepreneurial activity (e.g., by characterizing conditions that are likely to lead to new profit opportunities or to the formation of new enterprises), or provide normative guidance (that is, prescribe the right action in particular circumstances).¹⁴ It has become increasingly apparent in the new millennium that we need to have some cohesive theories or classifications to better understand this emerging field.

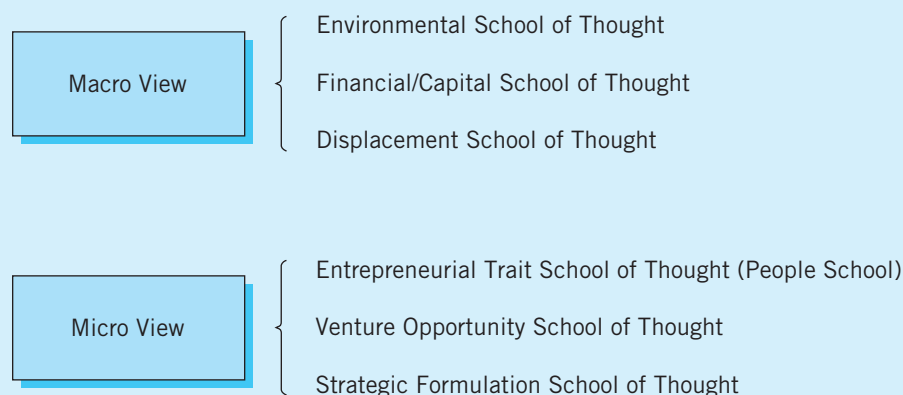
In the study of contemporary entrepreneurship, one concept recurs: Entrepreneurship is interdisciplinary. We outline, in the following sections, various approaches that can increase our understanding of the field.¹⁵

1-6a Schools-of-Thought Approaches to Entrepreneurship

LO3 Define and explore the major schools of entrepreneurial thought

A schools-of-thought approach divides entrepreneurship into specific activities, either macro or micro in viewpoint, but both address the conceptual nature of entrepreneurship. We further break down each of these two major views into six distinct schools of thought, three of which apply to the micro and three to the macro view (see Figure 1.1). Although this presentation does not purport to be all-inclusive, neither does it claim to limit the schools to these

FIGURE 1.1 ENTREPRENEURIAL SCHOOLS-OF-THOUGHT APPROACH





six, for a movement may develop for unification or expansion. Whatever the future holds, however, it is important to become familiar with these conceptual ideas on entrepreneurship to avoid the semantic warfare that has plagued general management thought for so many years.¹⁶

THE MACRO VIEW

The **macro view of entrepreneurship** presents a broad array of factors that relate to success or failure in contemporary entrepreneurial ventures. This array includes external processes that are sometimes beyond the control of the individual entrepreneur, for they exhibit a strong **external locus of control** point of view.

Three schools of entrepreneurial thought represent a breakdown of the macro view: (1) the **environmental school of thought**, (2) the **financial/capital school of thought**, and (3) the **displacement school of thought**. The first of these is the broadest and most pervasive school.

The Environmental School of Thought The environmental school of thought deals with the external factors that affect a potential entrepreneur's lifestyle. These can be either positive or negative forces in the molding of entrepreneurial desires. The focus is on institutions, values, and mores that—grouped together—form a sociopolitical environmental framework that strongly influences the development of entrepreneurs.¹⁷ For example, if a middle manager experiences the freedom and support to develop ideas, initiate contracts, or create and institute new methods, the work environment will serve to promote that person's desire to pursue an entrepreneurial career. Another environmental factor that often affects the potential development of entrepreneurs is their social group. The atmosphere of friends and relatives can influence the desire to become an entrepreneur.

The Financial/Capital School of Thought The financial/capital school of thought is based on the capital-seeking process—the search for seed and growth capital is the entire focus of this entrepreneurial emphasis. Certain literature is devoted specifically to this process, whereas other sources tend to treat it as but one segment of the entrepreneurial venture.¹⁸ In any case, the venture capital process is vital to an entrepreneur's development. Business-planning guides and texts for entrepreneurs emphasize this phase, and development seminars that focus on the funds application process are offered throughout the country on a continuous basis. This school of thought views the entire entrepreneurial venture from a financial management standpoint. As is apparent from Table 1.1, decisions involving finances occur at every major point in the venture process.

The Displacement School of Thought The displacement school of thought focuses on the negative side of group phenomena, in which someone feels out of place—or is literally “displaced”—from the group. It holds that the group hinders a person from

TABLE 1.1 FINANCIAL ANALYSIS EMPHASIS

Venture Stage	Financial Consideration	Decision
Start-up or acquisition	Seed capital Venture capital sources	Proceed or abandon
Ongoing	Cash management Investments Financial analysis and evaluation	Maintain, increase, or reduce size
Decline or succession	Profit question Corporate buyout Succession question	Sell, retire, or dissolve operations



advancing or eliminates certain critical factors needed for that person to advance. As a result, the frustrated individual will be projected into an entrepreneurial pursuit out of his or her own motivations to succeed. As researchers have noted, individuals fight adversity and tend to pursue a venture when they are prevented or displaced from doing other activities.¹⁹ Three major types of displacement illustrate this school of thought:

1. **Political displacement.** Caused by factors ranging from an entire political regime that rejects free enterprise (international environment) to governmental regulations and policies that limit or redirect certain industries.
2. **Cultural displacement.** Deals with social groups precluded from professional fields. Ethnic background, religion, race, and sex are examples of factors that figure in the minority experience. Increasingly, this experience turns various individuals away from standard business professions and toward entrepreneurial ventures. In the United States minority businesses represented 15 percent of all businesses during the last 20 years.²⁰
3. **Economic displacement.** Concerned with the economic variations of recession and depression. Job loss, capital shrinkage, or simply “bad times” can create the foundation for entrepreneurial pursuits, just as it can affect venture development and reduction.²¹

These examples of displacement illustrate the external forces that can influence the development of entrepreneurship. Cultural awareness, knowledge of political and public policy, and economic indoctrination will aid and improve entrepreneurial understanding under the displacement school of thought. The broader the educational base in economics and political science, the stronger the entrepreneurial understanding.

