Entrepreneurship 3rd edition Bamford Solutions Manual

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Brief Chapter Outline

I. Learning Objectives (text page 19)

- Explain how entrepreneurial founders impact the business world as a whole
- Discuss the importance of an entrepreneurial orientation
- List the triggers that encourage new business formations
- Compare and contrast various types of new business supports
- Explain how you can evaluate those things that you enjoy the most and discover how they may lead to business opportunities

II. Founders are the Reason Why Entrepreneurial Business Works So Well (text pages 24 and 25)

- *Learning Objective 2-1: Explain how entrepreneurial business founders impact the business world as a whole*

III. Evaluating Your Entrepreneurial Orientation (text pages 26 through 29)

- *Learning Objective 2-2: Discuss the importance of an entrepreneurial orientation*

IV. Triggers for Starting a Business (text pages 30 and 31)

- *Learning Objective 2-3: List the triggers that encourage new business formations*

V. Supports (text pages 31 through 33)

- *Learning Objective 2-4: Compare and contrast various types of new business supports*

VI. Form a Business Doing What You Like (text page 36)

- *Learning Objective 2–5: Explain how you can evaluate those things that you enjoy the most and discover how they may lead to business opportunities*

VII. Summary (text page 37)

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Chapter Outline and Lecture notes

1. Learning Objectives (text page 21).

- Explain how entrepreneurial business founders impact the business world as a whole
- Discuss the importance of an entrepreneurial orientation
- List the triggers that encourage new business formations
- Compare and contrast various types of new business supports
- Explain how you can evaluate those things that you enjoy the most and discover how they may lead to business opportunities

2. Founders Are the Reason Why Entrepreneurial Businesses Work So Well

- *Learning Objective 2-1: Explain how entrepreneurial business founders impact the business world as a whole*

A. New businesses have advantages that larger businesses do not have
   i. New businesses
      1. Increased flexibility compared to a larger businesses because the entrepreneur can respond quicker to changes, opportunities, and threats in a business environment
      2. It is typical for new business founders to capture niche markets
      3. The most important and notable advantage for a new business is the founder of the new business is both a manager and an owner
      4. Entrepreneurs in new businesses are dedicated to their work
   ii. Large businesses
      1. Multiple committees in large businesses prevent them from a quick response time to changes, opportunities, and threats in a business environment
      2. Large firms do not have a competitive advantage in niche markets because they can't afford to compete with smaller firms
      3. A major disadvantage in large businesses is that the managers do not have ownership in the business. As a

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result, they do not have any substantial stock ownership in the firm

B. Agency theory is a management theory that argues that individuals act to maximize their own benefit
   i. In large organizations it is typical for the manager to perform for their personal benefit and not the greater good of the firm
   ii. In small organizations it is typical for the entrepreneur to perform for the greater good of the firm

3. Evaluating Your Entrepreneurial Orientation (text pages 26 through 29)

➢ *Learning Objective 2-2: Discuss the importance of an entrepreneurial orientation*

A. Entrepreneurs need to consider the three elements of entrepreneurial orientation before they open a new business (text page 26)
   i. Risk tolerance
      1. Risk tolerance is the amount of risk an entrepreneur is willing to assume when they start a new business
      2. Break-even point
         a. The point when a new business has reached a level where revenue coming into the firm is sufficient to cover expenses.
   ii. Prior experience
      1. Bounded rationality is rational decision making that is constrained by the background and history of the decision maker
         a. Bounded rationality promotes future leaders because they are not limited by past experiences
   iii. Personality orientation of the individual
      1. Personality orientation occurs when an individual examines his/her individual personality
      2. The extroverted and outgoing entrepreneur performs better in a business environment that has extensive interpersonal interactions
      3. The introverted entrepreneur performs better in a business environment that has limited interpersonal interactions
      4. Personality tests evaluate the factors in the environment that sparked an interest that led the entrepreneur to start a new business

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5. Three popular tests include the Myers-Briggs test, the Enneagram, and the Big Five test
    a. The Myers-Briggs test focuses on the following four variables
        i. Extroversion-introversion focuses on an outward or internal variable
        ii. Sensing-intuiting focuses on how individuals gather data
        iii. Thinking-feeling focuses on how people make decisions
        iv. Judgment-perception focuses on order versus flexibility
    b. The Enneagram test evaluates the following nine different personality types
        i. Reformer refers to the idealist/perfectionist personality
        ii. Helper refers to the caring/good interpersonal skills
        iii. Achiever refers to the competent/driven individual
        iv. Individualist refers to the sensitive/dramatic personality type
        v. Investigator refers to the cerebral/focused individual
        vi. Loyalist refers to the committed/pessimistic individual
        vii. Enthusiast refers to the fun-loving/impatient individual
        viii. Peacemaker refers to the easygoing/passive aggressive individual
        ix. Challenger refers to the action oriented, cynical individual.
    c. The Big Five test emerged as a result of data analysis and it explores the following personality traits
        i. Open-mindedness
        ii. Conscientiousness
        iii. Agreeableness
        iv. Emotional stability
        v. Extroversion

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6. Ask students to evaluate their personality using one of these personality tests

4. Triggers for Starting a Business (text pages 30 and 31)

➢ *Learning Objective 2-3: List the triggers that encourage new business formations*

A. Triggers are a result of positive or negative stimuli that encourage an individual or group to initiate a new business
   i. Loss of employment
   ii. Inspired to establish business by other individuals or groups
   iii. Tolerable levels of risk and return
   iv. Financial security
   v. Innovative ideas that inspire improvement
   vi. Inspired by books, entrepreneurs, or seminars
   vii. Life changes associated with crisis
   viii. Observations of incubator or business development in community
   ix. Employed by a firm with no growth potential
      1. Did not graduate from an ivy league college
      2. Women entrepreneurs initiate new businesses
      3. The glass ceiling : Women are unable to climb the corporate ladder in a male-dominated industry or corporation
      4. Women entrepreneurs represent the fastest growing segment of entrepreneurs
      5. Incorrect job fit
B. Triggers are categorized by personal motivations and circumstance motivations
   i. Personal motivations are the strongest motivations
      1. Motivated to change career
      2. Proactive
      3. Goal driven
      4. Circumstance motivations result in defense positioning
         a. Opportunities for potential entrepreneurs present themselves as a result of the environment
         b. Motivated by start-up opportunities from competing factors
         c. Examples of circumstance motivations
         d. Laid-off or displaced worker
         e. Demoted from a prestigious position

