Entre-preneur-ship

Entrepreneurship

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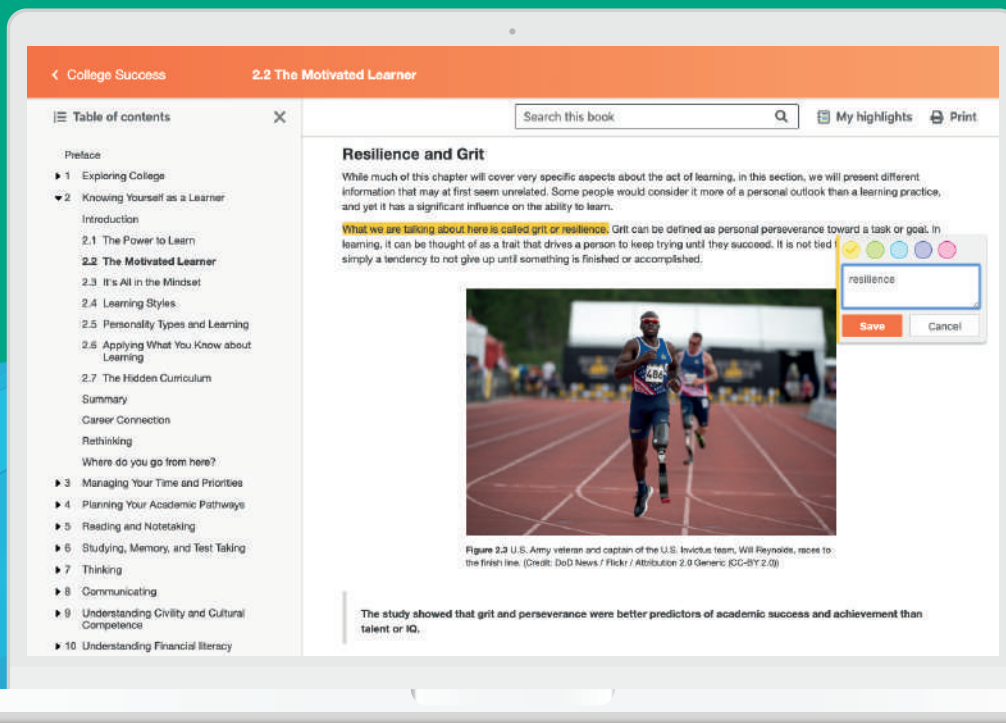# Study where you want, what you want, when you want.

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Preface

Welcome to *Entrepreneurship*, an OpenStax resource. This textbook was written to increase student access to high-quality learning materials, maintaining highest standards of academic rigor at little to no cost.

About OpenStax

OpenStax is a nonprofit based at Rice University, and it's our mission to improve student access to education. Our first openly licensed college textbook was published in 2012, and our library has since scaled to over 30 books for college and AP® courses used by hundreds of thousands of students. OpenStax Tutor, our low-cost personalized learning tool, is being used in college courses throughout the country. Through our partnerships with philanthropic foundations and our alliance with other educational resource organizations, OpenStax is breaking down the most common barriers to learning and empowering students and instructors to succeed.

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Format

You can access this textbook for free in web view or PDF through openstax.org, and for a low cost in print.

About *Entrepreneurship*

Entrepreneurship is designed to meet the course needs of a one-semester undergraduate course on the subject. This resource will cover the key principles of entrepreneurship alongside the concepts, strategies, and tools needed to succeed as a small business owner, franchisee, founder, or other entrepreneurial professional.

Coverage and scope

Our *Entrepreneurship* textbook aligns to the scope and sequence of most introductory entrepreneurship courses. We have endeavored to make the core theories and practical concepts engaging, relevant, and accessible to students. We sought to achieve this by relating concepts to everyday life, contemporary issues, and the real-world challenges that students may face as twenty-first century entrepreneurs.

