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Entrepreneurship

Theory, Process, Practice



Donald F. Kuratko



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Entrepreneurship

Theory, Process, Practice

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Twelfth Edition

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Preface

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

The process of transforming creative ideas into commercially viable businesses continues to be a major force in today's global economy. Successful entrepreneurship requires more than merely luck and money. It is a cohesive process of creativity, risk taking, and planning. Students today need courses and programs that set forth a basic framework for understanding the process of entrepreneurship. I wrote this textbook to structure and illustrate the discipline of entrepreneurship in a manner that is as unique and creative as entrepreneurship itself. The text and online materials included in *Entrepreneurship: Theory, Process, Practice*, 12th edition, to bring together in one place the most significant resources for exploring the development of new and emerging ventures and to present them in an exciting, organized, and challenging manner.

Organization

The chapter sequence in *Entrepreneurship: Theory, Process, Practice*, 12th edition, is systematically organized around the initiation, planning, growth, and

development of new and emerging ventures. Each major part of the text contains chapters that specifically address these pertinent concepts of entrepreneurship.

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

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

Part 3 (Chapters 9–12) focuses on the development of entrepreneurial plans. We begin with the legal perspective, the critical legal issues (proprietary protections, patents, copyrights, trademarks, and bankruptcy laws), and the structures of organizations (sole proprietorships, partnerships, and corporations). We then discuss the marketing issues that affect the preparing, planning, and operating of entrepreneurial start-ups (including social media marketing and mobile marketing) as well as the financial tools that entrepreneurs need. Finally, the development of a clear and comprehensive business plan is examined. A complete sample business plan appears in the appendix following Chapter 12.

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

Distinguishing Features

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

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

Innovative Content in the 12th Edition

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

- **Diversity and Entrepreneurship.** A new addition to the 12th edition is the special boxes containing stories pertaining to diversity and its relation to entrepreneurship. Topics include gender, age, race, trust, disabilities, thought, and practice.
- **The Entrepreneurial Process.** Short vignettes about the entrepreneurial process are included throughout the text to show how practicing entrepreneurs handle specific challenges and opportunities. Newer and updated process boxes reflect some of the more interesting stories on the various roads traveled by

entrepreneurs, including entrepreneurial passion and entrepreneurial fear in Chapter 2, corporate innovation initiatives in top tech companies in Chapter 3, new legal forms for social enterprises in Chapter 4, the metaverse in Chapter 5, the franchise disclosure document in Chapter 7, MBA search funds in Chapter 8, omnichannel and multichannel marketing in Chapter 10, blitzscaling in Chapter 13, and valuing a venture in Chapter 14.

- **New Topics, Models, and Processes.** This edition contains the most recent topics, models, and processes developed by scholars in the entrepreneurship field. Some examples include a typology of entrepreneurial ventures (Chapter 1); cognition, metacognition, and grief recovery with failure, entrepreneurial hustle and entrepreneurial coachability, and ethical challenges for entrepreneurs (Chapter 2); new illustrations and a training program for corporate entrepreneurship (Chapter 3); sustainable entrepreneurship, shared value and triple bottom line thinking, benefit corporations, global poverty, global entrepreneurs, and diaspora networks (Chapter 4); building an effective entrepreneurial team (Chapter 6); a “Newness Framework” (Chapter 7); franchise disclosure documents (Chapter 7); incubators, accelerators, and entrepreneurial ecosystems (Chapter 7); bootstrapping and crowdfunding as sources of capital (Chapter 8); parody, issues with mobile devices, and other new legal concepts (Chapter 9); social media marketing, mobile marketing, and pricing in the social media age (Chapter 10); new tips on business plans and effective “pitches” (Chapter 12); strategic entrepreneurship (Chapter 13); and harvesting issues (Chapter 15).
- **New References and Citations.** In an effort to make *Entrepreneurship: Theory, Process, Practice* the most comprehensive text available, every chapter contains a wealth of endnotes located at the end of each chapter. These references have been carefully selected to provide professors and students with a thorough background of the latest research that relates to the entrepreneurship material being presented. The focus here is on the “theoretical” component of entrepreneurship.
- **New Concept of Entrepreneurial Hustle.** This concept is defined as an entrepreneur’s urgent, unorthodox actions that are intended to be useful in addressing immediate challenges and opportunities under conditions of uncertainty.
- **Online Ethical Dilemmas in E-Commerce.** Questions concerning the ethical challenges that now confront entrepreneurs in the social media age strike at the potential venture success, which is at stake in the hands of the social media reputation management sites. How should entrepreneurs proceed?

- **Incubators, Accelerators, and Entrepreneurial Ecosystems.** When examining the pathways to entrepreneurial ventures, it is important to understand the rise of incubators, accelerators, and entrepreneurial ecosystems because they may be an important pathway for an entrepreneur to pursue.
- **New Venture Legitimation.** New venture legitimacy is a major challenge for every entrepreneurial start-up. Legitimacy is a resource that enables new ventures to overcome the “liability of newness,” thereby allowing for the acquisition of other resources such as financial capital, human resources, and strategic relationships.
- **Social Impact Investing.** This type of investing has started to bring opportunities to harness entrepreneurial ideas and capital markets to finance social initiatives. Increasing the funding capability of social entrepreneurship will increase the likelihood of more efficient, sustainable, and effective social initiatives.
- **The Contemporary Methodologies for Venture Evaluation.** With newer movements taking shape in the ever-changing entrepreneurial world, we provide sections that highlight some of the more contemporary methodologies being utilized for concept assessment and new-venture evaluation.
- **Design Methodology.** Design is now a hot topic in the business world. The demand is becoming so great that universities are now building programs that take a general approach to design rather than concentrating it in just technical schools like architecture and engineering. We present sections on the following:
 - **Design and Learn.** Design is a learning process that shapes and converts ideas into form, whether that is a plan of action, experience, or physical thing. Learning from qualitative research, learning from prototyping, and learning from feedback are all presented in this edition of the text.
 - **Design Development.** Design development is taking an initial concept idea and developing a proof of concept that elicits feedback from relevant stakeholders. To accomplish this, several criteria must be met, including concept feasibility, concept desirability, and concept viability.
 - **Design-Centered Entrepreneurship.** Researchers Michael G. Goldsby, Donald F. Kuratko, Matthew R. Marvel, and Thomas Nelson have introduced the concept of design-centered entrepreneurship with a conceptual model.
- **The Lean Startup Methodology.** Similar to design methodology, the Lean Startup methodology provides a scientific approach to creating early venture concepts and delivers a desired product to customers’ hands faster. The Lean Startup

methodology was first developed in 2011 by Eric Ries, founder of IMVU Inc., as a way to prevent waste in start-ups and ensure that the business plan remains a living document. We include key Lean Startup terminology in this section.