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f. Employed at a reduced or discounted pay
g. More flexibility in their lives and families

5. Supports (text pages 31 through 36)

➢ *Learning objective 2-4: Compare and contrast various types of new business supports*

A. Entrepreneurs have many supports and resources available to assist them with their small business needs
B. Supports are unique to the individual entrepreneur
C. Supports are unique to the entrepreneur's geographical location
D. Examples of supports include family, networks, community, and financial support
    i. Family
        1. Ask students to create a list of close family members and compose a list of the capabilities those individuals posses that might provide support to the new business (text page 31 and 32)
        2. New business owners and future entrepreneurs utilize all resources from their family
        3. New businesses are often referred to as a family business
            a. The key staff and decision makers in the business consist of family members
            b. Compared to a non-family-owned business the long-term management of a family business is unique
            c. There are flexible payroll options in a family business
            d. The level of commitment in a family-owned business far exceeds that of a non-family-owned small business
            e. It is possible for a family business to have negative outcomes
                i. It is difficult to fire or reprimand a family member
                ii. A family member could make negative verbal comments that a regular employee would not make
                iii. Nepotism can cause negative outcomes to the other employees

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iv. Ask students to discuss the pros and cons related to a family-operated business

ii. Networks
   a. Networks provide key support resources to entrepreneurs
   b. Former employees are a good network resource
   c. Individuals from fraternal organizations are potential network resources
   d. School organizations provide possible network resources
   e. Other organizations that provide potential network resources are churches or synagogues
   f. Good network resources can prevent corruption and fraud
   g. Good network resources establish legitimacy
   h. Blogs and chat rooms from other similar businesses can be a source of advice
   i. Crowd sourcing sites such as Kickstarter.com and Crowdfunder.com reach out to a wide community online to get funding and advice

iii. Community
   a. The community provides supports that can help prevent or reduce the level or risk for a new business
   b. An incubator is a facility that houses the new business and provides essential services. New businesses are expected to develop and leave the facility often within 18 months of founding.
      ii. Examples include
         1. Office machines
         2. Office Furniture
         3. Telephones
         4. Fax machines
         5. Copy machines
         6. Other maintenance needs for new business
   c. The business incubator provides essential services to assist the new business with their start-up and continued business needs

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iii. Receptionist at a centralized location helps to build credibility for the new business
iv. Offers space to tenant firms at subsidized rates
v. Small Business Assistance Centers are centers that are funded by the Small Business Administration (SBA) that advise individuals with their new business at no cost.
    1. Assist the firm with funding resources
    2. Counseling services provided by retired executives

iv. Financial support
    a. Entrepreneurs must understand the cost/benefit of the new business
    b. Entrepreneurs must utilize financial resources
    c. Entrepreneurs must be able to have a broad understanding of what financial resources are available and a realistic idea of what will be needed to expend.

6. Form a Business Doing What You Like (text page 36)

➢ *Learning Objective 2-5: Explain how you can evaluate those things that you enjoy the most and discover how they may lead to business opportunities*

A. The successful entrepreneurs enjoy their work
B. The time/reward relationship in a new business involves more than a financial reward

7. For Review (text page 37)

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Key Terms

Agency Theory: A managerial theory that believes individuals act to maximize their own benefit. Thus, in settings where there is a split between ownership and control (as in most publicly traded corporations) the agents (managers) must be monitored or they will act to maximize their own benefit, not necessarily that of those who own the firm (the shareholders). (LO 2-1)

Bounded Rationality: Rational decision making that is constrained by the background and history of the person making the decision. (LO 2-2)

Break-even Point: The time when a new business has reached a level where revenue coming into the firm is sufficient to cover expenses. (LO 2-2)

Incubator: A facility that houses new businesses and provides many critical services for the new ventures. New businesses are expected to develop and typically leave the facility often within 18 months of founding. (LO 2-4)

Organizational Slack: Excess resources in an organization that allow for redundancy and the quick deployment of personnel in crisis. (LO 2-1)

Small Business Assistance Centers: Centers funded by the Small Business Administration that provide free advice to individuals wishing to start new businesses. (LO 2-4)

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Suggested Text Responses

Opening Vignette – "Ray Corkran – Entrepreneurship Later In Life" – p. 21

Student responses will vary.

Exercise 1 – p. 24

Student responses will vary.

Exercise 2 – p. 25

Student responses will vary.

Exercise 3 – p. 27

Student responses will vary.

Ethical Challenge – p. 29

Student responses will vary.

Exercise 4 – p. 35

Student responses will vary.

Exercise 5 – p. 36

Student responses will vary.

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Review Questions – p. 37

1. How does the lack of "slack" resources impact new ventures?

The new firm has limited flexibility in responding to issues such as the need to hire replacements if the company loses key individuals.

2. Why is founder involvement in a new venture so critical to its success?

Because the founder has substantial ownership in the company, the founder always acts to maximize the value of the business. If the business makes money, the owner makes money.

3. Is there a minimum level of risk tolerance required to start a business? Explain.

Entrepreneurs should never do anything that does not allow them to sleep at night.

4. How does bounded rationality affect the way an entrepreneur determines what type of business to start?

The individual brings his or her own view of the world to the business. This view places boundaries on what the decision maker will consider as she or he makes decisions. These boundaries are set by experiences, history, culture, and family values.