THE MICRO VIEW

The **micro view of entrepreneurship** examines the factors that are specific to entrepreneurship and are part of the **internal locus of control**. The potential entrepreneur has the ability, or control, to direct or adjust the outcome of each major influence in this view. Although some researchers have developed this approach into various definitions and segments, our approach presents the *entrepreneurial trait* theory (sometimes referred to as the “people school of thought”), the *venture opportunity* theory, and the *strategic formulation* theory. Unlike the macro approach, which focuses on events from the outside looking in, the micro approach concentrates on specifics from the inside looking out. The first of these schools of thought is the most widely recognized.

The Entrepreneurial Trait School of Thought Many researchers and writers have been interested in identifying traits common to successful entrepreneurs.²² This approach of the **entrepreneurial trait school of thought** is grounded in the study of successful people who tend to exhibit similar characteristics that, if copied, would increase success opportunities for the emulators. For example, achievement, creativity, determination, and technical knowledge are four factors that *usually* are exhibited by successful entrepreneurs. Family development and educational incubation are also examined. Certain researchers have argued against educational development of entrepreneurs, because they believe it inhibits the creative and challenging nature of entrepreneurship.²³ Other authors, however, contend that new programs and educational developments are on the increase because they have been found to aid in entrepreneurial development.²⁴ The family development idea focuses on the nurturing and support that exist within the home atmosphere of an entrepreneurial family. This reasoning promotes the belief that certain traits established and supported early in life will lead eventually to entrepreneurial success. (In Chapter 2, the concepts of entrepreneurial cognition and metacognition, which are beginning to take hold in the research on entrepreneurs, are discussed.)

The Venture Opportunity School of Thought The **venture opportunity school of thought** focuses on the opportunity aspect of venture development. The search for idea sources, the development of concepts, and the implementation of venture opportunities are



the important interest areas for this school. Creativity and market awareness are viewed as essential. Additionally, according to this school of thought, developing the right idea at the right time for the right market niche is the key to entrepreneurial success.²⁵

Another development from this school of thought is the previously described *corridor principle*: New pathways or opportunities will arise that lead entrepreneurs in different directions. The ability to recognize these opportunities when they arise and to implement the necessary steps for action are key factors. The maxim that preparation meeting opportunity equals “luck” underlies this corridor principle. Proponents of this school of thought believe that proper preparation in the interdisciplinary business segments will enhance an entrepreneur’s ability to recognize venture opportunities.

The Strategic Formulation School of Thought George Steiner once stated that “strategic planning is inextricably interwoven into the entire fabric of management; it is not something separate and distinct from the process of management.”²⁶ The **strategic formulation school of thought** approach to entrepreneurial theory emphasizes the planning process in successful venture development.²⁷

One way to view strategic formulation is as a leveraging of unique elements.²⁸ Unique markets, unique people, unique products, or unique resources are identified, used, or constructed into effective venture formations. The interdisciplinary aspects of strategic adaptation are apparent in the following characteristic elements (and their corresponding strategies):

- **Unique markets.** **Mountain versus mountain gap strategies**, which refers to identifying major market segments as well as interstice (in-between) markets that arise from larger markets.
- **Unique people.** **Great chef strategies**, which refers to the skills or special talents of one or more individuals around whom the venture is built.
- **Unique products.** **Better widget strategies**, which refers to innovations that encompass new or existing markets.
- **Unique resources.** **Water well strategies**, which refers to the ability to gather or harness special resources (land, labor, capital, raw materials) over the long term.

Without question, the strategic formulation school encompasses a breadth of managerial capability that requires an interdisciplinary approach.²⁹

SCHOOLS OF ENTREPRENEURIAL THOUGHT: A SUMMARY

Although the knowledge and research available in entrepreneurship are in an emerging stage, it is still possible to piece together and describe current schools of thought in the field. We can begin to develop an appreciation for the schools and view them as a foundation for entrepreneurial theory. However, just as the field of management has used a “jungle” of theories as a basis for understanding the field and its capabilities, so too must the field of entrepreneurship use a number of theories in its growth and development.

1-6b Process Approaches to Entrepreneurship

LO4 Explain the process and framework approaches to the study of entrepreneurship

Another way to examine the activities involved in entrepreneurship is through a *process approach*. Although numerous methods and models attempt to structure the entrepreneurial process and its various factors, we shall examine two of the more traditional process approaches here.³⁰

First, we discuss the *integrative* approach, as described by Michael H. Morris, Pamela S. Lewis, and Donald L. Sexton.³¹ Their model incorporates theoretical and practical concepts as they affect entrepreneurship activity. Then we explore the *dynamic states* approach based on a complex systems perspective developed by researchers Jonathan Levie and Benjamin B. Lichtenstein. Both of these methods attempt to describe the entrepreneurial process as a consolidation of diverse factors, which is the thrust of this book.