- **Peer-to-Peer (P2P) Lending.** Peer-to-peer lenders are Internet-based sites that pool money from investors willing to lend capital at agreed-on rates.
- **Equity Crowdfunding.** This practice seeks equity funding for a venture by raising money from a large number of people via the Internet. In the United States, legislation is mentioned in the 2012 JOBS Act, which allowed for a wider pool of small investors with fewer restrictions following the implementation of the act. SEC exemptions were enacted into law in 2015, and investments began in May 2016.
- **The Rise of Special Purpose Acquisition Companies.** A special purpose acquisition company (SPAC) is a company that has no commercial operations and is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring or merging with an existing company.
- **Updated Information on IPOs, Venture Capitalists, Angel Investors, B Corporations, and LC3s.**
- **Blitzscaling.** Blitzscaling tries to push the growth faster by prioritizing speed over efficiency in an environment of uncertainty. For most technology start-ups, the general appeal of blitzscaling is that it leads to rapid growth on a global scale.
- **Business Model Canvas.** The essential elements of the Business Model Canvas are presented and discussed in Chapter 12.

Updated and Enhanced Digital and Supplementary Materials

Additional resources, such as MindTap, and ancillaries are available online for *Entrepreneurship: Theory, Process, Practice*, 12th edition. Instructor assets include an Instructor’s Manual, a test bank powered by Cengage®, PowerPoint® slides, and Educator’s Guide. Sign up or sign in at www.cengage.com to search for and access this product and its online resources.

- **MindTap.** Through paths of dynamic assignments and applications that you can personalize, real-time course analytics, and an accessible reader, MindTap helps you turn cookie cutter into cutting edge, apathy into engagement, and memorizers into higher-level thinkers. Students learn firsthand what it’s like to be an entrepreneur as they complete challenges that develop their creative and critical thinking skills. Give

your students a powerful learning experience while saving time planning lessons and course structure using our exclusive interface designed to improve your workflow. Learn more about MindTap here: <https://www.cengage.com/mindtap/>

- **Self-Assessments** engage students by helping them make personal connections to the content presented in the chapter.
- **Learn It Quizzes:** Learn It multiple choice question sets are designed to reinforce the content in the text and simultaneously offer low-stakes assessment and feedback.
- **Apply It: Chapter Assignment:** These multiple choice assignments assess students' comprehension of the reading material and go further in asking learners to apply and analyze the content within varying contexts.
- **Apply It: Case Activity:** These case activities pair case content from the text with a series of questions to assess learner's ability to think critically about real world dynamics and decisions facing entrepreneurs.
- **Study It: Flashcards:** Digital flashcards help learners familiarize themselves with essential terminology in the course and within the entrepreneurship field overall.
- **Video Case Activities** engage students by presenting everyday businesses facing managerial challenges, placing concepts in real-world contexts, and making for great points of discussion.
- **Instructor's Manual.** The Instructor's Manual contains chapter outlines, lecture notes, answers to review and case questions, teaching notes for the comprehensive part cases, and similar content.
- **Test bank powered by Cognero®.** This program is easy-to-use test-creation software. Instructors can add or edit questions, instructions, and answers and select questions by previewing them on the screen, selecting them randomly, or selecting them by number. Instructors can also create and administer quizzes online.
- **LivePlan Business Software.** Students can create robust, polished business plans worthy of the most distinguished investor using the LivePlan business software.
- **PowerPoint® Slides.** PowerPoint presentations for instructors and students are colorful and varied, designed to hold students' interest and reinforce all of each chapter's main points.

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About the Author

Courtesy of KMK Photography



Dr. Donald F. Kuratko (known as “Dr. K”) is the Jack M. Gill Distinguished Chair of Entrepreneurship, Professor of Entrepreneurship, and Executive and Academic Director of the Johnson Center for Entrepreneurship and Innovation and the Institute for Entrepreneurship and Competitive Enterprise at the Kelley School of Business, Indiana University–Bloomington. Dr. Kuratko is considered a prominent scholar and national leader in the field of entrepreneurship. He has published over 200 articles on aspects of entrepreneurship, corporate entrepreneurship, and new-venture development. His work has been published in journals such as the *Strategic Management Journal*, *Journal of Business Venturing*, *Journal of Management Studies*, *Entrepreneurship Theory and Practice*, *Small Business Economics*, *Journal of Operations Management*, *Academy of Management Executive*, *Journal of Product Innovation Management*, *Journal of Small Business Management*, *Family Business Review*, *Business Horizons*, and *Journal of Business Ethics*. He has received numerous awards for his published articles, including the Academy of Management 2017 Entrepreneurship Practice Award for the Best Journal Article Advancing Entrepreneurship Practice, the inaugural Journal of Operations Management Ambassador Award for Best Interdisciplinary Journal Article published between 2011 and 2016 and based on citation count (awarded in 2016 at Academy of Management), and the *Journal of Business Venturing*'s Best Journal Article of the Year for 2017 (awarded in 2018). According to recent journal articles, Dr. Kuratko is the #1 Most Productive Author in Corporate Entrepreneurship (*International Entrepreneurship and Management Journal*, 2021) and 3rd Most Prolific Author in Corporate

