

## 14.2: Entrepreneurship

### Learning Objectives

1. Identify what entrepreneurship is.
2. Understand who an entrepreneur is.
3. Recognize some of the myths of entrepreneurship.

### Entrepreneurship and Entrepreneurs

Entrepreneur is a French word that means “to undertake.” In the business world, this term applies to someone who wants to start a business or enterprise. As you may recall, **entrepreneurship** is defined as “the recognition of opportunities (needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures.” Mason Carpenter, Talya Bauer, and Berrin Erdogan, *Principles of Management* (Nyack, NY: [Unnamed Publisher](#), 2009), accessed January 5, 2011, [www.gone.2012books.lardbucket.org/printed-book/127834](http://www.gone.2012books.lardbucket.org/printed-book/127834). An **entrepreneur** is a person who engages in entrepreneurship. Entrepreneurs are typically go-getters with high levels of skill and energy. Webster’s defines an entrepreneur as “the organizer of an economic venture; especially one who organizes, owns, manages, and assumes the risks of a business.” Webster’s *Third New International Dictionary, Unabridged*, s.v. “entrepreneur,” accessed November 7, 2010, [unabridged.merriam-webster.com/cgi-bin/unabridged?va=entrepreneur&x=0&y=0](http://unabridged.merriam-webster.com/cgi-bin/unabridged?va=entrepreneur&x=0&y=0). Entrepreneurship, like strategic management, will help you think about the opportunities available when you connect new ideas with new markets.

Entrepreneurs are distinct from small-business owners in that entrepreneurs often rely on innovation—new products, methods, or markets—to grow their business quickly and broadly. Entrepreneurs rely on innovation and speed to a much greater extent than small-business owners. Small-business owners typically enter established markets, providing a more traditional product or service to a local market. For example, a local dry cleaner may be a small business, whereas a company that develops a revolutionary new way to do dry cleaning and seeks to expand that new method nationally and internationally would be considered entrepreneurial.

Prior to the end of the last century, most people equated the word *entrepreneurship* with risk takers and nonconformists who were usually unable to work in a corporate environment. It was that small segment of the population that was willing to take what most perceive as very high risks. In truth, that is far from the reality. Entrepreneurs are certainly an adventurous group, but most wouldn’t describe themselves as aggressive risk takers. More often, they are passionate about an idea and carefully plan how to put it into effect. Most entrepreneurs are more comfortable with managed risk than with dangerous get-rich-quick schemes.

### Did You Know?

How do entrepreneurs identify opportunities for new business ventures? First, they actively search for opportunities. That is, they don’t just passively wait for an idea to hit them, and they don’t just look at traditional sources of information, like news and trade publications. Instead, they search out more unusual sources, such as specialized publications or conversations with personal contacts, to get hints of new opportunities. Second, entrepreneurs are particularly alert to opportunities. Specifically, they look for “changed conditions or overlooked possibilities.” Robert A. Baron, “Opportunity Recognition as Pattern Recognition: How Entrepreneurs ‘Connect the Dots’ to Identify New Business Opportunities,” *Academy of Management Perspectives*, February 2006, 105. Third, research confirms that prior knowledge—information gathered from prior experience—helps entrepreneurs identify potentially profitable opportunities. Scott Shane, “Prior Knowledge and the Discovery of Entrepreneurial Opportunities,” *Organization Science* 11, no. 4: 448–69. For example, having prior industry or market experience with customers’ needs or struggles to solve particular problems greatly aids entrepreneurs in being able to create innovative new solutions to those problems. The latest research in human cognition shows that these three factors—active search, alertness, and prior experience—combine to help entrepreneurs see patterns among seemingly unrelated events or trends in the external world. As Robert Baron says, these factors help entrepreneurs “connect the dots” between changes in technology, demographics, markets, government policies, and other factors. Robert A. Baron, “Opportunity Recognition as Pattern Recognition: How Entrepreneurs ‘Connect the Dots’ to Identify New Business Opportunities,” *Academy of Management Perspectives*, February 2006, 104.