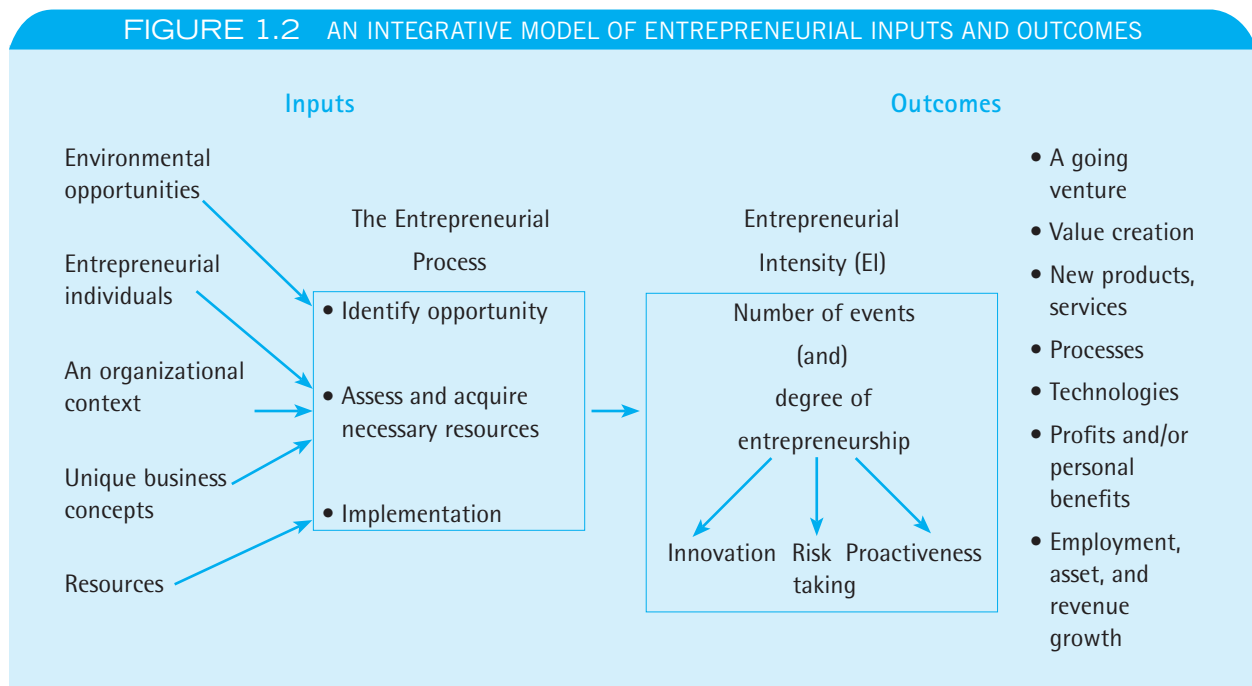


AN INTEGRATIVE APPROACH

A more integrative picture of the entrepreneurial process is provided by Morris, Lewis, and Sexton.³² Presented in Figure 1.2, this model is built around the concepts of input to the entrepreneurial process and outcomes from the entrepreneurial process. The input component of Figure 1.2 focuses on the entrepreneurial process itself and identifies five key elements that contribute to the process. The first element is environmental opportunities, such as a demographic change, the development of a new technology, or a modification to current regulations. Next is the individual entrepreneur, the person who assumes personal responsibility for conceptualizing and implementing a new venture. The entrepreneur develops some type of business concept to capitalize on the opportunity (e.g., a creative approach to solving a particular customer need). Implementing this business concept typically requires some type of organizational context, which could range from a sole proprietorship run out of the entrepreneur's home or a franchise of some national chain to an autonomous business unit within a large corporation. Finally, a wide variety of financial and nonfinancial resources are required on an ongoing basis. These key elements then are combined throughout the stages of the entrepreneurial process. Stated differently, the process provides a logical framework for organizing entrepreneurial inputs.

The outcome component of Figure 1.2 first includes the level of entrepreneurship being achieved. As we shall discuss in more detail in the next chapter, entrepreneurship is a variable. Thus, the process can result in any number of entrepreneurial events and can produce events that vary considerably in terms of how entrepreneurial they are. Based on this level of “entrepreneurial intensity,” final outcomes can include one or more going ventures, value creation, new products and processes, new technologies, profit, jobs, and economic growth. Moreover, the outcome can certainly be failure and thereby include the corresponding economic, psychic, and social costs.

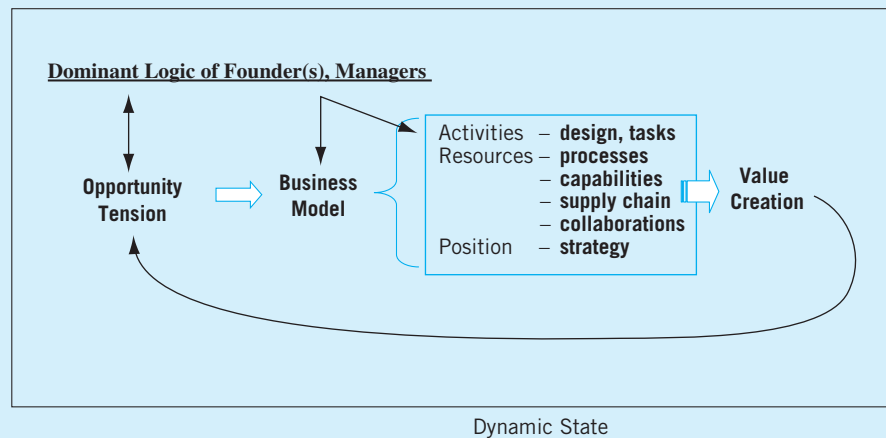
This model not only provides a fairly comprehensive picture regarding the nature of entrepreneurship, it also can be applied at different levels. For example, the model describes the phenomenon of entrepreneurship in both the independent start-up company and within a department, division, or strategic business unit of a large corporation.