Entrepreneurship and 4th Most Cited Author in Corporate Entrepreneurship (*Small Business Economics*, 2022). Professor Kuratko has authored or coauthored 40 books, including one of the leading entrepreneurship books in universities today, *Entrepreneurship: Theory, Process, Practice*, 12th edition (Cengage Learning, 2024), as well as *Corporate Entrepreneurship and Innovation*, 3rd edition (Cengage Learning, 2011); *Corporate Innovation* (Routledge, 2019); *New Venture Management*, 3rd edition (Routledge, 2021); and *What Do Entrepreneurs Create? Understanding Different Venture Types* (Edward Elgar, 2020). In addition, Dr. Kuratko has been consultant on corporate innovation and entrepreneurial strategies to a number of major corporations, such as Anthem Blue Cross/Blue Shield, AT&T, United Technologies, Ameritech, Walgreens, McKesson, Union Carbide Corporation, ServiceMaster, SPX Corp., Molex Corp., Ceva Biomune, Toyota, and TruServ. Dr. Kuratko was cofounder of the Global Consortium of Entrepreneurship Centers (GCEC), an organization comprising over 350 top university entrepreneurship centers throughout the world. He served as the inaugural executive director for 20 years.

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

of Management, Top 4 in *U.S. News & World Report* (including the #1 public university for entrepreneurship), and the #1 Regional Entrepreneurship Program by *Entrepreneur*.

Dr. Kuratko's honors include earning Entrepreneur of the Year for the state of Indiana (sponsored by Ernst & Young and *Inc.* magazine) and being inducted into the Institute of American Entrepreneurs Hall of Fame. He has been honored with the George Washington Medal of Honor, the Leavey Foundation Award for Excellence in Private Enterprise, the NFIB Entrepreneurship Excellence Award, and the National Model Innovative Pedagogy Award for Entrepreneurship. In addition, he was named the National Outstanding Entrepreneurship Educator by the U.S. Association for Small Business and Entrepreneurship, and he was selected one of the Top Entrepreneurship Professors in the United States by *Fortune*. He has been honored with the Thomas W. Binford Memorial Award for Outstanding Contribution to Entrepreneurial Development by the Indiana Health Industry Forum, and he was named a 21st Century Entrepreneurship Research Fellow by the Global Consortium of Entrepreneurship Centers. In his years at Ball State University, he earned the College of Business Teaching Award for 15 consecutive years and was the only professor in the history of the university to achieve all four of the university's major lifetime awards, which included the Outstanding Young Faculty Award, Outstanding

Teaching Award, Outstanding Faculty Award, and Outstanding Researcher Award. Dr. Kuratko was honored by his peers in *Entrepreneur* magazine as one of the top entrepreneurship program directors in the nation for three consecutive years, including the #1 Entrepreneurship Program Director in the nation. The U.S. Association for Small Business and Entrepreneurship honored him with the John E. Hughes Entrepreneurial Advocacy Award for his career achievements in entrepreneurship and corporate innovation, and the National Academy of Management honored Dr. Kuratko with the Entrepreneurship Advocate Award for his career contributions to the development and advancement of the discipline of entrepreneurship. Professor Kuratko has been named one of the top 10 entrepreneurship scholars in the world and was the recipient of the Riata Distinguished Entrepreneurship Scholar Award. He was the inaugural recipient of the Karl Vesper Entrepreneurship Pioneer Award for his career dedication to developing the field of entrepreneurship. The U.S. Association for Small Business and Entrepreneurship honored him with the Max S. Wortman, Jr./USASBE Lifetime Achievement Award for Entrepreneurship for his career research and accomplishments in the field of entrepreneurship. Finally, he was honored by the National Academy of Management with the Entrepreneurship Mentor Award for his exemplary mentorship to the next generation of entrepreneurship scholars and professors.

In Remembrance

Dr. Richard M. Hodgetts (1942–2001)

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

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

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

Besides his tremendous contributions to the knowledge base of management, Dr. Hodgetts was a truly outstanding teacher. He won every distinguished teaching award offered at both his first job of 10 years at the

University of Nebraska and his home school for 25 years at Florida International University (FIU), including Faculty Member of the Year by the Executive MBA students in the year of his passing. Some of his more notable honors included the Outstanding Educator Award from the National Academy of Management in 1999, the John F. Mee Management Contribution Award from the Management History Division of the Academy of Management in 1998, the Professor Excellence Program Award from FIU in 1997, a Teaching Improvement Program Award from FIU in 1996, and an Excellence in Teaching Award from FIU in 1995.

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

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

Dr. Hodgett's distinguished career as a scholar and educator was exemplified in his humor, dedication to research, genuine interest in his students, compassion, and true courage. Millions of students and practicing leaders have been—and will continue to be—influenced by his teaching and publications. Dr. Hodgetts forever shaped my career as my epiphany to academia, my doctoral adviser, my mentor, my coauthor, and my friend. His legacy will live forever.

Introduction

Theory, Process, and Practice

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

The Theory of Entrepreneurship

A few decades ago, the field of entrepreneurship was considered little more than an applied trade as opposed to an academic area of study. There was no “research” to be accomplished because it was thought that those who could not attend college would simply “practice” the concept of new business start-up. Yet our economy was actually based on entrepreneurship, and history has proven that with each downturn in the economy, it is entrepreneurial drive and persistence that bring us back. Thus, individual scholars began to examine entrepreneurship from a research perspective, and in doing so, they initiated an academic field of scholarly pursuit. So we look back at some of the “believers” among the academic community, such as Arnold C. Cooper (Purdue University), Karl A. Vesper (University of Washington), Donald L. Sexton (Ohio State University), Robert C. Ronstadt (Babson College), Max S. Wortman (University of Iowa), Justin G. Longenecker (Baylor University), and Howard H. Stevenson (Harvard University), who are all examples

of the “pioneering” researchers in the embryonic days of entrepreneurship. Their wisdom, scholarship, and persistence guided the field of entrepreneurship from what was once considered a disrespected academic area to a field that has now gained unimaginable respect and admiration among business schools in the twenty-first century. Their willingness to delve into the research issues important to this developing discipline provided motivation for the next generation of scholars to pursue the entrepreneurship field with greater vigor.