5. How do you think personality differences matter in the starting of a business?

Outgoing and extroverted personalities may wish to focus on a business with extensive interpersonal interactions. More introverted personalities may with wish to focus on businesses in which interpersonal interactions are more limited such as web based companies.

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6. List some triggers that push people into starting a new business.

Being laid off; being approached with a business idea; reaching a tolerable risk level; receiving evidence that an idea is doable; attending a seminar; reading a book; talking to other entrepreneurs; unable to climb the corporate ladder.

7. Have you experience any of these triggers? Did it cause you to consider starting your own business?

Student responses will vary.

8. Which supports do you believe you might rely on the most if you started your own business?

Supports could include family, networks and community.

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Class Activities and Sample Assignments

1. Divide the class into groups of two or three students. Ask students to choose a business and list their individual risk tolerances. As a group, discuss the cumulative risks associated with a potential new business if the students in each group were partners in that new business. Next, ask the students to analyze the results and decide if they should initiate the new business. Why or why not? (LO 2-2)

2. Ask students to define organizational slack. Discuss whether or not organizational slack is abundant in an entrepreneurial business or a large business. Why? (LO 2-1)

3. Divide the class into groups of two or three students. Ask each group to define bounded rationality and list their individual assessment of bounded rationality. Discuss how bounded rationality can enhance leadership because individuals are not limited by some past experiences. (LO 2-2)

4. In groups, ask students to discuss the key differences in the outcomes of the Myers-Briggs test, the Enneagram, and the Big Five test. Which test would they prefer for themselves? Why? (LO 2-2)

5. Ask the students to discuss their individual likes and dislikes related to opportunities for a new business. Next, ask students if they would consider opening a new business that offered a product that they did not like for the sole purpose that it generated a tremendous amount of profit. Discuss whether or not that new business would be successful over a long period of time. (LO 2-5)

6. Ask students to consider the various supports and resources that are available to them as potential entrepreneurs and list the ones that they think are more important and explain why. Ask students to support their various responses with specific examples. (LO 2-4)

7. Ask students to consider the triggers that would enhance their motivation and increase their efforts to focus on a new business venture. List the triggers on a flip chart and discuss why it is motivational. (LO 2-3)

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Discussion Questions for Online/Hybrid classes

1. Discuss the similarities and differences between entrepreneurial businesses and large businesses. (LO 2-1)

2. Explain the advantages and disadvantages of new business entrepreneurship? (LO 2-1)

3. Compare and contrast the behavior of entrepreneurs versus the behavior of large corporate executives. Why are entrepreneurs more dedicated to their businesses? (LO 2-1)

4. Why is it important for potential entrepreneurs to have a personality that compliments their interest in a potential new business opportunity? Why should entrepreneurs enjoy their work? (LO 2-2 and LO 2-5)

5. What is risk tolerance? Why should potential entrepreneurs analyze their risk tolerance? (LO 2-2)

6. Consider the reasons why potential entrepreneurs decide to pursue entrepreneurship. Compare and contrast personal motivations with circumstance motivations. Discuss what motivates you to consider entrepreneurship. (LO 2-3)

7. Why are minority women-owned firms so popular? In your opinion, does the glass-ceiling exist? Do you believe that it is a barrier that prevents women from promotions to executive-level positions in corporate America? (LO 2-3)

8. If you were a potential entrepreneur, what supports and resources would you use to enhance your new business? Explain why they are important to the success of your new business. (LO 2-4)

9. Suppose you are a new entrepreneur and you hired several family members to fill key positions vacant at your new business. Discuss the ethical issues that might arise between the employees that are relatives and the other employees that work at your new business? (LO 2-4)

10. What is a business incubator? How do they assist entrepreneurs with new business startups? (LO 2-4)

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Discussion Questions for Online/Hybrid classes- Responses

1. **Discuss the similarities and differences between entrepreneurial businesses and large businesses. (LO 2-1)** In a large business, no one person is critical to the business but in an entrepreneurial business the success of the business depends on the founder. Large businesses also have a wide dispersion of knowledge among the employees but an entrepreneurial business relies on the founder with possibly a few employees. Large businesses usually have more financial resources than small businesses.

2. **Explain the advantages and disadvantages of new business entrepreneurship? (LO 2-1)** Entrepreneurial businesses have greater flexibility, can respond quickly to changes and can fill niches that large businesses can't afford to fill. Large firms have the advantage of economies of scale and a depth of knowledge among its employees.

3. **Compare and contrast the behavior of entrepreneurs versus the behavior of large corporate executives. Why are entrepreneurs more dedicated to their businesses? (LO 2-1)** Managers in large businesses tend to act for his or her own benefit whereas the founder acts to maximize the value of the business.

4. **Why is it important for potential entrepreneurs to have a personality that compliments their interest in a potential new business opportunity? Why should entrepreneurs enjoy their work? (LO 2-2 and LO 2-5)** The potential entrepreneur will be involved with the business 24/7 so a person whose personality doesn't fit or who isn't happy will not succeed.

5. **What is risk tolerance? Why should potential entrepreneurs analyze their risk tolerance? (LO 2-2)** Potential entrepreneurs need to determine their personal willingness to accept risk and let that information help them with their decision.

6. **Consider the reasons why potential entrepreneurs decide to pursue entrepreneurship. Compare and contrast personal motivations with circumstance motivations. Discuss what motivates you to consider entrepreneurship. (LO 2-3)** Personal motivations come from the individuals themselves and drive people to make career and life-altering moves. Entrepreneurs driven by personal motivation will be more proactive and drive relentlessly toward their goals.

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7. **Why are minority women-owned firms so popular? In your opinion, does the glass-ceiling exist? Do you believe that it is a barrier that prevents women from promotions to executive-level positions in corporate America? (LO 2-3)** Many women find their career opportunities blocked by the glass ceiling and become entrepreneurs.

8. **If you were a potential entrepreneur, what supports and resources would you use to enhance your new business? Explain why they are important to the success of your new business. (LO 2-4)** Student responses will vary but could include family, networks, and community.