Entrepreneurship became a high-profile subject in the 1990s with the dot-com era, which created a whole new breed of “wannabe” entrepreneurs. Entrepreneurship was in vogue, and everyone wanted to be an entrepreneur. That period shaped the expectations and perceptions of an entire generation of potential entrepreneurs. It also made the world of venture capital more commonplace and accessible. Eventually—as with most business cycles—the Internet bubble burst, and the shift reversed. People sought the surety of corporate life once again. Nevertheless, the allure of entrepreneurship has continued to tempt many people.

## So You Want to Be an Entrepreneur?

Many people are surprised to learn that successful entrepreneurs do not always have a perfect business plan and marketing and sales strategy in place before launching their businesses. In fact, many often deviate so significantly from the original plan that the business is unrecognizable. Instead, the mark of a successful entrepreneur is the ability to adeptly navigate the daily, weekly, and monthly bumps, twists, and turns in the life of a young or small company. We live in a world of instant gratification. People want immediate success along with everything else. However, there are no prepackaged, absolutely certain paths to successful entrepreneurship. Successful entrepreneurs start a business for what they can get out of it this year, not three to five years down the road—because they're not likely to make it to that future point if they can't take care of today. Pay yourself a salary and strive for profitability. Sanjyot P. Dunung, *Starting Your Business* (New York: Business Expert Press, 2010), 4–5.

## Truths and Myths about Entrepreneurs

The late Jeffry Timmons, one of the early leaders in entrepreneurship education and an early advisor of [Unnamed Publisher](#)—the entrepreneurial organization that brings you this book—noted that there are few truths about entrepreneurs but many myths. Among those truths, he said,

Entrepreneurs work hard and are driven by an intense commitment and determined perseverance; they see the cup half full, rather than half empty; they strive for integrity; they burn with the competitive desire to excel and win; they are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter; they use failure as a tool for learning and eschew perfection in favor of effectiveness; and they believe they can personally make an enormous difference in the final outcome of their ventures and their lives. Jeffry A. Timmons, *New Venture Creation: Entrepreneurship for the 21st Century*, 5th ed. (New York: McGraw-Hill, 1999), 44.

The myths, however, are many. The following five entrepreneurship myths are among the most prevalent:

1. **Entrepreneurs are born, not made.** The most prevalent myth about entrepreneurs is that they are born with the skills that will make them successful and that anyone who's not born with those skills will not succeed. In reality, entrepreneurship is a skill that, like any other skill, can be learned.
2. **Entrepreneurs make more money.** Surprisingly, the typical entrepreneur earns less than he or she would earn if working as an employee. Only the top 10 percent of entrepreneurs earn more than employees. Scott Shane, "Top Ten Myths of Entrepreneurship," *How to Change the World* (blog), January 10, 2008, accessed January 2, 2011, [blog.guykawasaki.com/2008/01/top-ten-myths-o.html#tp](http://blog.guykawasaki.com/2008/01/top-ten-myths-o.html#tp).
3. **Being original is essential.** Another entrepreneurial myth is that entrepreneurs who get to the market first gain the most. Research by Joe Tabet, presented at INSEAD's Global Entrepreneurship Forum, has shown that the so-called first mover advantage is a myth: Google, eBay, and Swatch are examples of successful businesses that entered markets later. The key, Tabet says, is to find your niche and serve your customers well. "Debunking Myths about Entrepreneurs," *Knowledge* (blog), INSEAD, June 10, 2009, accessed January 2, 2011, [knowledge.insead.edu/Debunkingmythsaboutentrepreneurs090615.cfm](http://knowledge.insead.edu/Debunkingmythsaboutentrepreneurs090615.cfm).
4. **It takes a lot of money to start a business.** Research by Scott Shane of Case Western Reserve University has shown that the average new business needs only \$25,000 in financing and that most of that money can be raised through debt. Scott Shane, "Top Ten Myths of Entrepreneurship," *How to Change the World* (blog), January 10, 2008, accessed January 2, 2011, [blog.guykawasaki.com/2008/01/top-ten-myths-o.html#tp](http://blog.guykawasaki.com/2008/01/top-ten-myths-o.html#tp).
5. **Entrepreneurs must be risk takers.** According to this myth, entrepreneurs are good at starting businesses but can't manage them once they grow. Research by Babson College professor Joel Shulman shows that the stocks of publicly traded companies run by entrepreneurs significantly outperform those run by nonentrepreneurs and continue to do so even after adjusting by market cap size, sector, geography, or time period. Jeff Cornwall, "Another Entrepreneurial Myth Busted," *The Entrepreneurial Mind* (blog), December 17, 2009, accessed January 1, 2011, [www.drjeffcornwall.com/entrepreneurial-myths](http://www.drjeffcornwall.com/entrepreneurial-myths).

