

Essentials of Entrepreneurship and Small Business Management, 9e (Scarborough)
Chapter 1 The Foundations of Entrepreneurship

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

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

Answer: C

Diff: 1

Learning Obj: 1-1 Define the role of the entrepreneur in business in the United States and around the world.

AACSB: Reflective Thinking

2) The Kauffman Foundation reports that nearly one out of _____ entrepreneurs in the United States start businesses of their own because they cannot find jobs elsewhere.

- A) four
- B) five
- C) six
- D) seven

Answer: B

Diff: 2

Learning Obj: 1-1 Define the role of the entrepreneur in business in the United States and around the world.

AACSB: Reflective Thinking

3) Globally, one in eight adults is actively engaged in launching a business.

Answer: TRUE

Diff: 1

Learning Obj: 1-1 Define the role of the entrepreneur in business in the United States and around the world.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-1 Define the role of the entrepreneur in business in the United States and around the world.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-1 Define the role of the entrepreneur in business in the United States and around the world.

AACSB: Analytical Thinking

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

Answer: TRUE

Diff: 2

Learning Obj: 1-1 Define the role of the entrepreneur in business in the United States and around the world.

AACSB: Analytical Thinking

7) The profile of an entrepreneur includes _____.

A) a desire for responsibility and moderate risk

B) confidence in the ability to succeed and determination

C) a high level of energy, a desire for immediate feedback and a future orientation

D) All the above

Answer: D

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

8) An entrepreneur is one who _____.

A) is willing to attempt to implement a business concept and then give up if it does not meet immediate expectations

B) understands the process of developing an idea and does not need to understand what it means to bring that idea to a viable business concept

C) knows that the concept they are about to develop will result in a profitable business

D) creates a new business concept for the purpose of achieving profit and growth by assembling the necessary resources to capitalize on identified opportunities

Answer: D

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Analytical Thinking

9) All of the following are characteristics of the typical entrepreneur *except* _____.

A) confidence in his/her ability to succeed

B) value of money over achievement

C) desire for immediate feedback

D) a future orientation

Answer: B

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

10) Entrepreneurs are characterized by _____.

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

Answer: D

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

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

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

Answer: C

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

12) Entrepreneurs typically possess _____.

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

Answer: C

Diff: 2

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

13) Entrepreneurs who start businesses because they cannot find work any other way are _____.

- A) necessity entrepreneurs
- B) serial entrepreneurs
- C) opportunity entrepreneurs
- D) corporate cast-offs

Answer: A

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 2

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 1

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Analytical Thinking

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

Answer: TRUE

Diff: 2

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 2

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

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

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

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

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

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

Diff: 3

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

Mini Case 1-1: Hudson's Dilemma

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

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

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

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

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

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

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

Diff: 3

Learning Obj: 1-2 Describe the entrepreneurial profile.

AACSB: Reflective Thinking

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

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

Answer: B

Diff: 2

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Reflective Thinking

21) _____ entrepreneurs are business builders who seek innovative solutions to some of society's most vexing problems.

- A) Social
- B) Opportunistic
- C) Serial
- D) Necessity

Answer: A

Diff: 2

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Reflective Thinking

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

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

Answer: D

Diff: 1

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Reflective Thinking

23) Social entrepreneurs use their skills to create profitable businesses and also to achieve economic, social and environmental goals for the common good.

Answer: TRUE

Diff: 1

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Ethical Understanding and Reasoning

24) Technology offers a significant advantage for entrepreneurs.

Answer: TRUE

Diff: 2

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Information Technology

25) Entrepreneurs choose to enter their particular business fields because they have an interest in them and enjoy those lines of work. They have often made their hobbies their business.

Answer: TRUE

Diff: 2

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 2

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-3A Describe the benefits of entrepreneurship.

AACSB: Reflective Thinking

28) Potential drawbacks of entrepreneurship may include _____.

A) uncertainty of income, risk, long hours, and high stress

B) uncertainty of income, risk, easy hours, and frequent vacations

C) uncertainty of income, risk, long hours, and the immediate accumulation of wealth

D) certainty of income, risk, long hours, and high stress

Answer: A

Diff: 2

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Reflective Thinking

29) According to the Bureau of Labor Statistics, _____ percent of new businesses fail within two years, while _____ percent fail within five years.

A) 34; 52

B) 51; 64

C) 35; 41

D) 51; 31

Answer: A

Diff: 3

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Analytical Thinking

30) Within five years, _____ percent of new businesses will fail.

A) 21

B) 45

C) 52

D) 65

Answer: C

Diff: 2

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Analytical Thinking

31) The majority of new business owners work _____.

A) fewer than 40 hours per week

B) more than 40 hours per week

C) more than 70 hours per week

D) more than 80 hours per week

Answer: B

Diff: 2

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 2

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Reflective Thinking

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

Answer: TRUE

Diff: 2

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-3B Describe the drawbacks of entrepreneurship.