9. **Suppose you are a new entrepreneur and you hired several family members to fill key positions vacant at your new business. Discuss the ethical issues that might arise between the employees that are relatives and the other employees that work at your new business. (LO 2-4)** Responses will vary but could include conflicts among family members, problems with firing a family member, and issues with other employees who are not family members.

10. **What is a business incubator? How do they assist entrepreneurs with new business startups? (LO 2-4)** A business incubator is a facility that house new businesses and provides many critical services for the new ventures. Many new businesses cannot afford a receptionist, space, or other equipment.

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Lecture Links

Lecture Link 2.1: Incubators and the Concept of Legitimacy
(LO 2-4)

New business owners must consider many options when they plan to implement a new business. After generating your innovative business idea, now it is time to analyze what type of support you require to get the operation up and running. Recall from the text that an incubator is a facility that houses new businesses. It provides the essential services for new startups and meets the needs that are required to continue these businesses.

Perhaps you do not have the funding that is required to purchase the essential tools and equipment outright to start the business. You could start it up in the basement, the garage, or your home office. However, consider how a potential investor or partner might view that operation. A new business owner wants to give all their business projects a level of legitimacy not only for investors and potential partners, but also for the purpose of projecting a legitimate and trusted business.

Assume that you have already established your business and in your analysis you realize that you require a business incubator for the business. Conduct research on the internet to find a business incubator firm in your area and complete the questions listed below.

Discussion Questions:

1. Summarize the results of your research for a business incubator in your area. What was the outcome of your research? Be specific.
2. What type of products and services did the companies offer? Were they reasonably priced?
3. Which business incubator would you choose for your new business needs? Provide specific reasons and explain why.
4. Discuss the products and services that you will utilize from a business incubator and why you believe those are the products or services that you need. Be specific.

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Lecture Link 2.1: Incubators and the Concept of Legitimacy (LO 2-4*)* – Notes

Student responses will vary.

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Lecture Links 2.2: Social Networking in Practice
(LO 2-4)

Many new business owners need to consider how they will network in order to promote and develop their new business initiatives. Networking is important for a variety of reasons. In the text, you learned that networks provide key support resources to entrepreneurs. In addition, individuals from various businesses in the community offer support that assist new business owners to pursue their new business goals.

The internet provides a variety of social networking resources that new business owners can join to achieve their network goals. Analyze the various resources that are available to entrepreneurs. Consider the type of networks that you will utilize to promote your business. Conduct research and discuss the following questions:

1. List ten social network resources for entrepreneurs to consider for their new businesses.

2. Compare and contrast the features and benefits of these resources. Discuss the advantages of each resource. Be specific.

3. Discuss which social networking web sites you would consider to join. Why?

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Lecture Links 2-2: Social Networking in Practice
(LO 2-4) – Notes

1. **List ten social network resources for entrepreneurs to consider for their new businesses.** Social networking sites are constantly changing so the student's answers may vary. Some examples may include LinkedIn, Facebook, Twitter, Instagram, Craig's List, Google+, and Snapchat.

2. **Compare and contrast the features and benefits of these resources. Discuss the advantages of each resource. Be specific.** Student's response will vary.

3. **Discuss which social networking web sites you would consider to join. Why?** Student responses will vary.

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Lecture Link 2.3: Do Not Compete Agreements and other Confidentiality Issues (LO 2-3)

Entrepreneurs consider many details when they implement their new business ideas, development, planning, and goals. In the ethical challenge case presented by the authors, you observed an ethical decision that an employee had to make about taking a client list prior to her departure from the company.

Generally, many businesses today ask employees to sign confidentiality agreements, non-compete documents, and other non-disclosure documents. Typically, these documents forbid employees from using client lists, competing with the company for a specified period of time after leaving, and adhering to other specific stipulations. A company could choose to have these documents drawn up by an attorney or other professional. The purpose of such documents is to prevent past employees from taking business away from the company.

Conduct research on the internet to search for do not compete agreements, non disclosure agreements, and confidentiality agreements.

Discussion Questions:

1. Summarize the outcome of your research. What did you discover about non-compete agreements and confidentiality agreements? What legal issues are involved?
2. Discuss what you might do as a new business owner to prevent individuals from using your client lists or other confidential data. What type of documents would you consider enforcing as an entrepreneur?
3. Discuss the possible results of not implementing these types of agreements for your new business.
4. Discuss the actions that you would take as a new business owner if an employee endorsed a confidentiality agreement and later took a client list regardless of the agreement. What are your options? Be specific.

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Lecture Link 2.3: Do Not Compete Agreements and other Confidentiality Issues (LO 2-3) - Notes

Discussion Questions:

1. **Summarize the outcome of your research. What did you discover about non-compete agreements and confidentiality agreements? What legal issues are involved?** A non-compete agreement is an agreement where one party agrees not to start a similar business possibly within a certain geographic area or industry. There are usually term limits to the agreement. A confidentiality agreement is an agreement in which an employee or contractor agrees not to disclose any information about the business. The language of both kinds of agreement needs to be specific. However, in some cases, a court may decide that such an agreement may impede the livelihood of a person and such an agreement may not uphold in court.

2. **Discuss what you might do as a new business owner to prevent individuals from using your client lists or other confidential data. What type of documents will you consider enforcing as an entrepreneur?** Both a non-compete agreement and a confidentiality agreement may help prevent an individual from using your confidential data. A new business owner needs to be careful with confidential information and who he trusts with it.

3. **Discuss the outcome of not implementing these types of agreements for your new business.** Not having such an agreement may allow a former employee to open a similar, competing business nearby.

4. **Discuss the actions that you would take as a new business owner if an employee endorsed a confidentiality agreement and took a client list regardless of the agreement. What are your options? Be specific.** This situation is why a new business owner needs to have a working relationship with a good attorney who can guide him. The new business owner can sue but this usually involves a long, expensive process.