Today, we celebrate the immense growth in entrepreneurship research as evidenced by the number of academic journals devoted to entrepreneurship (44), the number of endowed professorships and chairs in entrepreneurship (more than 400), the development of the 21st Century Entrepreneurship Research Fellows by the Global Consortium of Entrepreneurship Centers, and the increasing number of top scholars devoting much of their valuable research time and efforts to publishing on aspects of entrepreneurship in the top academic journals. It is indeed gratifying to see the *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Journal of Operations Management*, and *Journal of Management Studies* publishing more entrepreneurship research; this increase is in direct proportion to the change in the journals' editorial review boards to include more scholars in the entrepreneurship field. Finally, many universities are now including certain entrepreneurship journals in their lists of top journals for the faculty to publish in. Many of the top business schools in the United States have accepted the fact that certain entrepreneurship journals have impact factors that exceed most of the traditional management journals already mentioned above. In fact, the *Journal of Business Venturing and Entrepreneurship Theory and Practice* are two that top the list of the best journals today. In addition, journals such as *Small Business Economics*, *Strategic Entrepreneurship Journal*, and *Journal of Small Business Management* have gained worldwide acceptance as excellent research outlets. Additionally, a number of major academic institutions have developed programs in entrepreneurial research, and every year Babson College conducts a symposium titled “Frontiers in Entrepreneurship Research.” Since 1981, the conference has provided an outlet for the latest developments in entrepreneurship.

In 1998, the National Consortium of Entrepreneurship Centers (NCEC) was founded for the purpose of continued collaboration among the established entrepreneurship centers, as well as the newer emerging centers,

to work together to share information, develop special projects, and assist one another in advancing and improving their centers' impact. Today, that organization has changed its name to the Global Consortium of Entrepreneurship Centers (GCEC) to better reflect the international growth of entrepreneurship centers. As mentioned earlier, this consortium also established the 21st Century Entrepreneurship Research Fellows, a growing collection of scholars in the field of entrepreneurship who have developed a mission to identify leading-edge research issues and domains and develop high-profile research initiatives that demonstrate the highest level of scholarship to entrepreneurship centers and the academic community at large. There is no question that research drives business schools and universities in general. Today, we see research in entrepreneurship as an accepted and respected part of this drive.

The Process of Entrepreneurship

Beginning with the “early adopters” of the discipline of entrepreneurship, such as the University of Southern California, Babson College, Harvard University, and Indiana University, the number of schools teaching and researching entrepreneurship has exploded to more than 4,000 schools with majors in entrepreneurship, an additional 1,000 with concentrations in entrepreneurship, and at least one course in entrepreneurship now taught at over 5,000 universities worldwide! Some of the more prestigious research universities in the United States, such as Indiana University, Syracuse University, Oklahoma State University, Iowa State University, the University of Tennessee, the University of Louisville, the University of Oklahoma, and the University of Washington, have developed PhD programs in entrepreneurship in order to prepare the next generation of scholars and researchers. The academic field of entrepreneurship has evolved dramatically over the last 45 years! In the midst of this huge expansion of courses remains the challenge of teaching entrepreneurship more effectively.

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

indicated that entrepreneurship can be taught, or at least encouraged, by entrepreneurship education.”²

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

Four years later, researchers Robinson and Hayes conducted a survey of universities with enrollments of at least 10,000 students to determine the extent of the growth in entrepreneurship education.⁴ While significant growth was cited, two specific challenges were pointed out: developing existing programs and personnel, thus improving the quality of the field. There are several obstacles that need to be overcome to facilitate the development of quality in the field. At the heart may be the lack of solid theoretical bases on which to build pedagogical models and methods and the lack of formal academic programs, representing a lack of commitment on the part of institutions. Professors Robinson and Hayes believed that entrepreneurship education had come a long way in 20 years, yet there were several weak points in the field that were identified through their research. Of primary concern is the lack of depth in most of the programs that were then started. Further growth would depend on how new programs were integrated with and nurtured by the established entrepreneurship education system. In the years that followed, we experienced a greater depth in the academic programs as well as newer initiatives to integrate entrepreneurship throughout the campuses.

In more recent times, researchers Solomon, Duffy, and Tarabishy conducted one of the most comprehensive empirical analyses on entrepreneurship education. In their review of entrepreneurship pedagogy, they stated, “A core objective of entrepreneurship education is that it differentiates from typical business education. Business entry is fundamentally a different activity than managing a business.”⁵ They concluded that pedagogy is changing based on a broadening market interest in entrepreneurial education. New interdisciplinary programs use faculty teams to develop programs for the nonbusiness student, and there is a growing trend in courses specifically designed for art, engineering, and science students. In addition to courses focused on preparing the future

entrepreneur, instructional methodologies are being developed for those who manage entrepreneurs in organizations, potential resource people (accountants, lawyers, and consultants) used by entrepreneurs, and top managers who provide vision and leadership for corporations, which must innovate in order to survive. Today's entrepreneurship educators are challenged with designing effective learning opportunities for entrepreneurship students.

The current trend in most universities is to develop or expand entrepreneurship programs and design unique and challenging curricula specifically designed for entrepreneurship students. One shining example of this expansionary trend is Dr. Michael H. Morris at the University of Notre Dame, who developed one of the most powerful educational programs for faculty to learn how to teach entrepreneurship. Titled “The Entrepreneurship Experiential Classroom,” this uniquely designed entrepreneurship program has touched the lives of over 1,000 faculty members who have experienced the latest curriculum techniques and methods to enhance their own classrooms across the world. Another significant example is the national recognition now being given to the top entrepreneurial schools through awards such as the United States Association for Small Business and Entrepreneurship (USASBE) National Model Programs and the national rankings, such as those done by *U.S. News & World Report* and the Global Entrepreneurship Research Productivity ranking from Texas Christian University. This kind of experience is offered to students in innovative entrepreneurship programs recognized by the USASBE. Highlights of these programs can be found at www.usasbe.org. These awarded model programs include undergraduate majors and concentrations, graduate-level programs, innovative pedagogy, and specialized programs. All of these universities have produced entrepreneurship education that has had real impact on students and a lasting impact on the entrepreneurship field.