## Should You Become an Entrepreneur?

Whatever your reasons for becoming an entrepreneur, understand and be clear about your personal motivations. This will help you make decisions and choices along the way. The short survey that follows this section might provide you with helpful insights, though keep in mind that—as the survey says—"no reliable predictive model or entrepreneurial character has successfully been developed."

Beyond such self-assessment and reflection, as you go through the personal decision-making process, try to talk to as many people as you possibly can. Seek out others who have tried entrepreneurship—both those who have been successful and those who have

not. Talk to people in your industry, including colleagues, friends, and potential advisors. You'd be surprised how open people can be about their experiences—good and bad. Read lots of books and get a variety of opinions. You're not trying to get people's "permission" to be an entrepreneur, nor are you looking to give yourself permission to try. What you should strive for is to understand the factors critical to success and see if you're comfortable with them. There are no right or wrong answers. Only another entrepreneur can tell you what it's like to lie awake at night stressing about whether you'll make payroll that month. But at the same time, it's that entrepreneur who can tell you what strategy worked to make payroll that month. It's not the issues that define you as an entrepreneur but how you respond to those issues.

As you consider entrepreneurship, you need to assess whether it will provide you with the ability to support and sustain yourself and your family, both in the beginning and later on, when you eventually achieve your personal financial goals. Are you comfortable with the time it may take to grow and sustain your business? Many people start companies expecting to grow them aggressively (in financial terms), only to find that they are actually quite content with a profitable lifestyle business that allows them the ability to pursue other personal goals. Think about what kind of growth you're comfortable with. Do you want a lifestyle business or an aggressive-growth business? Both are commendable choices, but only you can make that decision.

If you decide to become an entrepreneur, take a look at your professional and personal support systems—particularly the latter. Are they supporting you or thinking you're off your rocker? Even if you are comfortable with the risks, uncertainties, and challenges, a spouse or other key family member may not be. Negative whisperings can rock the very confidence that's required for entrepreneurship. Be wary not only of your own demons but also those of others around you.

Attitude is a key factor. For example, if deep down you're happiest as a sole proprietor but are talking about growing a company because it sounds so much better, then guess what? You're likely to stay a sole proprietor and defeat yourself subconsciously. You will not grow your company, and you'll also be unhappy and unfulfilled, even if your company is successful by financial and market definition. Get in touch with what you really want and how you define success. Be comfortable and confident with your own answers. Confidence is a key component—it will bring customers, investors, and supporters to you.

You also need to assess how you handle stress. How determined are you to succeed? Starting a business isn't always easy. You may have more naysayers than coaches around you. Many businesses fold in the second year despite the fact that the next year might have been the turning point. Most entrepreneurs will tell you that they hit a key milestone of sustainability around the third year of their business. If you can make it to that point, you can keep going, barring any unforeseen problems inside or outside the company. For example, you could be doing great, and then in the fifth year, your largest customer stumbles badly, creating a ripple effect in your company. If you've been astute enough to diversify, it should be no problem—if not, you'll drown, too. Diversification in terms of your customer base is essential.

If you're choosing entrepreneurship as a response to a personal or professional transition, think through your motivations thoroughly. If you're starting a company because you were laid off from your last job, do you see it as a life-changing opportunity, or are you treading water until a suitable full-time position becomes available? If a personal situation or crisis is motivating you to consider entrepreneurship as a way to balance your obligations, you may want to focus on being a sole proprietor for a while, as growing a company of any size is a very time- and energy-consuming endeavor. Sanjyot P. Dunung, *Starting Your Business* (New York: Business Expert Press, 2010), 17–19.