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Bonus Internet Exercises

Bonus Internet Exercise 2.1: Business Risk
(LO 2-4)

In this chapter we discussed that risk tolerance is one of the three elements of entrepreneurial orientation. It was defined as the amount of risk a new business owner is willing to assume when they implementing the new business.

Assume that you already established your new business. Next, perform a search on the internet to discover various types of business risks you might encounter. In the search engine, type in “business risk” and review some articles or web sites that discuss the various types of business risk and answer the following questions.

1. Describe your business. What possible risks to your business did you discover in your research? List at least five types of business risks you found and identify the web site that you used.
2. Discuss each risk and summarize how that risk might adversely affect your new business.
3. What could you do to mitigate that risk? Be specific.

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Bonus Internet Exercise 2.1: Business Risk
(LO 2-4) - Notes

The answers from the students will vary. According to a recent article at Forbes.com [i] the following risks were discussed:

1. Credit
2. Legal
3. Regulatory
4. Operational
5. Hiccups
6. Concentration risk
7. You

Students are encouraged to discuss their new business and discuss what they would do to limit business risk and assure their new business is successful.

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Bonus Internet Exercise 2.2: Organizational Slack: Not for New Businesses
(LO 2-4)

Consider some of the differences between large firms and entrepreneurial businesses. Large organizations have different characteristics than small entrepreneurial firms. For example, organizational slack is defined as the excess resources in an organization but it is not found in an entrepreneurial business (text page 22).

Conduct research on the internet and discover a large organization that could have excess resources, compare it to the resources of an entrepreneurial business, and discuss the questions below.

1. Discuss the two businesses that you researched. List their name, their industry, and the URL address where you found your data.

2. What major differences in resources did you observe? Be specific.

3. Summarize the reasons why the large firm has excess resources and the entrepreneurial business did not.

4. Compare and contrast the two businesses. Discuss other differences that you observed in your research.

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Bonus Internet Exercise 2.3: Personality and the Entrepreneur
(LO 2-3)

The authors in the text emphasized that individuals who are outgoing are considered to be extroverted. Those individuals who have limited interpersonal interactions are said to be introverted. Potential entrepreneurs that are extroverted will thrive in a business that has extensive interpersonal interactions. By comparison, potential entrepreneurs that are introverted will thrive in a business that has limited interpersonal interactions.

Conduct research on the internet to discover a business owner that is extroverted. Next, conduct research to discover a business owner that is introverted.

Discussion Questions:

1. What two businesses did you research? Who are the owners?
2. Discuss the type of business or industry that each business owner performs work.
3. Does an extroverted business owner work well in an industry that has extensive interactions with people? Does an extroverted business owner work well in an industry that has limited interactions with people? Discuss the outcome of your research.
4. Do you believe that an individual's personality type has an impact on the individual's business? Explain your belief.

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Bonus Internet Exercise 2.3: Personality and the Entrepreneur
(LO 2-3) - Notes

Student responses will vary depending on the business selected. Some choices may include Bill Gates, Mark Zuckenburg, Steve Jobs, Michael Dell.

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Critical Thinking Exercises

Critical Thinking Exercise 2.1: The Elements of Entrepreneurial Orientation
(LO 2-2)

As you learned in the text, the three elements of entrepreneurial orientation include risk tolerance, prior experience, and personality orientation of the individual. Entrepreneurs must analyze these elements and make sound business decisions based on the outcome of their assessments.

Summarize your individual personal traits for each of the three elements. Be specific and include an assessment of your break-even point, your bounded rationality, and include the personality test that you focused on to analyze your individual personality.

1. Risk tolerance:
2. Prior experience:
3. Personality orientation:
4. Break-even point analysis:
5. Bounded rationality:
6. Personality test choice:

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Critical Thinking Exercise 2.1: The Elements of Entrepreneurial Orientation (LO 2-2) – Notes

1. ***Risk Tolerance:*** Risk tolerance is the amount of risk an entrepreneur is willing to assume initiating a new business venture. Students should include a brief analysis that estimates their break-even point. A break-even point was defined in the text as the point when the revenue coming into the firm is sufficient to cover expenses.
   NOTE*:* Answers will vary based on the student's personal risk tolerance.

2. ***Prior Experience***: Students define and discuss bounded rationality as the rational decision making that is constrained by the background and history of the decision maker. Bounded rationality encourages future leaders because they are not limited by past experiences.
   NOTE: Answers will vary based on the student's prior business experience.

3. ***Personality Orientation of the Individual:*** This is self-examination of one's own personality. Students may discuss the introverted and extroverted entrepreneur and the three popular personality tests described in the text. The three personality tests are the Myers-Briggs test, the Enneagram, and the Big Five test.
   NOTE: Answers will vary based on the student's prior business experience.

4. ***Break-even Point Analysis:*** The time when a new business has reached a level where revenue coming into the firm is sufficient to cover expenses.

5. ***Bounded Rationality:*** Rational discussion-making that is constrained by the background and history of the person making the decision.
   NOTE: Answers will vary based on the student's prior business experience.

6. ***Personality Test Choice:*** Examination of your own personality.
   Student responses will vary.

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Critical Thinking Exercise 2.2: The Two Categories of Triggers
(LO 2-3)

As we learned in this chapter, triggers can encourage the formation of new business ventures. They are a result of positive and negative stimuli that encourage an individual or group to initiate a new business.
Discussion Questions:

1. Provide specific examples of triggers that encourage the formation of new business ventures.

2. List the two categories of triggers and provide specific examples of each.

3. Which trigger is considered the strongest motivator? Why? Be specific.

4. Discuss which motivator results in defense positioning and explain why.

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Critical Thinking Exercise 2.2: The Two Categories of Triggers
(LO 2-3) - Notes

1. ***Provide specific examples of triggers that encourage the formation of new small business ventures.*** Examples of triggers include having lost employment; having inspired to establish a business by other individuals; determining tolerable levels of risk and return; having financial security; finding innovative ideas that inspire improvement; being inspired by books, entrepreneurs, or seminars; experiencing life changes associated with a crisis; observing incubator or business development in the community; being employed by a firm with no growth potential; not having graduated from an ivy league college; being a woman entrepreneur; and finally having an incorrect job fit. Answers will vary.