The Practice of Entrepreneurship

The final aspect of entrepreneurship is its application in practice. We have seen this exhibited by the thousands of successful entrepreneurs throughout the last 45 years. They and their new ventures have changed our world—forever! However, it is important to understand the differences between mere opportunistic moneymaking and the real practice of entrepreneurship. For example, in the late 1990s, we experienced the dot-com frenzy in which everyone thought they were entrepreneurs simply because they put a business title on the Internet. As I have

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

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

Final Thoughts before Venturing into the Text

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

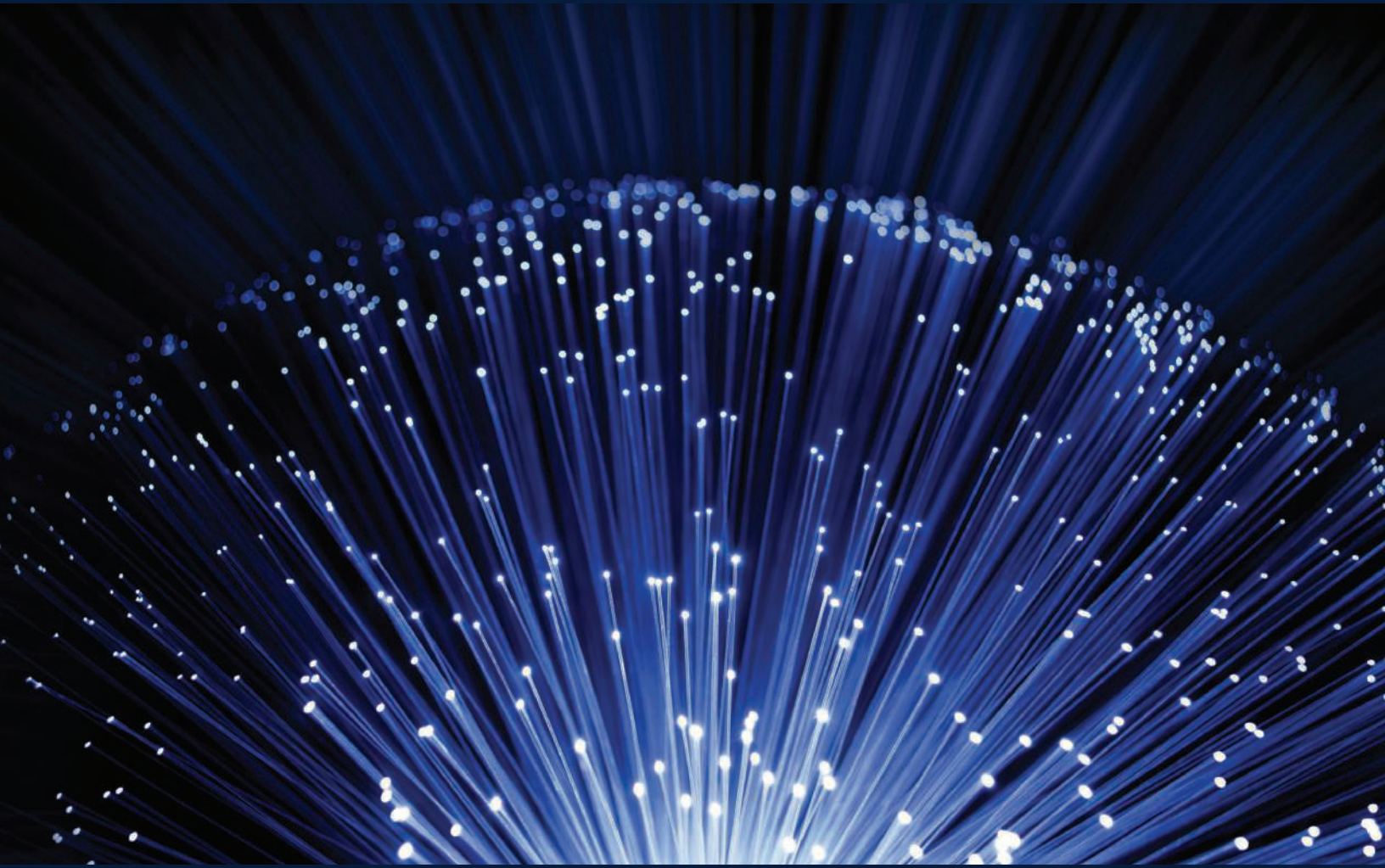
Entrepreneurship is the new revolution, and it's about disruptive innovation and creativity. It is the future of our world economy. Today, the words used to describe the new innovation regime of the twenty-first century are *dream, create, explore, invent, pioneer, and imagine!* I believe we are at a point in time when the gap between what can be imagined and what can be accomplished has never been smaller. This is the challenge for all of today's entrepreneurship students. To paraphrase the late Robert F. Kennedy in a speech made more than 50 years ago: You are living in one of the rarest moments in education history—a time when all around us the old order of things is crumbling, and a new world society is painfully struggling to take shape. If you shrink from this struggle and the many difficulties it entails, you will betray the trust that your own position forces on you. You possess one of the most privileged positions, for you have been given the opportunity to educate and to lead. You can use your enormous privilege and opportunity to seek purely your tenure and security. But entrepreneurial history will judge you, and as the years pass, you will ultimately judge yourself on the extent to which you have used your abilities to pioneer and lead into new horizons. In your hands is the future of your entrepreneurial world and the fulfillment of the best qualities of your own spirit.⁷

Notes

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Part 1

Understanding the Impact of the Entrepreneurial Mindset



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Chapter 1

Entrepreneurship: Evolutionary Development—
Revolutionary Impact 002

Chapter 2

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Chapter 1

Entrepreneurship: Evolutionary Development—Revolutionary Impact

Learning Objectives

- 1.1. Identify the major types of entrepreneurial ventures
- 1.2. Examine the historical development of entrepreneurship
- 1.3. Summarize the myths of entrepreneurship
- 1.4. Define the major schools of entrepreneurial thought
- 1.5. Explain the process and framework approaches to the study of entrepreneurship
- 1.6. Paraphrase a comprehensive definition of entrepreneurship
- 1.7. Examine the entrepreneurial revolution taking place today
- 1.8. Illustrate today's entrepreneurial environment
- 1.9. Outline the trends in entrepreneurship research
- 1.10. Examine the future trajectory of entrepreneurship
- 1.11. Define the key concepts in entrepreneurship

