

## 4.11: Summary

### Key Terms

#### **Angel investors**

Individual investors or groups of experienced investors who provide financing for start-up businesses by investing their own funds.

#### **Business plan**

A formal written statement that describes in detail the idea for a new business and how it will be carried out; includes a general description of the company, the qualifications of the owner(s), a description of the product or service, an analysis of the market, and a financial plan.

#### **Debt**

A form of business financing consisting of borrowed funds that must be repaid with interest over a stated period.

#### **Entrepreneurs**

People with vision, drive, and creativity who are willing to risk starting and managing a business to make a profit or greatly changing the scope and direction of an existing firm.

#### **Equity**

A form of business financing consisting of funds raised through the sale of stock (i.e., ownership) in a business.

#### **Intrapreneurs**

Entrepreneurs who apply their creativity, vision, and risk-taking within a large corporation rather than starting a company of their own.

#### **Small business**

A business with under 500 employees that is independently managed, is owned by an individual or a small group of investors, is based locally, and is not a dominant company in its industry.

#### **Small Business Administration (SBA)**

A government agency that speaks on behalf of small businesses; specifically, it helps people start and manage small businesses, advises them in finance and management, and helps them win federal contracts.

#### **Small Business Investment Company (SBIC)**

Privately owned and managed investment companies licensed by the Small Business Administration and provide long-term financing for small businesses.

#### **Venture Capital**

Financing obtained from venture capitalists, investment firms that specialize in financing small, high-growth companies and receive an ownership interest and a voice in management in return for their money.

## Summary of Learning Outcomes

### 4.2 Entrepreneurship

1. Why do people become entrepreneurs, and what are the different types of entrepreneurs?

Entrepreneurs are innovators who take the risk of starting and managing a business to make a profit. Most want to develop a company that will grow into a major corporation. People become entrepreneurs for four main reasons: the opportunity for profit, independence, personal satisfaction, and lifestyle. Classic entrepreneurs may be micropreneurs, who plan to keep their businesses

small, or growth-oriented entrepreneurs. Multipreneurs start multiple companies, whereas intrapreneurs work within large corporations.

### 4.3 Characteristics of Successful Entrepreneurs

#### 2. What characteristics do successful entrepreneurs share?

Successful entrepreneurs are ambitious, independent, self-confident, creative, energetic, passionate, and committed. They have a high need for achievement and a willingness to take moderate risks. Good managerial, interpersonal, and communication skills, as well as technical knowledge, are important for entrepreneurial success.

### 4.4 Small Business

#### 3. How do small businesses contribute to the U.S. economy?

Small businesses play an important role in the economy. They account for over 99% of all employer firms and produce about half of U.S. economic output. Most new private-sector jobs created in the United States over the past decade were in small firms. The Small Business Administration defines a small business as independently owned and operated, with a local base of operations, and not dominant in its field. It also defines small business by size, according to its industry. Small businesses are found in every field, but they dominate the service, construction, wholesale, and retail categories.

### 4.5 Start Your Own Business

#### 4. What are the first steps to take if you are starting your own business?

After finding an idea that satisfies a market need, the small-business owner should choose a form of business organization. Preparing a formal business plan helps the business owner analyze the feasibility of his or her idea. The written plan describes in detail the idea for the business and how it will be implemented and operated. The plan also helps the owner obtain both debt and equity financing for the new business.

### 4.6 Managing a Small Business

#### 5. Why does managing a small business present special challenges for the owner?

At first, small-business owners are involved in all aspects of the firm's operations. Hiring and retaining key employees and using outside consultants wisely can free up an owner's time to focus on planning, strategizing, and monitoring market conditions, in addition to overseeing day-to-day operations. Expanding into global markets can be a profitable growth strategy for a small business.