2. ***List the two categories of triggers and provide specific examples of each***. The two categories of triggers are personal motivations (internal) and circumstance (external) motivations. An example of a personal motivation is a career change. Two traits related to personal motivation include individuals that are proactive; and individuals that are goal driven. Specific examples of the circumstance motivation are a displaced worker, an individual that was demoted from a prestigious position, or an individual that is employed at a reduced or discounted rate of pay.

3. ***Which triggers are considered the strongest motivations?*** Personal motivations are considered to be the strongest. The personal motivations drive individuals to pursue their goals. As a result, personal motivations are the strongest force that motivates individuals to pursue the goals and dreams of the new small business.

4. ***Discuss which motivations result in defense positioning and explain why***. Circumstance motivations result in defense positioning because opportunities present themselves as a result of the economy; and they are motivated by start-up opportunities from competing factors.

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Critical Thinking Exercise 2.3: Business Assessment
(LO 2-5)

As you learned in the text, entrepreneurs are expected to experience increased success if they enjoy their businesses. Consider your likes and dislikes as they relate to business and entrepreneurship.

Business Assessment		
Business Type	**Likes**	**Dislikes**

Discussion Questions:

1. Summarize the businesses that you listed in the assessment. Why did you choose these businesses? Be specific.
2. Discuss the business type that you like. What do you like about these businesses? Be specific.
3. Discuss the business type that you dislike. What do you dislike about these businesses? Be specific.
4. Evaluate the businesses that you like. How likely are you to establish this type of business?

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Critical Thinking Exercise 2.3: Business Assessment
(LO 2-5) - Notes

The answers will vary. The purpose of this exercise is for students to examine what they like or dislike about a specific business type. Students will evaluate a potential business and discuss whether or not they would open that business.

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Bonus Cases

Bonus Case 2.1: The Current State of the Entrepreneur
(LO 2-1, 2-2, 2-3, 2-4, 2-5, 2-6)

Many individuals implement new businesses for a variety of reasons. There are many details to consider on the quest to entrepreneurship. One of most critical issues that an entrepreneur must consider is where they will obtain financing for their new business.

Existing Financial Resources (assets)	Existing Financial Obligations (debt)	New Business Needs	Potential Resources

The purpose of this analysis is to review your existing financial resources (assets), evaluate your existing financial obligations (debts), list what you believe you might need to start the new business, and list all of your supports that might help you achieve your entrepreneurial goals.

For the purpose of this exercise, your assets are considered as your cash, savings accounts, certificates of deposit, IRA's, 401K's, stocks, bonds, and the available equity in your home.

Your debt is considered all of your obligations and monthly bills. In the existing financial obligation section, list your monthly expenses, rent or mortgage, your monthly utility bills, installment loans, revolving debt (monthly credit card payments), child support, alimony, and all other outstanding debt.

In the New Business need section, list all of the items that you believe you need for your new business and estimate the accumulated cost.

In the Resource section, list all of the potential resources that you can think of that might help you fund your new business.

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Discussion Questions:

1. Add the assets column and list the results.

2. Add the total amount of debt that you pay each month and list the results.

3. List all the material items you believe are required to initiate your new business.

4. Next, list all the support resource that you can utilize for your new business need.

5. Summarize the results of your analysis. Do your assets exceed your debts? Discuss whether or not you have the funds required to initiate your new business? If not, list your support resources and discuss how they will assist you with your new business goals.

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Bonus Case 2.2: Lifesaver Realtor and Entrepreneurial Leadership
(LO 2-3)

Laurie Wagner

Entrepreneurs assess and evaluate the characteristics of their personality to gain specific information related to their likes and dislikes about potential business opportunities. Frequently, the results of certain analysis indicate the industry or the type of business that an individual can excel in as an entrepreneur.

Another significant characteristic for a potential entrepreneur to evaluate is their leadership skills. You want to open a new business. However, have you ever been a leader? What are the characteristics of a leader? Effective leadership skills enhance the new business owner's values; and they enhance an entrepreneur's ability to be a leader. Entrepreneurs develop leadership skills to assure they are positive role models in the communities they serve.

One example of an entrepreneur who has effective leadership skills is Laurie Wagner. Ms. Wagner was a real estate agent in Virginia Beach, Virginia, licensed with Rose and Womble Realty. In addition, she was considered a leader in her community. In an interview, Ms. Wagner was asked what the most important leadership characteristics an entrepreneur needs to develop. She replied "honesty first…even when nobody is looking", "perseverance", "listening to others", and "leading by example".[ii]

1. **Describe the leadership traits that an entrepreneur needs in order to achieve success in a new business ventures. List at least five personality characteristics and explain why each is important to a new business owner.**

2. **Explain why entrepreneurs need to develop leadership skills. List at least three reasons and explain why they are important to a new business owner.**

3. **Do you believe that all entrepreneurs are leaders? Do you believe that entrepreneurs are born as leaders or do they acquire those skills?**

4. **Discuss how potential entrepreneurs who lack leadership skills can gain those skills to assure they become effective leaders. Explain your answer.**

5. **Compare your skills to the characteristics of a leader in your community. What changes, if any, do you need to implement to assure you are an effective and efficient leader?**

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Bonus Case 2-2: Lifesaver Realtor and Entrepreneurial Leadership
(LO 2-3) - Notes

1. **Describe the leadership traits that an entrepreneur needs in order to achieve success in a new business venture. List at least five characteristics and explain why each is important to a new business owner**. Leadership traits could include projecting authority, influencing others, motivating, having a sense of humor, and being humble, influential, and authoritative. The most successful new business owners will have many of these traits.