Entrepreneurial Thought

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

—Peter F. Drucker, *Innovation and Entrepreneurship*

1-1 Entrepreneurs— Breakthrough Innovators

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

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

1-2 Entrepreneurs: A Typology of Distinctive Journeys

LO1.1 Identify the major types of entrepreneurial ventures

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

On the other hand, entrepreneurial ventures are those for which the entrepreneur's principal objectives are innovation, profitability, and growth. Thus, the business is characterized by innovative strategic practices and sustainable growth. Entrepreneurs and their financial backers

are usually seeking rapid growth and immediate profits. They may even seek the sale of their businesses if there is potential for large capital gains. These entrepreneurs may be viewed as having a different perspective from small-business owners on the development of their firms.

It is clear that entrepreneurs create a wide variety of ventures. These include everything from giants like Uber and Amazon to a small local artisan brewery. As mentioned above, entrepreneurs vary in numerous ways, including how they confront risks, expand in the market, produce innovations, seek outside capital, involve family members, and incorporate new technologies. Each entrepreneur will experience the entrepreneurial journey in a different and unique way. In fact, there is so much diversity in what gets created that it becomes difficult to provide one set definition of an entrepreneurial firm. For example, we see diversity in the terms applied to different entrepreneurs, such as the following:

- **Nascent entrepreneurs.** Someone thinking about starting a business.
- **Artisan entrepreneurs.** Individuals who emphasize independence over conglomeration, local community over scale, and value creation over profit maximization.
- **Home-based entrepreneurs.** Entrepreneurs who locate their ventures at their place of residence.
- **Niche entrepreneurs.** Entrepreneurs who have family-owned firms and are owner managed.²

All this diversity substantiates the need for creating a typology of entrepreneurial firms so that there is an appreciation for the various forms that a venture can take as well as the unique journey experienced by the entrepreneur. Researchers Michael H. Morris and Donald F. Kuratko³ created a typology consisting of four major types of ventures. They include the following:

- **Survival ventures.** Provide basic subsistence for the entrepreneur and their family. As the business exists to provide for basic personal financial needs, once costs are covered, there is generally no capacity to reinvest into the venture. Launch of the business is often necessity driven. (examples: handyman, roadside fruit stand, small-craft maker, personal trainer, Uber driver, dog walker)
- **Lifestyle ventures.** Provide a relatively stable income stream for owners based on a workable business model and a maintenance approach to management. Relatively modest reinvestments are made to maintain competitiveness in a local market where the firm is embedded but does not seek meaningful expansion or growth. The number of employees remains relatively constant. (examples: local bar or restaurant, hair salon, hardware store, auto repair shop, toy store, small accounting firm, owner of a single franchise)

- **Managed growth ventures.** A workable business model that seeks stable growth over time with occasional launches of new products and a steady expansion of facilities to establish a strong local or regional brand. Controlled growth guide ongoing business development. (examples: custom boat manufacturer, third-party logistics company, multilocation walk-in medical clinics, real estate company, marketing agency, auto dealership)
- **Aggressive growth ventures.** Referred to as gazelles (fast growing), unicorns (market value at \$1 billion), or decacorns (market value at \$10 billion), these are often technology-based ventures with strong innovation capabilities that seek exponential growth and are funded by equity capital. The venture seeks to transform industries and create new markets. The focus is typically national or international, and the firms often become candidates for initial public offerings or acquisition. (examples: Amazon, Baidu, Eventbrite, Fitbit, Facebook, LinkedIn, SpaceX, Under Armour)

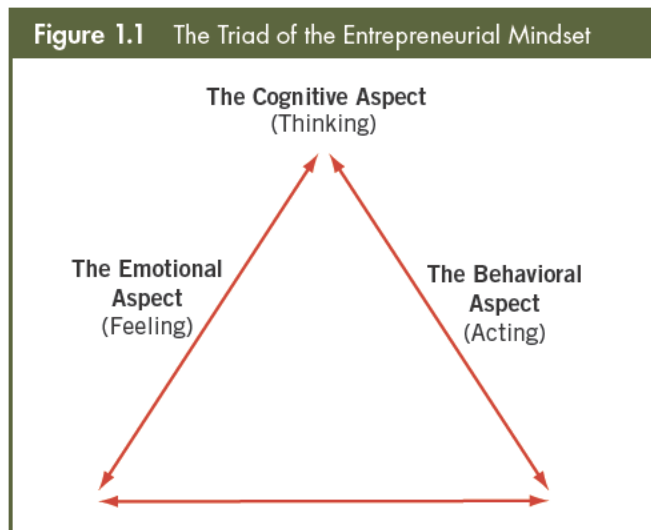
This typology allows for an inclusive approach to entrepreneurship. While all ventures represent change, they do not necessarily have to be disruptive, highly innovative, or scalable. As such, this typology eliminates the need to pursue debates concerning the difference between small businesses and entrepreneurial firms, as all start-ups are to some degree entrepreneurial.

In this book, we concentrate on all entrepreneurs and the effective development of entrepreneurship, including the entrepreneurial mindset in established organizations and social entrepreneurship. Some of the particular points in this book may apply to all of the different entrepreneurs; however, keep in mind that our focus is on the aspects of innovation and growth associated with entrepreneurs.

1-3 Entrepreneurship: A Mindset

Entrepreneurship is more than the mere creation of business. Although that is certainly an important facet, it's not the complete picture. The characteristics of seeking opportunities, taking risks beyond security, and having the tenacity to push an idea through to reality combine into a special perspective that permeates entrepreneurs. As we will illustrate in Chapter 2, an entrepreneurial mindset can be developed in individuals. Entrepreneurial mindset represents the cognition and commitment to view the world with an innovative perspective. This mindset represents a way of thinking, acting, and feeling.