### 4.7 The Large Impact of Small Business

#### 6. What are the advantages and disadvantages facing owners of small businesses?

Small businesses can be efficiently operated because of their streamlined staffing and structure. They have the flexibility to respond to changing market conditions. Small firms can serve specialized markets more profitably than large firms, and they provide a higher level of personal service. Disadvantages include limited managerial skill, difficulty in raising capital needed for start-up or expansion, the burden of complying with increasing levels of government regulation, and the major personal commitment required of the owner.

### 4.8 The Small Business Administration

#### 7. How does the Small Business Administration help small businesses?

The Small Business Administration is the main federal agency serving small businesses. It provides guarantees of private-lender loans for small businesses. The SBA also offers a wide range of management assistance services, including courses, publications, and consulting. It has special programs for women, minorities, and veterans.

### 4.9 Trends in Entrepreneurship and Small-Business Ownership

#### 8. What trends are shaping entrepreneurship and small-business ownership?

Changes in demographics, society, and technology are shaping the future of entrepreneurship and small business in America. More than ever, opportunities exist for entrepreneurs of all ages and backgrounds. The number of women and minority business owners continues to rise, and older entrepreneurs are changing the small-business landscape. Catering to the needs of an older population

and a surge in web-based companies fuel continuous technology growth. Entrepreneurs typically follow the money and set up shop in places where venture capital money is easily available.

### ? Chapter Review Questions

1. What are the differences between classic entrepreneurs, multipreneurs, and intrapreneurs?
2. What differentiates an entrepreneur from a small-business owner?
3. What are some major factors that motivate entrepreneurs to start businesses?
4. How can potential business owners find new business ideas?
5. Why is it important to develop a business plan? What should such a plan include?
6. What financing options do small-business owners have? What risks do they face?
7. How do the small-business owner's and entrepreneur's roles change over time?
8. What are the benefits to small firms of doing business internationally, and what steps can small businesses take to explore their options?
9. Describe the financial and management assistance programs offered by the SBA.
10. What significant trends are occurring in the small-business arena?
11. How is entrepreneurial diversity impacting small businesses and the economy?
12. How do ethics impact decision-making with small-business owners?

### Management Skills Application Exercises

1. After working in software development with a major food company for 12 years, you are becoming impatient with corporate “red tape” (regulations and routines). You have an idea for a new snack product for nutrition-conscious consumers and are thinking of starting your own company. What entrepreneurial characteristics do you need to succeed? What other factors should you consider before quitting your job? Working with a partner, choose one to be the entrepreneurial employee and one to play the role of his current boss. Develop notes for a script. The employee will focus on why this is a good idea—reasons he will succeed—and the employer will play devil's advocate to convince him that staying on at the large company is a better idea. Then, switch roles and repeat the discussion.
2. What does it really take to become an entrepreneur? Find out by interviewing a local entrepreneur or researching an entrepreneur you've read about in this chapter or in the business press. Get answers to the following questions, as well as any others you'd like to ask:
  - How did you research the feasibility of your idea?
  - How did you develop your vision for the company?
  - How long did it take you to prepare your business plan?
  - Where did you obtain financing for the company?
  - Where did you learn the business skills you needed to run and grow the company?
  - What are the most important entrepreneurial characteristics that helped you succeed?
  - What were the biggest challenges you had to overcome?
  - What are the most important lessons you learned by starting this company?
  - What advice do you have for would-be entrepreneurs?
3. Your class decides to participate in a local business plan competition. Divide the class into small groups, and choose one of the following ideas:
  - A new computer game based on the stock market
  - A company with an innovative design for a skateboard
  - Travel services for college and high school students

Prepare a detailed outline for the business plan, including the objectives for the business and the types of information you would need to develop product, marketing, and financing strategies. Each group will then present its outline for the class to critique.