AACSB: Reflective Thinking

35) Globally, the rate of entrepreneurial activity is highest among people between the ages of 20 and 44 and the number of Americans in that age range currently is more than _____ million.

- A) 10
- B) 120
- C) 84
- D) 40

Answer: C

Diff: 3

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Analytical Thinking

36) Factors that feed the economic boom behind entrepreneurship include _____.

- A) demographic and economic factors
- B) technology and cloud computing
- C) the shift to a service-based economy and international opportunities
- D) All of the above

Answer: D

Diff: 1

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Analytical Thinking

37) Which of the following is *not* one of the forces driving the entrepreneurial trend in our country?

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

Answer: A

Diff: 2

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Reflective Thinking

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

- A) Cloud computing.
- B) Mobile marketing.
- C) The Internet.
- D) All of the above

Answer: D

Diff: 1

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Information Technology

39) Entrepreneurs may find benefit from the Internet due to its potential _____.

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

Answer: C

Diff: 2

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Information Technology

40) International opportunities are _____.

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

Answer: B

Diff: 2

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Analytical Thinking

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

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

Answer: C

Diff: 3

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Analytical Thinking

42) Small companies that operate globally from their inception are referred to as _____.

- A) micromultinationals
- B) intrapreneurial ventures
- C) global companies
- D) international companies

Answer: A

Diff: 1

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Reflective Thinking

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

A) Research foreign markets thoroughly.

B) Focus on many countries initially.

C) Utilize government resources designed to help small companies establish an international presence.

D) Forge alliances with local partners.

Answer: B

Diff: 3

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Analytical Thinking

44) The shift to a service economy has not had a significant impact on entrepreneurial opportunities.

Answer: FALSE

Diff: 1

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Reflective Thinking

45) Cloud computing allows businesses to use a variety of applications and has reduced costs and added flexibility.

Answer: TRUE

Diff: 1

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Information Technology

46) Discuss the potential benefits and drawbacks of entrepreneurship.

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

Diff: 3

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Reflective Thinking

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

Answer:

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

Diff: 3

Learning Obj: 1-4 Explain the forces that are driving the growth of entrepreneurship.

AACSB: Reflective Thinking

48) Entrepreneurial couples who work together as co-owners of their business are referred to as _____.

- A) dual entrepreneurs
- B) corporate dropouts
- C) corporate cast-offs
- D) copreneurs

Answer: D

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Reflective Thinking

49) Women in business still experience _____ as they attempt to break the "glass ceiling."

- A) success
- B) opportunities
- C) discrimination
- D) ease of navigation

Answer: C

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

50) The demographic attributes of successful entrepreneurs are _____.

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

Answer: D

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

- 51) Which of the following statements is *not* true regarding the diversity of entrepreneurs?
- A) Minority-owned businesses have come a long way in the past decade, and their success rate is climbing.
 - B) Minority-owned businesses now account for approximately 22 percent of all businesses in the U.S.
 - C) Immigrants with more education and experience than those of the past are coming to the U.S. and succeeding in entrepreneurial ventures.
 - D) The numbers of part-time and home-based entrepreneurs are rising.

Answer: B

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

- 52) Which of the following statements about women-owned businesses is *false*?
- A) The businesses women start tend to be smaller than those men start.
 - B) Women own about 28 percent of all privately-held businesses in the U.S.
 - C) The number of women-owned businesses is growing slower than the national average.
 - D) Women-owned companies are far less likely to attract equity capital investments as those that men start.

Answer: C

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

- 53) _____ percent of all U.S. businesses are family-owned and managed.

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

Answer: D

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Analytical Thinking

- 54) "Copreneurs" are defined as _____.

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

Answer: D

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

55) Which of the following is *not* a characteristic of a successful working relationship between copreneurs?

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

Answer: A

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

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

Answer: D

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

57) Approximately _____ percent of corporate managers who are "cast off" as companies downsize become entrepreneurs.

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

Answer: C

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Analytical Thinking

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

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

Answer: B

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

59) People _____ and older have demonstrated the greatest increase in entrepreneurial activity over the last 25 years of any age group.

- A) 55
- B) 45
- C) 35
- D) 25

Answer: A

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

60) Women now own 31.1 percent of all privately-held businesses in the United States.

Answer: TRUE

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

61) Women play a minor role in the entrepreneurial arena.

Answer: FALSE

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

62) Starting a part-time business is a popular gateway to entrepreneurship.

Answer: TRUE

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Reflective Thinking

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

Answer: TRUE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Reflective Thinking

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

Answer: TRUE

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

69) More than 40 percent of all companies in the world are family-owned.

Answer: FALSE

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

72) Most family businesses survive to the fourth generation.

Answer: FALSE

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 2

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

Answer: TRUE

Diff: 1

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Diverse and Multicultural Work Environments

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

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

Answer:

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

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

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

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

Home-based businesses are booming. Technology and this "homecoming" support nearly 51 percent of U.S. households with some form of home office activity.

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

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

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

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

Diff: 3

Learning Obj: 1-5 Explain the cultural diversity of entrepreneurship.