2. **Explain why entrepreneurs need to develop leadership skills. List at least five reasons and explain why they are important to a new business owner.** The owner is the leader of the organization. A person who does not develop leadership skills will not be able to lead the company to success.

3. **Do you believe that all entrepreneurs are leaders? Do you believe that entrepreneurs are born as leaders or do they acquire those skills?** Student's responses will vary. Statistics show that successful entrepreneurs developed leadership skills at a young age but they were not necessarily born with them.

4. **Discuss how potential entrepreneurs who lack leadership skills can gain those skills so that they become effective leaders. Explain your answer.** There are many books, videos and programs available to help potential entrepreneurs gain leadership skills.

5. **Compare your skills to the characteristics and skills of a leader in your community. What changes, if any, do you need to implement to assure you are an effective and efficient leader?** Student responses will vary depending on their personal characteristics and skills.

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Bonus Case 2.3: Paint a Pretty Picture: One Individual's Approach to Entrepreneurship (LO 2-4)

The quest to entrepreneurship can be a long process for some individuals. Other individuals seem to achieve success overnight. One important concept that entrepreneurs need to consider is that they must enjoy their work.

For example, Barbara Lively Mastaglio is a business woman, an artist, a mother, and a wife. (Personal Interview by Lisa Johnson, 2009). She owns a summer home on Valentia Island in Ireland; and when she is not working abroad at her cottage on the island she resides in Norfolk, Virginia. When asked what she attributes to her success as an entrepreneur she asserted "I paint pretty pictures." In addition, she credits her success on "hard work", "dedication", and "my number one goal is to have a lot of fun."

1. Explain why it is important for entrepreneurs to enjoy their work. Be specific.

2. How will you assure that you paint pretty pictures with your new business venture?

3. Discuss your new business venture and why you anticipate that you will thoroughly enjoy it.

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Bonus Case 2.3: Paint a Pretty Picture: One Individual's Approach to Entrepreneurship (LO 2-4) - Notes

1. **Explain why it is important for entrepreneurs to enjoy their work. Be specific.** Entrepreneurs are involved with their business 24/7 so if they do not enjoy their business, they will be unhappy and ultimately fail.

2. **How will you assure that you paint pretty pictures with your new business venture?** Student responses will vary but the students should be encouraged to be positive about their business. This helps the customer feel confident when dealing with the entrepreneur.

3. **Discuss your new business venture and why you anticipate that you will thoroughly enjoy it.** Student responses will vary.

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Endnotes

[i] Sutton, C. and Nelson, B. (2009). The biggest risks to your business and how to minimize them in a bad economy. Forbes.com. http://www.forbes.com/2009/04/15/biggest-business-risks-entrepreneurs-management-risk.html Retrieved on October 13, 2009.

[ii] Wagner, Laurie. (2009). Laurie Wagner, Realtor. Rose and Womble Realty 2009. http://www.roseandwomble.com/Agent/Laurie%20Wagner/ Retrieved on October 14, 2009.

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THIRD EDITION

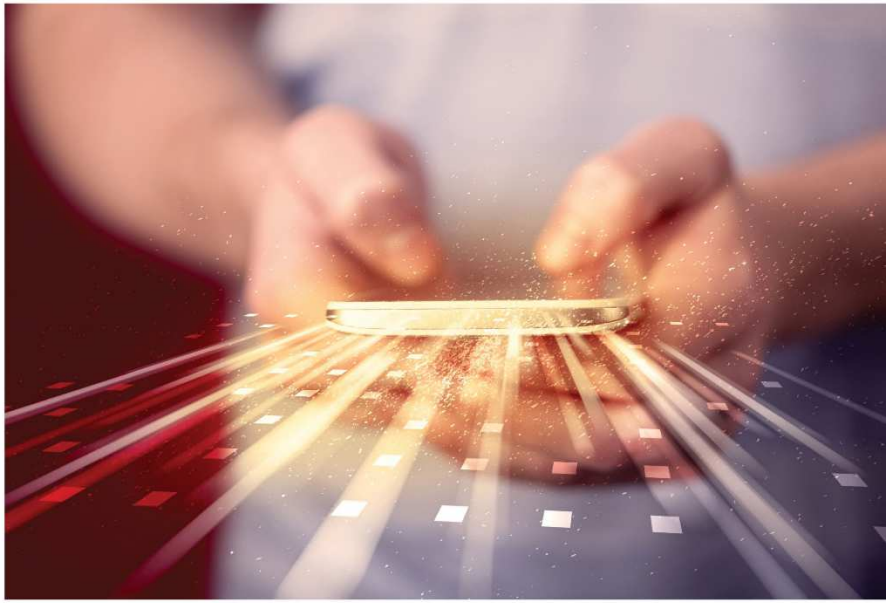
ENTREPRENEURSHIP

The Art, Science, and Process for Success

Chapter 2

Part One: Laying the Groundwork for Small Business

Individual Leadership and Entrepreneurial Start-Ups



CHARLES E. BAMFORD
GARRY D. BRUTON

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Learning Objectives

- Explain how entrepreneurial founders impact the business world as a whole
- Discuss the importance of an entrepreneurial orientation
- List the triggers that encourage new business formations
- Compare and contrast various types of new business supports
- Explain how you can evaluate those things that you enjoy the most and discover how they may lead to business opportunities

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Chapter Overview

- This chapter first discusses why individuals are so important to the success of any new business
- Next, self-evaluation of entrepreneurial orientation by examining one's risk tolerance, boundaries, and personality is discussed
- This is followed by triggers for starting a business and the supports each individual brings to the process, including family, networks, community, and finances
- Final advice: Form a business doing what you like

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Difference between Large Organizations and Entrepreneurial Businesses

Large organizations

- No one person is crucial to the survival of the business
- Knowledge is widely dispersed
- Greater excess resources

Entrepreneurial businesses

- Dependent on individuals
- Concentration of knowledge
- Limited slack resources

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Collaboration

- Understanding and collaborating in small groups can be an essential part of new business success
- What are some of the key characteristics you would look for in a business partner?