Source: Michael H. Morris, Pamela S. Lewis, and Donald L. Sexton, “Reconceptualizing Entrepreneurship: An Input-Output Perspective,” Reprinted with permission from *SAM Advanced Management Journal* 59, no. 1 (Winter 1994): 21–31.



FIGURE 1.3 DYNAMIC STATES APPROACH



Source: Jonathan Levie & Benjamin B. Lichtenstein, (2010). "A Terminal Assessment of Stages Theory: Introducing a Dynamic States Approach to Entrepreneurship," *Entrepreneurship Theory and Practice*, 34, no. 2 (2010): 332. Reproduced with permission of John Wiley & Sons Ltd.

DYNAMIC STATES APPROACH

Researchers Jonathan Levie and Benyamin B. Lichtenstein developed a **dynamic states model** that depicts ventures being dependent on their environment for survival. A dynamic state is a network of relationships and systems that convert opportunity tension into value for a venture's customers, generating new resources that maintain the dynamic state. This model is a more process-oriented view that incorporates an array of individual, organizational, and environmental elements. The strategy for value creation chosen by the firm is enacted by its business model which itself is derived from the emerging dominant logic of the firm. These elements of a dynamic states model are pictured in Figure 1.3. The dynamic states model is more optimistic for entrepreneurs suggesting that smaller and newer firms have more flexibility in making ongoing changes. Thus, it may be easier for new ventures to create a high degree of interdependence between themselves and their environment, enabling entrepreneurs to organize for the current and anticipated demands of their market.³³