AACSB: Reflective Thinking

78) Of the 28.8 million businesses in the United States, more than _____ percent are considered small.

- A) 50
- B) 75
- C) 88
- D) 99

Answer: D

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

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

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

Answer: B

Diff: 1

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

80) The nation's small businesses _____.

- A) employ more than 48 percent of the nation's private sector workforce
- B) create more jobs than do big businesses
- C) account for 47 percent of business sales
- D) All of the above

Answer: D

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

81) Small companies _____.

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

Answer: C

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Reflective Thinking

82) The majority of small companies are concentrated in the _____ and _____ industries.

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

Answer: C

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

83) Research shows that the top-performing _____ percent of small companies create 67 percent of the net new jobs in the economy.

- A) 90
- B) 80
- C) 5
- D) 10

Answer: C

Diff: 3

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

84) The young, job-creating small companies are known as _____.

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

Answer: D

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Reflective Thinking

85) Small companies are incubators of new sales ideas, products and services and create _____ times more patents per employee than large companies.

- A) 3
- B) 5
- C) 10
- D) 16

Answer: D

Diff: 3

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

86) "Gazelles" are those businesses that grow at 20 percent or more per year for four years and gross at least \$100,000 in annual sales.

Answer: TRUE

Diff: 3

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Reflective Thinking

87) Small companies have created at least two-thirds of the net new jobs in the U.S. economy.

Answer: TRUE

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

88) Small businesses actually create more jobs than the number of jobs big businesses create.

Answer: TRUE

Diff: 1

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

89) Large companies create significantly more patents and other forms of innovations per research and development dollars spent than small firms.

Answer: FALSE

Diff: 2

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Analytical Thinking

93) Entrepreneurs realize that failure is a possibility, but are not paralyzed by that fear.

Answer: TRUE

Diff: 1

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Reflective Thinking

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

Answer: The resurgence of the entrepreneurial spirit is the most significant economic development in recent business history. Small businesses have introduced innovative products and services, pushed back technological frontiers, created new jobs, opened foreign markets, and in the process, sparked the U.S. economy into regaining its competitive advantage in the world. Approximately 99 percent of all businesses in the U.S. are small businesses. They employ 48 percent of the nation's private sector workforce, created 63 percent of new jobs in the U.S. between 1993 and 2013, produce 46 percent of the country's private GDP, and account for 47 percent of business sales.

Diff: 3

Learning Obj: 1-6 Describe the important role that small businesses play in our nation's economy.

AACSB: Reflective Thinking

95) One hallmark of successful entrepreneurs is the ability to _____.

A) be willing to gamble

B) fail intelligently

C) overlook past successes

D) repeat the same mistake

Answer: B

Diff: 2

Learning Obj: 1-7 Put failure into the proper perspective.

AACSB: Reflective Thinking

96) About 52 percent of new businesses fail within five years.

Answer: TRUE

Diff: 3

Learning Obj: 1-7 Put failure into the proper perspective.

AACSB: Analytical Thinking

97) The following lists the ten deadly mistakes of entrepreneurship:

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

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

Answer:

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

Diff: 3

Learning Obj: 1-7 Put failure into the proper perspective.

AACSB: Analytical Thinking

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

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

Diff: 2

Learning Obj: 1-7 Put failure into the proper perspective.

AACSB: Analytical Thinking

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

A) read a small business book

B) seek knowledge and experience in the field he wishes to enter

C) determine his weaknesses and return to school for a term or two

D) just jump in and learn as he goes

Answer: B

Diff: 3

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

100) Most startup companies can expect to need _____ capital than they anticipate.

A) less

B) the same

C) more

D) within 10% of the

Answer: C

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

101) The primary cause of small business failures is _____.

A) the lack of capital

B) management mistakes

C) poor location

D) improper inventory control

Answer: B

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

102) Entrepreneurs tend to be overly _____ and commonly misjudge the _____ requirements of going into business.

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

Answer: B

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

103) The only people who _____ are those who never do anything or never attempt anything new.

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

Answer: D

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

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

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

Answer: A

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

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

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

Answer: D

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

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

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

Answer: B

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

107) Entrepreneurs can increase their chances for success if they _____.

- A) know their business in depth and develop a solid business plan
- B) manage their financial resources and understand financial statements
- C) learn to manage people and keep in touch with how they react to stress and balance their health needs with the needs of the business
- D) All of the above

Answer: D

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

109) Too many entrepreneurs start their business undercapitalized.

Answer: TRUE

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

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

Answer: TRUE

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

112) As an entrepreneur, you are always working for someone else — your customers.

Answer: TRUE

Diff: 3

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

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

Answer: TRUE

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking

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

Answer: FALSE

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

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

Answer: TRUE

Diff: 1

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

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

Answer: FALSE

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Reflective Thinking

Mini Case 1-1: Hudson's Dilemma

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

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

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

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

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

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

Diff: 2

Learning Obj: 1-8 Explain how an entrepreneur can avoid becoming another failure statistic.

AACSB: Analytical Thinking