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Advantages for New Businesses

- Owned and run by the same persons
- Increased flexibility
- Ability to fill niches
- Effort to maximize the value of the business

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Agency Theory

A managerial theory that believes individuals act to maximize their own benefit

- In a large corporation, a manager may act to maximize his own benefit, not necessarily that of shareholders
- In an entrepreneurial business, the individual who owns the business will always act to maximize the value of the business
  - The interest of the owner and that of the business are aligned

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The Cost of Luxuries

- The cost of luxuries such as first-class airfare is an extravagance few entrepreneurial businesses can afford
- How would you, as an entrepreneur, decide what constitutes a luxury and what is a necessity?

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Evaluating Your Entrepreneurial Orientation

Potential entrepreneurs need to consider a number of issues about themselves before starting a new business

- Risk tolerance
- Prior experience
- Personality orientation of the individual

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Risk Tolerance

Entrepreneurs must evaluate:

- Whether they have the risk tolerance to start a new business
- Level of risk they will accept in a given business situation

It takes time for the business to reach the **break-even point**, where revenue sufficiently covers expenses

Individual entrepreneurs must be aware of their risk tolerance and establish a business consistent with that tolerance

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Risk Levels

- Evel Knievel has become a cultural reference point for risk taking
- An interesting counterpoint to this image was Knievel's very vocal stand against the risks associated with taking drugs
- This dichotomy illustrates that risk levels can vary, even within the same person

©Ralph Crane/The Life Picture Collection/Getty Images

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Prior Experience

Experiences, history, culture, and family values:

- Help individuals interpret the world
- Place boundaries on what a decision maker will consider as he or she makes decisions
- Establish what people consider to be both possible and practical
  - Referred to as an individual's **bounded rationality**
  - Often leading to pioneers unrestricted by the past

Individuals' decision making is bounded by their own version of rationality

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Personality Orientation of the Individual

Can be analyzed through established and validated personality tests

- Myers-Briggs focuses on four pairs of variables
  - Extroversion-introversion, sensing-intuiting, thinking-feeling, and judgment-perception
- Enneagram suggests that there are nine different types of personalities
  - Reformer, helper, achiever, individualist, investigator, loyalist, enthusiast, challenger, and peacemaker
- Big Five Test looks at five factors
  - Open-mindedness, conscientiousness, agreeableness, emotional stability, and extroversion

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Links to the Personality Tests

- Myers-Briggs: http://www.humanmetrics.com/cgi-win/JTypes2.asp
- The Big Five Test: http://www.outofservice.com/bigfive/

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Triggers for Starting a Business

Come from either positive or negative stimulus

Examples

- Being laid off
- Being approached with a new business idea
- The risk return level is financially tolerable
- Having little to lose financially by a failure
- Evidence an idea for improvement is doable
- Being spurred to action by a book, seminar, and so on
- Experiencing a midlife crisis
- Observing community business development efforts
- Experiencing an uncontrollable inability to climb the corporate ladder

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Segmentation of Triggers

Personal Motivations

- Come from the individuals themselves
- Strongest motivations available

Circumstance Motivations

- Result in a defensive positioning
- Opportunistic start-up

Jump to Segmentation of Triggers, Appendix

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Glass Ceiling

- Practical reality that limits the level in the corporate hierarchy to which women are allowed to progress
- Women are starting new businesses when their career opportunities are blocked at larger corporations

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Women-Led Businesses

- Formed at a rate 50 percent greater than that of men-led businesses
- Fast-growing segment of entrepreneurs is minority women owners, with more than one-third of all female businesses headed by women of color

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Supports

There are supports and resources available to the entrepreneur

- No single support assures success

Support and resources include:

- Family
- Social networks
- Community
- Financial resources

Like a classic architecture, a solid business is built upon a variety of support systems

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Family

Family members are resources for support, guidance, suggestions, and potential funding

The role of family is so critical that many ventures end up being family businesses

- Long-term management is unique because of the level of commitment that accompanies family employees
- Potential negative long-term issues include personal feelings that make it difficult to fire family members
- Presence of family in the firm can cause difficulties with nonfamily employees

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Network of Individuals

Key support in an individual's life

- Individuals in the network can provide legitimacy to the business and provide feedback and advice to you

Many resources exist for networking online

- Can be a rich source of advice on forming a business and potential sources of funding

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Community

There are formal community supports that can lower the overall risk for a new business in the community

Many communities have business **incubators** that house new businesses and provide critical services

- Incubator offers legitimacy and provides basic office functions such as office space at subsidized rates

Most communities have **Small Business Assistance Centers** that advise new businesses

Each community has its own unique supports

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Financial Support

Potential entrepreneurs must fully understand the cost-benefit of business

- Must account for the financial resources required in starting and running a new business

Regardless of the type of business, it is critical to obtain the necessary funding

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Form a Business Doing What You Like

- Greatest contributor to an individual's success is doing something that he or she enjoys
- Entrepreneur will need to spend considerable time at the business for it to be successful
- Someone may have a great business idea but if he or she lacks the passion, they will not succeed

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Retail Industry

- Positions in the retail industry are very social
- The more workers can make conversation with potential customers often times more sales opportunities can result

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Chapter Review

- The most critical resource in a new venture is the entrepreneur
- Entrepreneurs should be aware of their risk tolerance, their biases, and their bounded rationality
- A new business is both time consuming and rewarding
- Use available resources when starting a business, including family, networks, and your community
- Final advice: Form a business doing what you like

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Appendix

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Segmentation of Triggers, Appendix

The slide contains two rectangular boxes. Starting from the left, the header of the first box reads personal motivations, and two points are listed under the header. The first point reads come from the individuals themselves, and the second point reads strongest motivations available.

The header of the second box reads circumstance motivations, and two points are listed under the header. The first point reads result in a defensive positioning, and the second point reads opportunistic start-up.

Jump back to Segmentation of Triggers

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