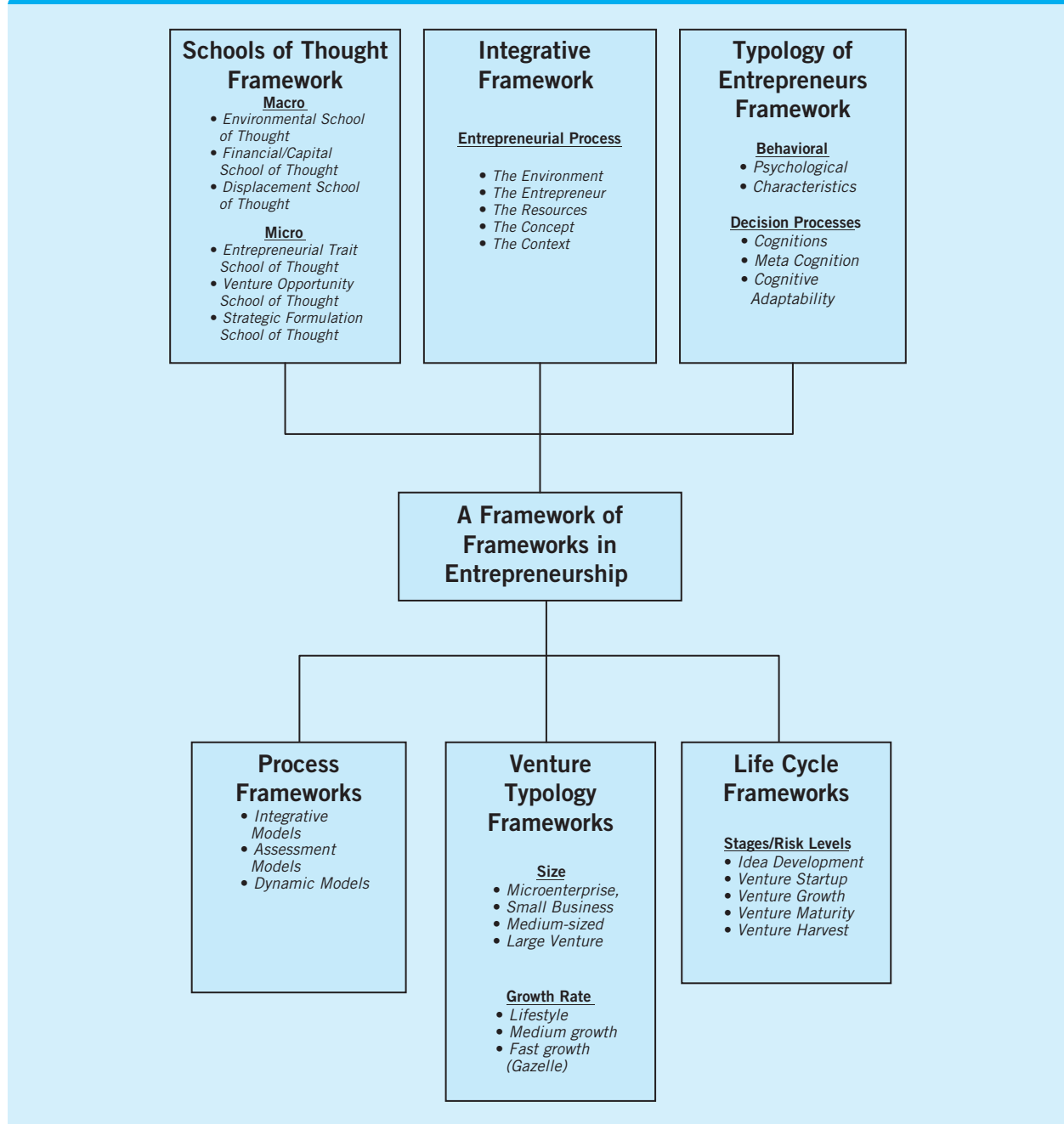
A FRAMEWORK OF FRAMEWORKS APPROACH

Researchers Donald F. Kuratko, Michael H. Morris, and Minet Schindehutte contend that theories or frameworks based on combinations offer a more dynamic view of the phenomenon of entrepreneurship. Much like the "multiple lens" approach that characterizes general management, the theories based on combinations can delve into some of the particular aspects of entrepreneurship with greater granularity.³⁴ As one researcher noted in regards to entrepreneurial decision making; "there are numerous opportunities for multilevel research to make a substantial contribution to the field of entrepreneurship (p. 419)."³⁵

The schools of thought and the process approaches that exist in the field of entrepreneurship are based on a phenomenon that incorporate many diverse and heterogeneous dimensions that only a comprehensive framework approach might afford researchers the capacity to explore and expand the knowledge base. A sizeable body of research has developed that supports the individual frameworks through the schools of thought or through process models but the integration of previously disparate aspects of entrepreneurship may be particularly valuable to advancing the field of entrepreneurship. As such, greater knowledge could be gained from the extrapolation of particular insights from each of the frameworks presented in this approach. Thus a "**framework of frameworks**" that allows for the profession to move forward identifying the static and dynamic elements of new theories, typologies, or frameworks could be an important and distinguishing approach to grow the knowledge base of the field. Figure 1.4 depicts the framework of frameworks approach for entrepreneurship as the nexus of the major strands of entrepreneurship frameworks currently employed.



FIGURE 1.4 A FRAMEWORK OF FRAMEWORKS APPROACH



Source: Donald F. Kuratko, Michael H. Morris, and Minet Schindehutte, "Understanding the Dynamics of Entrepreneurship through Framework Approaches," *Small Business Economics*, 45, no. 1 (2015): 9. Berlin, Germany; Springer Publishing.

1-7 THE ENTREPRENEURIAL REVOLUTION: A GLOBAL PHENOMENON

LO6 Examine the entrepreneurial revolution taking place today

Entrepreneurship is the symbol of business tenacity and achievement. Entrepreneurs were the pioneers of today's business successes. Their sense of opportunity, their drive to innovate, and their capacity for accomplishment have become the standard by which free enterprise is now measured. This standard has taken hold throughout the entire world.

For example, starting with just 10 developed countries in 1999, the Global Entrepreneurship Monitor (GEM) has now grown to include over 70 economies and 100 countries by



2014. In 2013, people were surveyed in 70 economies which account for over 75 percent of the world's population and 90 percent of the world's GDP.

The GEM data has shown that 250 million people were involved in early stage entrepreneurial activity. Out of these individuals, an estimated 63 million people expected to hire at least five employees over the next five years, and 27 million of these individuals anticipated hiring 20 or more employees in five years. The latest GEM analyses shows that growth expectations and aspirations of early-stage entrepreneurs represent a key dimension of potential entrepreneurial impact and may be linked directly to many first-priority policy objectives around the world: to create more jobs. All of this illustrates the contribution of entrepreneurship and the entrepreneurial mindset to job growth across the globe.³⁶

GEM groups the participating economies into three levels: factor-driven, efficiency-driven, and innovation-driven. These are based on the World Economic Forum's (WEF) *Global Competitiveness Report*, which identifies three phases of economic development based on GDP per capita and the share of exports comprising primary goods. According to the WEF classification, the factor-driven phase is dominated by subsistence agriculture and extraction businesses, with a heavy reliance on labor and natural resources. In the efficiency-driven phase, further development is accompanied by industrialization and an increased reliance on economies of scale, with capital-intensive large organizations more dominant. As development advances into the innovation-driven phase, businesses are more knowledge-intensive, and the service sector expands.

Lessons gleaned from the GEM studies included:

- Entrepreneurship does not impact an economy simply through higher numbers of entrepreneurs. It is important to consider quality measures, like growth, innovation, and internationalization.
- Entrepreneurship needs both dynamism and stability. Dynamism occurs through the creation of new businesses and the exit of nonviable ones. Stability comes from providing new businesses with the best chance to test and reach their potential.
- Entrepreneurship in a society should contain a variety of business phases and types, led by different types of entrepreneurs, including women and underrepresented age groups.
- Initiatives aimed toward improving entrepreneurship should consider the development level of the economy. With a strong set of basic requirements in place, efforts can turn toward reinforcing efficiency enhancers, and then building entrepreneurship framework conditions.
- An entrepreneurial mind-set is not just for entrepreneurs. It must include a variety of stakeholders that are willing to support and cooperate with these dynamic efforts. In addition, nonentrepreneurs with entrepreneurial mind-sets may indirectly stimulate others to start businesses. This indicates the value of broader societal acceptance of entrepreneurship.³⁷

It is clear that we have experienced an **Entrepreneurial Revolution** across the world. This revolution will continue to be as important (if not more!) to the twenty-first century as the Industrial Revolution was to the twentieth century.

Entrepreneurs will continue to be critical contributors to economic growth through their leadership, management, innovation, research and development effectiveness, job creation, competitiveness, productivity, and formation of new industry.