## Managerial Decision Exercises

1. A small catering business in your city is for sale for \$250,000. The company specializes in business luncheons and small social events. The owner has been running the business for four years from her home but is expecting her first child and wants to sell. You will need outside investors to help you purchase the business. Develop questions to ask the owner about the business and its prospects, as well as a list of documents you want to see. What other types of information would you need before deciding to buy this company? Summarize your findings in a memo to a potential investor explaining the business's appeal for you and how you plan to investigate the feasibility of the purchase.
2. As the owner of a small factory that makes plastic sheeting, you are constantly seeking ways to increase profits. As the new year begins, one of your goals is to find additional funds to offer annual productivity and/or merit bonuses to your loyal, hardworking employees. Then, a letter from a large national manufacturer of shower curtains seems to provide an answer. As part of a new “supplier diversity” program, the manufacturer offers substantial purchase contracts to minority-owned suppliers. Even though the letter clearly states that the business must be minority owned to qualify for the program, you convince yourself to apply for it because all of your employees are Latino. You justify your decision by deciding they will benefit from the increased revenue a larger contract will bring, some of which you plan to pass on to them in the form of bonuses later in the year. Using a web search tool, locate articles about this topic and then write responses to the following question. Be sure to support your arguments and cite your sources.
  - a. Is it wrong for this business owner to apply for this program even though it will end up benefiting his employees as well as his business?

## Critical Thinking Case

### Fostering Entrepreneurship in Unlikely Places

Vic Ahmed is no stranger to business start-ups; he’s been involved in at least 15 or 20. But his latest venture is a start-up ... for start-ups. Ahmed founded Innovation Pavilion, a business incubator in Centennial, Colorado (Denver’s Tech Center), in 2011. A typical business incubator provides start-up companies with workspace, mentoring, training, and sometimes a path to funding, but Innovation Pavilion goes further.

Innovation Pavilion (IP) is an 80,000-square-foot “entrepreneurial ecosystem,” housing dozens of start-ups and renting out desks, office space, and event space. But it also hosts meet-ups, educational workshops, and a Toastmasters group designed specifically for entrepreneurs. It contains a maker space (a workspace providing shared tools and manufacturing equipment for prototyping products) and encourages the growth of niche entrepreneurial communities based on specific industries. For example, IP has a space for IoT (the Internet of Things), one for health care, and another for aerospace. These communities bring together people in an industry to learn from and collaborate one another.

While IP has a traditional incubator program, with companies housed within the IP campus, it has a semi-virtual hyper growth accelerator program for more mature firms, too, which is open to companies around the country. It also seeks out educational partnerships, working with the Highland’s Ranch STEM program, for instance, and has its own educational spin-off, Xuno Innovative Learning, designed to help companies train their staff and find new employees with the skills they need. IP operates its own streaming TV service, filming educational events and interviews with entrepreneurs.

Innovation Pavilion has national expansion plans—and several signed agreements with specific cities—targeting not the giant metropolitan areas but also second tier and “ring” cities across the country, such as Joliet, Illinois, and Olathe, Kansas, smaller cities that don’t get the attention of the larger cities yet have plenty of educated and creative people.

IP is in discussions with 20 cities around the nation to build 200,000-square-foot campuses providing incubator services, office space, makerspace, education and training, outreach to young entrepreneurs, conference centers, retail space, and even housing. Entrepreneurs will be able to live and work in a space with everything they need, providing a complete entrepreneurial ecosystem in smaller cities across the nation.

Steve Case, the co-founder of America Online (AOL), shares Vic Ahmed’s vision for entrepreneurship in mid-America. His “Rise of the Rest” bus tour has traveled 8,000 miles over the last three years, investing in local start-ups in 33 cities across the country. Case hosts a pitch competition with the best start-ups in each city, and one lucky winner receives a \$100,000 investment from Case.

Media attention has focused on the entrepreneurial engines of America’s coastal cities, but Ahmed and Case have a more expansive entrepreneurial vision, in which smaller cities throughout the nation rise alongside larger, start-up hot spots.

### Critical Thinking Questions

1. What characteristics made Vic Ahmed a successful entrepreneur?
2. How did Ahmed and Steven Case's partnership and shared vision of "Rise of the Rest" serve their business goals?
3. Is focusing on smaller cities, rather than areas like Silicon Valley, a good strategy, and why?

Sources:

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