Researchers Donald F. Kuratko, Greg Fisher, and David B. Audretsch developed a threefold model of the entrepreneurial mindset (see Figure 1.1).⁴ It includes the



Source: D. F. Kuratko, G. Fisher, and D. B. Audretsch, “Unraveling the Entrepreneurial Mindset,” *Small Business Economics* 57, no. 3 (2022).

entrepreneurial cognitive aspect (how entrepreneurs use mental models to think), the entrepreneurial behavioral aspect (how entrepreneurs engage or act for opportunities), and the entrepreneurial emotional aspects (what entrepreneurs feel in entrepreneurship).

This composes the entrepreneurial potential in every individual. This mindset can be exhibited inside or outside an organization, in for-profit or not-for-profit enterprises, and in business or nonbusiness activities for the purpose of bringing forth creative ideas. Thus, entrepreneurship is an integrated concept that permeates an individual's business in an innovative manner. It is this mindset that has revolutionized the way business is conducted at every level and in every country. It is clear that the world has embraced entrepreneurship and innovation, and the way we view business will never be the same. So it is. The entrepreneurial revolution has taken hold in an economic sense, and the entrepreneurial mindset is the dominant force.

1-4 The Evolution of Entrepreneurship

LO1.6 Paraphrase a comprehensive definition of entrepreneurship

The word entrepreneur is derived from the French *entreprendre*, meaning “to undertake.” The entrepreneur is one who undertakes to organize, manage, and assume the risks of a business. In recent years, entrepreneurs have been doing so many things that it is now necessary to broaden this definition. Today, an entrepreneur is an innovator or developer who recognizes and

The Entrepreneurial Process

Employee vs. Entrepreneur Mindset

Becoming an entrepreneur is less about the money, the commitment, or the support and more about the mindset. Becoming an entrepreneur revolves around shifting from an

employee mindset to an entrepreneur mindset. Here are some interesting perspectives to compare:

Employee Perspective

Out of fear for my job, I must conform
Mistakes must be avoided
Avoiding risks is security
I must know everything about my job
Try and be smartest one on my team
How I look externally is key
Promotion is my goal

vs.

Entrepreneur Perspective

Fear fuels me
Mistakes help me learn
Calculated risks are my security
Continuous learning is my approach
Seek a team of people smarter than me
How I appear internally is more important
The entrepreneurial journey is my goal

Entrepreneurship is more than just creating a business; it is an actual spiritual and emotional transformation that takes you from an established way of thinking to a new, groundbreaking mentality. An entrepreneur must get comfortable with being uncomfortable and be able to deal with fear. Entrepreneurship, in whatever capacity or form it shows itself in, is risky and fear inducing. It does not matter if you are selling lemonade in your backyard as a kid, writing your first book, or hustling to market

your brand after hours. The more a person can change their mindset from employee to entrepreneur, the more they will be able to find satisfaction in entrepreneurship.

Source: Adapted from E. Network, "How to Switch from an Employee to an Entrepreneur Mindset," September 11, 2017, https://www.huffingtonpost.com/entry/how-to-switch-from-an-employee-to-an-entrepreneur-mindset_us_59b69e29e4b0d364c97f53fb, accessed January 16, 2018.

seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these efforts.⁵

The entrepreneur is the aggressive catalyst for change in the world of business. They are independent thinkers who dare to be different amid a background of common events. The literature of entrepreneurial research reveals some similarities as well as a great many differences in the characteristics of entrepreneurs. Chief among these characteristics are personal initiative, the ability to consolidate resources, management skills, a desire for autonomy, and risk taking. Other characteristics include aggressiveness, competitiveness, goal-oriented behavior, confidence, opportunistic behavior, intuitiveness, reality-based actions, the ability to learn from mistakes, and the ability to employ human relations skills.⁶

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

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

Humanity's progress—from caves to campuses—has been explained in numerous ways. But central to virtually all of these theories has been the role of the "agent of change," the force that initiates and implements material progress. Today we recognize that the agent of change in human history has been and most likely will continue to be the entrepreneur.⁷

LO1.2 Examine the historical development of entrepreneurship

The recognition of entrepreneurs dates back to eighteenth-century France, when economist Richard Cantillon associated the "risk-bearing" activity in the economy with the entrepreneur. The Industrial Revolution was evolving in England during the same period, with the entrepreneur playing a visible role in risk taking and the transformation of resources.⁸

The association of entrepreneurship and economics has long been the accepted norm. In fact, until the 1950s, the majority of definitions and references to entrepreneurship had come from economists. For example, the aforementioned Cantillon (1725), the French economist Jean Baptiste Say (1803), and twentieth-century economist Joseph Schumpeter (1934) all wrote about entrepreneurship and its impact on economic development.⁹ Since that time, researchers have continued to try to describe or define what entrepreneurship is all about. Following are some examples:

Entrepreneurship . . . consists in doing things that are not generally done in the ordinary course of business routine; it is essentially a phenomenon that comes under the wider aspect of leadership.¹⁰

Entrepreneurship, at least in all nonauthoritarian societies, constitutes a bridge between society as a whole, especially the noneconomic aspects of that society, and the profit-oriented institutions established to take advantage of its economic endowments and to satisfy, as best they can, its economic desires.¹¹

In . . . entrepreneurship, there is agreement that we are talking about a kind of behavior that includes: (1) initiative taking, (2) the organizing or reorganizing of social economic mechanisms to turn resources and situations to practical account, and (3) the acceptance of risk of failure.¹²

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

Entrepreneurship is the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment of providing value for some product or service. The product or service itself may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources.¹³

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

Whatever the specific activity they engage in, entrepreneurs in the twenty-first century are considered the heroes of free enterprise. Many of them have used innovation and creativity to build multi-million-dollar enterprises from fledgling businesses—some in less than

a decade! These individuals have created new products and services and have assumed the risks associated with these ventures. Many people now regard entrepreneurship as “pioneership” on the frontier of business.