To understand the nature of entrepreneurship, it is important to consider from two perspectives the environment in which entrepreneurial firms operate. The first perspective is statistical, providing actual aggregate numbers to emphasize the importance of small firms in the U.S. economy. The second perspective examines some of the trends in entrepreneurial research and education to reflect the emerging importance of entrepreneurship in academic developments.

1-7a The Impact of Entrepreneurial Ventures in the United States

The past 20 years have witnessed the powerful emergence of entrepreneurial activity in the United States. Many statistics illustrate this fact. For example, the U.S. Small Business Administration reported that, during the past 10 years, new business start-ups numbered



over 400,000 *per year*. Although many of these incorporations may have previously been sole proprietorships or partnerships, the trend still demonstrates the popularity of venture activity, whether through start-ups, expansions, or development. More specifically, in the second decade of the new millennium, we have witnessed the number of businesses in the United States soar to more than 28 million, and that number is still growing at a rate of 2 percent annually. Let us examine some of the historical numbers supporting this phenomenon.

The United States consistently exhibits one of the highest entrepreneurship rates in the developed world. Entrepreneurship provides job options for those who see opportunities and those who need a *source* of income. They affect the U.S. economy as both current and future employers. Entrepreneurs additionally play key roles as suppliers, customers, and service providers for other businesses, creating value and employment beyond their specific organizations. According to the 2014 GEM Report on the United States, an estimated 25 million Americans were starting or running new ventures, and 7.7 million projected that they would employ six or more people in the next five years. In addition to these entrepreneurs, an estimated 14 million Americans were running established ventures with 3.2 million planning to employ six or more employees in the years ahead. 13 percent of the U.S. working age population was in the process of starting or running a new business—the highest entrepreneurship rate reported among the 25 developed economies that participated in GEM Global Study from North America, Europe, and Asia. The majority of entrepreneurs in the United States start businesses to pursue an opportunity; however, necessity-motives remain persistently higher than before the recession. The United States has the highest rate of entrepreneurship among 55–64 year olds in the 25 developed economies studied as they are more confident in their abilities to start businesses than those 18–44 years of age.³⁸

According to the *Kauffman Index of Entrepreneurial Activity, 1996–2010*,³⁹ a leading indicator of new business creation in the United States, 0.34 percent of American adults created a business per month in 2010, or 565,000 new businesses representing the highest level of entrepreneurship over the past decade and a half. With the economic recovery period from 2011 through 2014, the new venture creation levels dipped to 0.28 percent signifying improving conditions for employment.

The U.S. Small Business Administration reports that smaller firms reached a record total of 28.2 million by 2014. Of these, approximately 6 million were employing firms, and they accounted for 49.6 percent of U.S. private-sector jobs. Small firms made up 99.7 percent of U.S. employing firms. Further, women- and minority-owned businesses increased. Minority-owned businesses numbered 5.8 million, a 45.6 percent increase over the last five years; women-owned businesses totaled 7.8 million, a 20.1 percent increase over the five-year span.⁴⁰

In examining the age factor, 15 percent of the self-employed were less than 35 years old, yet older Americans are also more likely than before to be their own boss. The percent of the self-employed population who were between the ages of 55 and 64, for instance, grew from 16.4 percent in 2000 to 22.2 percent later in the decade. This trend is perhaps an indicator that more baby boomers have sought “lifestyle entrepreneurship” or a second career later in life.⁴¹

Entrepreneurs will continue to be the answer to any economic downturn, and they will continue to lead economic growth in several different ways. Entrepreneurs enter and expand existing markets, thereby increasing competition and economic efficiency. Entrepreneurs also create entirely new markets by offering innovative products. These new markets present profit opportunities to others, further spurring economic growth. Additionally, a full 14 percent of entrepreneurs who started a business claimed their product had no direct competitor—a clear indication of new markets being created by entrepreneurs.

Some of the reasons cited for the exceptional entrepreneurial activity in the United States include:

- The United States is a culture that supports risk taking and seeking opportunities.
- Americans are relatively alert to unexploited economic opportunity and have a relatively low fear of failure.
- The United States is a leader in entrepreneurship education at both the undergraduate and graduate levels.
- The United States is home to a high percentage of individuals with professional, technological, or business degrees, a group that registers at the highest entrepreneurial activity rate.



Overall, every study continues to demonstrate that entrepreneurs' ability to expand existing markets and create new markets makes entrepreneurship important for individuals, firms, and entire nations.⁴²

1-7b The Impact of Gazelles

LO7 Illustrate today's entrepreneurial environment

New and smaller firms create the most jobs in the U.S. economy (and across the globe, for that matter). The facts speak for themselves: The vast majority of these job-creating companies are fast-growing businesses. David Birch of Cognetics, Inc. named these firms *gazelles*.⁴³ A *gazelle*, by Birch's definition, is a business establishment with at least 20 percent sales growth every year (for five years), starting with a base of at least \$100,000.

The "gazelle factor" may be the most important finding in economic growth. Consider that, despite the continual downsizing in major corporations over the last decade, gazelles produced 5 million jobs and brought net employment growth to 4.2 million jobs. More recently, gazelles (which currently number about 358,000 or 4 percent of all ongoing companies) generated practically as many jobs (10.7 million) as the entire U.S. economy (11.1 million) during the same period.