## Entrepreneurship and the Changing Nature of “Corporate” Life

As corporate life continues to offer less and less security, more people are considering entrepreneurship. Some leave, taking their former corporate employer as their first customer. For others, it's an opportunity to enter an entirely new industry. For most of us, we're hoping to capitalize on our experience and know-how or on a new idea or market to fill a gap in our own industry.

Many entrepreneurs have actually discovered their vision and opportunity through a former employer. If you've spent your professional life in the corporate world, then you can recognize that the early years of an entrepreneurial venture demand very hands-on involvement. It's not a joke when we say that you should be ready to take out the garbage. Most entrepreneurs have in the early days.

When you make the leap from corporate life to entrepreneurship, it involves major changes. The biggest difference is that entrepreneurs don't have a buffer between a mistake and total failure. When a large company makes a bad bet on a product or market, the damage gets absorbed, perhaps with a hit to earnings or the stock price. In the early stages of company growth, a bad bet can destroy everything. There are no shock absorbers.

Many large companies attempt to create the spirit of entrepreneurship inside their organizations. These internal groups, or *intrapreneurs*, may spur more innovation, but this *intrapreneurship* is a far cry from the realities of entrepreneurship. These groups have far more resources than most new ventures. They are protected from feeling the immediate impact of failures and mistakes, and there's no immediate risk of losing a paycheck. Sanjyot P. Dunung, *Starting Your Business* (New York: Business Expert Press, 2010), 19–20.

### Surveying Your Entrepreneurial Character Traits

The survey below was developed by analyzing the character traits of entrepreneurs. It measures entrepreneurial readiness—whether one considers himself or herself an entrepreneur.

Rate each of the eleven characteristics using the following scale:

+2 = I'm very strong in this characteristic.

+1 = I possess this characteristic.

0 = I don't know.

−1 = I have very little of this characteristic.

−2 = I don't possess this characteristic.

TRAIT	CIRCLE ONE CHOICE IN EACH TRAIT					
Creativity	+2	+1	0	−1	−2	
Calculated Risk Taker	+2	+1	0	−1	−2	
Self-confident	+2	+1	0	−1	−2	
Dynamic	+2	+1	0	−1	−2	
Like to Lead Others	+2	+1	0	−1	−2	
Market Savvy	+2	+1	0	−1	−2	
Resourceful	+2	+1	0	−1	−2	
Perseverant/Determined	+2	+1	0	−1	−2	
Optimistic	+2	+1	0	−1	−2	
Knowledgeable	+2	+1	0	−1	−2	
Energetic	+2	+1	0	−1	−2	
						TOTAL SCORE _____

Despite all the academic research around the world covering entrepreneurship, no reliable predictive model exists to identify who could be a successful entrepreneur. Having the traits in the chart doesn't guarantee success, but the higher your total score, the more characteristics you possess that are similar to successful entrepreneurs. Adapted from Center for Ethics in Free Enterprise, *21st Century Entrepreneurship*, Entrepreneurship Course Workbook (Jacksonville: University of North Florida Press, 1997–99), chap. 1.

### KEY TAKEAWAYS

- Entrepreneurship is defined as the recognition of opportunities (i.e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures.
- The entrepreneur is a person who engages in entrepreneurship. Entrepreneurs are sometimes seen as people of very high aptitude who pioneer change. *Webster's* defines an entrepreneur as “one who organizes, manages, and assumes the risks of a

business or enterprise.” *Webster’s Third New International Dictionary, Unabridged*, s.v. “entrepreneur,” accessed November 7, 2010, [unabridged.merriam-webster.com/cgi-bin/unabridged?va=entrepreneur&x=0&y=0](http://unabridged.merriam-webster.com/cgi-bin/unabridged?va=entrepreneur&x=0&y=0).

- There are many myths about entrepreneurs—often emphasizing their luck and ability to take risks. The reality is that entrepreneurship is a skill that can be learned (not a trait that you’re born with), and that you don’t need a lot of money to start a business.

## EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What is entrepreneurship?
2. Who is an entrepreneur?
3. What are some key characteristics of entrepreneurs?
4. What are some common myths about entrepreneurs?
5. What questions would you want to explore to help you better understand whether or not you want to be an entrepreneur?

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