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

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

1-5 Avoiding Folklore: The Myths of Entrepreneurship

LO1.3 Summarize the myths of entrepreneurship

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

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

Although it is true that entrepreneurs tend toward action, they are also thinkers. Indeed, they are often very methodical people who plan their moves carefully. The emphasis today on the creation of clear and complete business plans (see Chapter 12) is an indication that “thinking” entrepreneurs are as important as “doing” entrepreneurs.

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

The idea that the characteristics of entrepreneurs cannot be taught or learned—that they are innate traits one must be born with—has long been prevalent. These traits include aggressiveness, initiative, drive, a willingness to take risks, analytical ability, and skill in human

relations. Today, however, the recognition of entrepreneurship as a discipline is helping to dispel this myth. Like all disciplines, entrepreneurship has models, processes, and case studies that allow the topic to be studied and the knowledge to be acquired.

1-5c Myth 3: Entrepreneurs Are Always in Tech Ventures

The idea that entrepreneurs are involved only in the tech industry is a result of misunderstanding and tunnel vision. Although many entrepreneurs have arisen in the exploding tech world, numerous entrepreneurs encompass all sorts of innovative activity.¹⁴ For example, Ray Kroc worked on a fast-food franchise, and his innovative ideas made McDonald's the largest fast-food enterprise in the world. A contemporary understanding of entrepreneurship covers more than just tech innovation; it requires a complete understanding of innovative behavior in all its forms.

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

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

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

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

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

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

1-5g Myth 7: All Entrepreneurs Need Is an Idea

As we will see in Chapter 5, ideas and the ideation process are very important for entrepreneurs. However, it is shortsighted to think that it is simply the idea that makes the entrepreneur a success. It is actually the entire process of entrepreneurship that needs to be understood and executed on to succeed. Learning the processes of entrepreneurship simply makes entrepreneurs better prepared to deal with situations and turn them into successes. What appears to be only an idea is actually a combination of preparation, determination, desire, knowledge, and innovativeness.

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

There is a tendency to think of entrepreneurs as people who shoot from the hip and ask questions later. They are assumed by some to be disorganized and unstructured, leaving it to others to keep things on track. The reality is that entrepreneurs are heavily involved in all facets of their ventures, and they usually have a number of balls in the air at the same time. As a result, they are typically well-organized individuals. They tend to have a system—perhaps elaborate, perhaps not—that is personally designed to keep things straight and maintain priorities. In fact, their system may seem strange to the casual observer, but it works.

1-5i Myth 9: Most Entrepreneurial Initiatives Fail

The common mythical statement is that 9 out of 10 new ventures fail. The facts do not support such a contention. The statistics of entrepreneurial failure rates have been misleading over the years. In fact, the *Kauffman Indicators of Entrepreneurship*, a leading report on entrepreneurship activity in the United States, has reported that the “high failure rate” most commonly accepted might be misleading.

The Entrepreneurial Process

The E-Myth

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

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

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

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

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

In 2021, the Kauffman report showed that 78.1 percent of start-up firms had survived one year after their founding.¹⁵ More recent studies have supported the fact that new ventures do not fail at such an alarming rate.¹⁶

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

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

As we will show in Chapter 2, the concept of risk is a major element in the entrepreneurial process. However, the public's perception of the risk most entrepreneurs assume is distorted. Although it may appear that an entrepreneur is "gambling" on a wild chance, the entrepreneur is usually working on a moderate or "calculated" risk. Most successful entrepreneurs work hard—through planning and preparation—to minimize the risk involved and better control the destiny of their vision.

These 10 myths have been presented to provide a background for today's current thinking on entrepreneurship. By sidestepping the folklore, we can build a foundation for critically researching the contemporary theories and processes of entrepreneurship.

1-5k Myth 11: The Unicorn Fallacy

As mentioned earlier, the term *unicorn* was introduced as a label for aggressive growth ventures with a market value at \$1 billion. There appears to be groups of unicorns on the rise. As of 2023, there were more than 1,143 ventures that have been valued at \$1 billion or more by venture capitalists, and there seems to be a continued trend in more arising. As they continue to grow, many start-ups are surpassing the \$1 billion level and achieving the \$10 billion level. These firms, such as Facebook, Uber, and Airbnb, are now referred to as decacorns.¹⁷ Despite the infatuation with these high growth ventures, compared to the millions of start-up ventures each year, those that rise to the level of a unicorn are still quite small in number. Thus, the truth is that most entrepreneurial ventures will not rise to that level.

1-5I Myth 12: Entrepreneurship Education Is Not Needed

Contrary to the popular belief that entrepreneurship cannot be taught and that entrepreneurs should simply go out and “do it,” it has become clear that entrepreneurship education is in fact hugely important. Students who study the discipline of entrepreneurship enhance their own skills for a start-up as well as grasp a greater understanding of what constitutes the entrepreneurial mindset.¹⁸

1-6 Approaches to Entrepreneurship

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

A theory of entrepreneurship is a verifiable and logically coherent formulation of relationships, or underlying principles, that either explain entrepreneurship, predict entrepreneurial activity (e.g., by characterizing conditions that are likely to lead to new profit opportunities or to the formation of new enterprises), or provide normative

guidance (i.e., prescribe the right action in particular circumstances).¹⁹ It has become increasingly apparent in the new millennium that we need to have some cohesive theories or classifications to better understand this emerging field.

In the study of contemporary entrepreneurship, one concept recurs: Entrepreneurship is interdisciplinary. We outline, in the following sections, various approaches that can increase our understanding of the field.²⁰

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

LO1.4 Define the major schools of entrepreneurial thought

A schools-of-thought approach divides entrepreneurship into specific activities, either macro or micro in view-point, but both address the conceptual nature of entrepreneurship. We further break down each of these two major views into six distinct schools of thought, three of which apply to the micro and three to the macro view (see Figure 1.2). Although this presentation does not purport to be all-inclusive, neither does it claim to limit the schools to these six, for a movement may develop for unification or expansion. Whatever the future holds, however, it is important to become familiar with these conceptual ideas on entrepreneurship to avoid the semantic warfare that has plagued general management thought for so many years.²¹

The Macro View

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

Figure 1.2 Entrepreneurial Schools-of-Thought Approach