Recent global studies are demonstrating consistent results about gazelles. For example, WEF analyzed *Inc.* magazine's "500 Fastest-Growing Private Companies in the US" from 2000 to 2009 and the *Fast Track 100* and *Tech Track 100* rankings of privately held British companies using revenues, revenue growth rates, and the year of incorporation. The WEF also examined the Deloitte Technology *Fast Company* rankings from 13 countries: the United States, Canada, the United Kingdom, Germany, France, Sweden, Norway, Israel, China, India, Japan, Australia, and New Zealand.

In the *Inc.* 500 sample of U.S. companies, the top 1 percent account for 20.5 percent of revenue growth (approximating a 1/20 rule). The top 10 percent of the companies account for 56 percent of growth for the whole 500 companies. The United Kingdom sample in *Fast Track 100* was similar, with the top 1 percent responsible for 20.8 percent and the top 10 percent accounting for 55.2 percent. The *elite few* in the United Kingdom technology sample in *Tech Track* is even more noticeable, with the top 1 percent providing 31.4 percent of growth and the top 10 percent giving 60.3 percent.⁴⁴

In another study focused on the United States, entitled *High-Growth Firms and the Future of the American Economy*, it was found that in any given year, the top-performing 1 percent of companies account for some 40 percent of jobs. Within that category, fast-growing "gazelle" companies (three to five years old) make up less than 1 percent of all businesses, yet account for approximately 10 percent of net new jobs in any given year. The "average" company in the top 1 percent generates an astounding 88 net new jobs annually, compared to the two to three net new jobs generated by the average firm in the economy as a whole.⁴⁵ Overall, the extraordinary performance and contribution of these gazelles warrants further recognition as a powerful factor in the economy.⁴⁶ (See Table 1.2 for myths associated with gazelles.)

GAZELLES AND INNOVATION

Gazelles are leaders in innovation, as shown by the following:

- New and smaller firms have been responsible for 55 percent of the innovations in 362 different industries and for 95 percent of all radical innovations.
- Gazelles produce twice as many product innovations per employee as do larger firms.
- New and smaller firms obtain more patents per sales dollar than do larger firms.

GAZELLES AND GROWTH

Note how these growth data indicate the current "Gazelle Factor":

- During the past 10 years, business start-ups have approached nearly 400,000 per year, according to the U.S. Small Business Administration.
- Of approximately 28 million businesses in the United States (based on IRS tax returns), only 17,000 qualify as "large" businesses.



TABLE 1.2 MYTHOLOGY ASSOCIATED WITH GAZELLES

Gazelles are the goal of all entrepreneurs. Creating a gazelle can be rewarding not only financially but professionally; however, not all entrepreneurs are suited to the high-stress environment that running a gazelle induces. The more successful a firm becomes, the more society scrutinizes the actions of the management. Once the world is watching, keeping a gazelle growing takes not only tenacity but composure under extreme pressure.

Gazelles receive venture capital. Although venture capital (VC) firms prefer to invest in gazelles, many gazelles have never received VC funding. With gazelles numbering close to 400,000, less than two percent of these companies have received funding, even in boom times.

Gazelles were never mice. By definition, gazelles are companies created with the intent of high growth and wealth creation, whereas *mice* are companies created with the goal of merely generating income and no intention of growth. Companies can be gazelles at birth; however, many businesses become gazelles later in life. As many as 20 percent of gazelles have been in operation for more than 30 years.

Gazelles are high tech. To be classified as a gazelle, a company must have grown sales by 20 percent for at least a five-year period, starting with a base of at least \$100,000—which can include firms in any industry. This myth most likely stems from the high margins enjoyed by most technology-based companies; however, gazelles are commonly found in low-tech sectors. Two prevalent examples are Best Buy and Starbucks.

Gazelles are global. The scope of a business has no role in its distinction as a gazelle, so even though some gazelles are operating on a global scale, it is not a necessary characteristic. Making the decision to expand overseas prematurely can just as quickly lead to the death of a business as it can lead to its success. Beyond the risks, international trade accounts for more than \$800 billion annually in economic activity—but without careful planning, going global could lead to going out of business.

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- The compound growth rate in the number of businesses over a 12-year span is 3.9 percent.
- Each year, about 14 percent of firms with employees drop from the unemployment insurance rolls, while about 16 percent new and successor firms—firms with management changes—are added. This represents the disappearance or reorganization of half of all listed firms every five years!
- In 2020, demographers estimate that 35 million firms will exist in the United States, up significantly from the 28 million firms that existed in 2014.

GAZELLES AND SURVIVAL

How many gazelles survive? The simple answer is “none.” Sooner or later, all companies wither and die. The more relevant question, therefore, is: Over any particular interval, how many firms die, and to what degree is it a function of their age at the beginning of the period?

The common myth that 85 percent of all firms fail in the first year (or the first two years, according to some versions of the myth) is obviously not true. The origins of this myth have been traced by David Birch, formerly with the Massachusetts Institute of Technology (MIT) and later his own firm, Cognetics, Inc. to a perfectly accurate piece of research stating that 85 percent of all firms fail. This finding may have been extended to become “85 percent of all small start-up firms fail in the first year.”

Whatever the origin of this myth, the more accurate statement is that about half of all start-ups last between five and seven years, depending on economic conditions following the start.

1-7c Legacy of Entrepreneurial Firms

Fostering and promoting entrepreneurial activity has been, and will continue to be, an economic solution for recessions, downturns, and challenges. It is the most powerful economic force ever discovered on our planet, and its success has at least three entrepreneurial components.



