SOLUTION MANUAL FOR

SMALL BUSINESS MANAGEMENT LAUNCHING & GROWING ENTREPRENEURIAL VENTURES 19E JUSTIN G. LONGENECKER, J. WILLIAM PETTY, LESLIE E. PALICH, FRANK HOY

CHAPTER 1-23

CHAPTER 1: THE ENTREPRENEURIAL LIFE

CHAPTER OUTLINE

Introduction

i) Owning a business is a noble profession—especially if it's done well.
ii) The richest rewards of owning a small business come from offering goods or services that improve the lives of others and developing an organizational culture that supports employees.

1-1 Small Size, Great Significance

LO1: Explain the importance of small businesses and entrepreneurship in our society.

U.S. Small Business Administration reports the following:

i) There are 27.8 million businesses in the United States with fewer than 500 employees. Small companies account for 99.7% of all businesses; 90% have fewer than 20 employees.
ii) Fifty-five million people work in small businesses, representing 49% of all employees and 42% of all salaries paid to employees.
iii) Small enterprises hire 43% of all high-tech employees (scientists, engineers, computer programmers, and others).
iv) Many small companies have gone global, representing 97% of all exporters.
v) The number of college students enrolling in small business and entrepreneurship classes has increased.

1-2 Small Business and Entrepreneurship Go Together

LO2: Describe what it means to be a small entrepreneurial firm.

1-2a What Is a Small Business?

i) To distinguish between small and large businesses, we naturally consider their relative size, but it is also helpful to think about a small firm's potential to grow.
   (a) Size – Can be determined based on such criteria as the number of employees, sales volume, amount of profit, and the size of the company's assets, but size standards are arbitrary and frequently adopted to serve a purpose.
   (b) Growth Potential
      1. Microbusinesses (lifestyle businesses) – Businesses that provide modest returns to their owners but permit an owner to follow a desired lifestyle.

        2. Attractive small firms – Businesses that offer substantial financial rewards for their owners.
        3. High-potential ventures (gazelles) – Businesses that have phenomenal prospects for growth.
  - ii) For the purposes of this textbook, a small business meets the following criteria, at least in spirit:
    - (a) Compared to the largest firms in the industry, the business is small; in most instances, it has fewer than 100 employees.
    - (b) Except for its marketing function, operations are geographically localized.
    - (c) Financing for the business is provided by no more than a few individuals.
    - (d) The business may begin with a single individual, but it has the potential to become more than a "one-person-show" and may eventually grow to be a mid-sized company or even a large firm.

1-2b What Is Entrepreneurship?

- i) Entrepreneur – A person who relentlessly pursues an opportunity, in either a new or an existing enterprise, to create value while assuming both significant risks and the rewards for her or his efforts.
- ii) Entrepreneurship involves four stages:
  - (a) Identifying an attractive opportunity.
  - (b) Acquiring the critical resources needed for growing the business.
    1. Bootstrap – Efforts made by entrepreneurs such as resorting to bartering, generating income from other sources, or using a personal credit card.
  - (c) Executing the plan.
  - (d) Harvesting the business.

1-2c Entrepreneurs: Born or Made?

- i) In their research on entrepreneurial characteristics on "desirable and acquirable attitudes and behaviors," Spinelli and Adams uncovered six descriptions:
  - Leadership abilities
  - Opportunity obsession
  - Commitment and determination
  - Motivation to excel
  - Courage
  - Tolerance of risk, ambiguity, and uncertainty
  - Creativity, self-reliance, and adaptability
- ii) Attitudes and behaviors entrepreneurs should avoid***:***
  - Overestimate what you can do.
  - Lack an understanding of the market.
  - Hire mediocre people.
  - Fail to be a team player.
  - Be a domineering manager.

- Fail to share ownership in the business in an equitable way.

iii) Entrepreneurs are not cut out of a single mold, and their success generally arises from having a clear mission, a desire to lead, and the recognition that business success requires hard work and long hours.

1-2d Types of Entrepreneurs

i) Second-Stage Entrepreneurs
   (a) Helpful to distinguish between entrepreneurs who start or substantially change companies and those who direct the continuing operations of established businesses.

ii) Franchisees
   (a) Franchisees differ from other business owners due to having less independence. Because of the guidance and standardized systems provided by contractual arrangements with franchising organizations, franchisees function within the boundaries set by franchisors.

iii) Social Entrepreneurs
   (a) Social entrepreneurship – Entrepreneurial activity with an embedded social purpose. In other words, social entrepreneurs come up with innovative solutions to society's most pressing needs, problems, and opportunities.

iv) Intrapreneurs
   (a) Intrapreneurship – A person who has characteristics similar to those of an entrepreneur, but who works within an existing, usually larger, corporation as an employee.

v) Entrepreneurial Teams
   (a) Two or more people who work together as entrepreneurs on one endeavor.
   (b) Able to use talents, skills, and resources of team.

1-3 Can a Small Company Really Compete with Big Companies?

LO3: Identify how small businesses can compete against the giants.

1-3a Integrity and Responsibility: In order to maintain a strong competitive advantage, it is essential that you add to good customer service and excellent product quality a solid reputation for honesty and dependability.

1-3b Customer Focus: Business opportunities exist for those who can produce products and services desired by customers. Having a small number of customers and a close relationship with them makes customer service a powerful tool for entrepreneurial businesses.

1-3c Quality Performance: Quality is mostly independent of firm size, but if there is an advantage, it most often goes to the smaller business.

1-3d Innovation: Innovation, both in products or services and in competitive strategies, is within reach of the small business in ways that were not thought possible a few years ago.

1-3e Niche Markets: Almost all small businesses try to shield themselves from competition by targeting a specific group of customers who have an identifiable but very narrow range of product or service interests and comprise what is called a niche market.

1-4 Motivations for Owning a Business

LO4: Understand what might motivate you to be a small business owner with all its risks and uncertainties.

i) Before you choose to enter the small business game, you need to think carefully about who you want to be and how owning a business will help make you that person.
ii) Understanding clearly why you want to own a small business and what motivates you is vital to eventually achieving fulfillment through your business.

1-4a Types of Entrepreneurial Motivations

i) Personal Fulfillment
   (a) Making a difference in others' lives, particularly customers, employees, and in the community.
   (b) Having a sense of belonging and working with others in a common cause.
ii) Personal Satisfaction
   (a) They feel rewarded in working with a product or providing a service and being good at it.
   (b) Entrepreneurs are energized by enjoyable associations within their businesses.
   (c) Entrepreneurs enjoy friendships with other business owners, frequently learning from one another.
   (d) If they are visible within the community, small business owners can garner the respect of those who live there.
iii) Independence
   (a) Being my own boss where I can make things happen.
   (b) Controlling my own future.
iv) Financial Rewards
   (a) Creating personal financial wealth based on sound decisions and hard work. When businesses are profitable, everyone benefits.
   (b) In general, self-employed individuals are more likely to create greater personal wealth than persons who work for others.

1-4b Influencers in Deciding to Own a Business

i) Family and Friends
ii) The Desire to Leave a Difficult Situation
   (a) Those who started or acquired small businesses because of financial hardship or other severely negative conditions have appropriately been called reluctant entrepreneurs.