First, large existing firms in mature industries that adapted, downsized, restructured, and reinvented themselves in the early 2000s are now thriving, having learned to become more entrepreneurial. As large firms have become leaner, their sales and profits have increased sharply. For example, General Electric, which cut its workforce by 40 percent over the same period, saw its sales increase fourfold, from less than \$20 billion to nearly \$80 billion. This goal was accomplished, in many cases, by returning to the firm's "core competencies" and by contracting out functions formerly done in-house to small firms.

Second, while large existing companies have been transforming themselves, new entrepreneurial companies have been blossoming. Thirty years ago, Nucor Steel was a small manufacturer with a few hundred employees. It embraced a new technology called thin-slab casting that allowed it to thrive, while other steel companies stumbled. Nucor grew to 59,000 employees, with sales of \$3.4 billion and a net income of \$274 million. Newer entrepreneurial companies—some of which did not exist 20 years ago—have collectively created millions of new jobs during the past decade. Among many notable examples, consider Facebook, Twitter, Google, LinkedIn, and YouTube.

Third, thousands of entrepreneurial firms have been founded, including many established by women, minorities, and immigrants. These new companies have footholds in every sector of the economy and can be found in every part of the country. Together they make a formidable contribution to the economy, as many, by hiring on one or two employees, have created most of the net new jobs in the last few years.

In summary, entrepreneurial firms make two indispensable contributions to the U.S. economy. First, they are an integral part of the renewal process that pervades and defines market economies. They also play a crucial role in championing innovations that lead to technological change and productivity growth. In short, they are about change and competition because they change market structure. The U.S. economy is a dynamic, organic entity, always in the process of "becoming," rather than having already arrived. It is about prospects for the future, not the inheritance of the past.

Second, entrepreneurial firms are the essential mechanism by which millions enter the economic and social mainstream of American society. Small businesses enable millions of people—including women, minorities, and immigrants—to access the American dream. The greatest source of U.S. strength has always been the dream of economic growth, equal opportunity, and upward mobility. In this evolutionary process, entrepreneurship plays the crucial and indispensable role of providing the "social glue" that binds together both high-tech and "Main Street" activities.⁴⁷

New-business formation is the critical foundation for any net increase in global employment. All of our detailed information provides insight into why the global economic future may well lie in the development of our entrepreneurial abilities.

1-8 TWENTY-FIRST-CENTURY TRENDS IN ENTREPRENEURSHIP RESEARCH

As we continue our study of entrepreneurship, it is important to note the research and educational developments that have occurred in this century. The major themes that characterize recent research about entrepreneurs and new-venture creation can be summarized as follows:

1. *Venture financing*, including both venture capital and angel capital financing as well as other innovative financing techniques, emerged in the twenty-first century with unprecedented strength, fueling entrepreneurship throughout the world.⁴⁸
2. *Corporate entrepreneurship* (entrepreneurial actions within large organizations) and the need for the entrepreneurial mind-set among employees have gained greater acceptance during the past few decades.⁴⁹
3. *Social entrepreneurship* has emerged with unprecedented popularity among the new generation of entrepreneurs seeking innovative solutions to world problems.⁵⁰
4. *Entrepreneurial cognition* (examining the ways that entrepreneurs think and act) is a wave of research on the psychological aspects of the entrepreneurial process.⁵¹



THE ENTREPRENEURIAL PROCESS

The Best Business Schools for Entrepreneurship

In examining the various rankings of entrepreneurship programs over the last five years the following universities have consistently been noted as among the very best in the world.

The Best Graduate Programs in Entrepreneurship

Indiana University–Bloomington**
Stanford University
Harvard University
Massachusetts Institute of Technology
University of California–Berkeley**
Babson College

The Best Undergraduate Programs in Entrepreneurship

Indiana University–Bloomington**
University of Pennsylvania
University of Southern California
University of Arizona**
Babson College

**denotes public university

Source: Adapted from “Best Colleges for Aspiring Entrepreneurs,” *Fortune Small Business* (2007); “Venture Education,” *Fortune Magazine* (2010); and “Best Business School Rankings” *U.S. News & World Report* (2007 through 2015).

5. *Women and minority entrepreneurs* have emerged in greater numbers over the last two decades. They appear to face obstacles and difficulties different from those that other entrepreneurs face.⁵²
6. The *global entrepreneurial movement* is increasing, judging by the enormous growth of interest in entrepreneurship around the world in the past few years.⁵³
7. *Family businesses* have become a stronger focus of research. The economic and social contributions of entrepreneurs with family businesses have been shown to make immensely disproportionate contributions to job creation, innovation, and economic renewal.⁵⁴
8. *Entrepreneurial education* has become one of the hottest topics in business and engineering schools throughout the world. It has even expanded across campuses to include almost every major discipline. The number of schools teaching entrepreneurship courses has grown from as few as a dozen 35 years ago to more than 3,000 schools offering majors or minors in entrepreneurship at this time.⁵⁵

1-9 KEY ENTREPRENEURSHIP CONCEPTS

Before concluding our discussion of the nature of entrepreneurship, we need to put into perspective three key concepts: entrepreneurship, entrepreneur, and entrepreneurial management.

1-9a Entrepreneurship

Entrepreneurship is a dynamic process of vision, change, and creation that requires an application of energy and passion toward the creation and implementation of new ideas and creative solutions. This process of innovation and new-venture creation is accomplished through four major dimensions—individual, organizational, environmental, and process—and is aided by collaborative networks in government, education, and institutions. All of the macro and micro positions of entrepreneurial thought must be considered while recognizing and seizing opportunities that can be converted into marketable ideas capable of competing for implementation in today’s economy.