Entrepreneurship course coverage and approach varies greatly by institution. Some programs focus on research or cases, others on simulation or competition, and many synthesize a variety of approaches. While OpenStax engaged a wide array of faculty reviewers, opinions differ based on the purpose, audience, and structure of the course. The material's open licensing enables you to customize the content and incorporate additional resources in order to fit your course goals.

Engaging Feature Boxes

Throughout *Entrepreneurship*, you will find features that engage students by taking selected topics a step further and challenge students to apply what they are learning. Each feature box contains either a link to a deeper exploration of the topic at hand or critical thinking questions that may be geared toward class discussion, student projects, or written essays. Our features include:

- **Work It Out.** This feature presents entrepreneurial opportunities or dilemmas for which students are asked to work out a solution.
- **Are You Ready?** Students are asked to reflect on their readiness for applying the chapter's concepts in these integrated exercises, partial plans, or scenarios of a plan or project.
- **What Can You Do?** This feature challenges students to take the role of a social entrepreneur and balance a host of interests, some conflicting, as they explore possible venture opportunities.
- **Entrepreneur in Action.** Chapter-relevant entrepreneurial endeavors are profiled so students can examine the real-life efforts of entrepreneurs.
- **Link to Learning** This feature provides online resources and videos that are pertinent to students' deeper exploration of the topics. Link to Learning boxes allow students to connect easily to some of the most important thought leaders and concepts in the field.

Module materials that reinforce key concepts

- **Learning Objectives.** Every module begins with a set of clear and concise learning objectives. These objectives are designed to help the instructor decide what content to include or assign, and to guide students on what they can expect to learn. After completing the module and end-of-module exercises, students should be able to demonstrate mastery of the learning objectives.
- **Summaries.** Section summaries distill the information in each module for both students and instructors down to key, concise points addressed in the section.
- **Key Terms.** Key terms are bold and are followed by a definition in context. Definitions of key terms are also listed in the glossary, which appears at the end of the module online and at the end of the chapter in print.
- **Assessments.** Review, discussion, and case questions accompany every chapter, providing opportunities

for students to recall, discuss, and examine the concepts learned in each chapter.
- **Suggested Resources** Each chapter concludes with a collection of additional resource links to provide budding entrepreneurs with additional resources to support their entrepreneurial goals.

Additional resources

Student and instructor resources

We've compiled additional resources for both students and instructors, including Getting Started Guides Companion PowerPoints, an Instructor Solution Guide, and a Test Bank. Instructor resources require a verified instructor account, which you can apply for when you log in or create your account on openstax.org.

Instructor and student resources are typically available within a few months after the book's initial publication. Take advantage of these resources to supplement your OpenStax book.

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OpenStax partners with the Institute for the Study of Knowledge Management in Education (ISKME) to offer Community Hubs on OER Commons—a platform for instructors to share community-created resources that support OpenStax books, free of charge. Through our Community Hubs, instructors can upload their own materials or download resources to use in their own courses, including additional ancillaries, teaching material, multimedia, and relevant course content. We encourage instructors to join the hubs for the subjects most relevant to your teaching and research as an opportunity both to enrich your courses and to engage with other faculty.

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Figure 1.1 Phil Libin, former CEO of Evernote, discusses his product. Evernote is an app that allows users to create notes in a variety of formats and save and share them across platforms. (credit (a): modification of "Phil Libin and Loic Le Meur - LeWeb Day 1 - Dan Taylor/Heisenberg Media" by Heisenberg Media/Flickr, CC BY 2.0; credit (b): modification of "screenshot of the old Evernote iPhone app" by Jason Jones/Flickr, CC BY 2.0)

Chapter Outline

Introduction

Phil Libin, cofounder and former CEO of Evernote, once said there are "lots of bad reasons to start a company. But there's only one good, legitimate reason . . . it's to change the world."[1] Evernote is an example of an entrepreneurial startup. Its goal is to make our lives more organized and increase our personal memory abilities by storing necessary and desired information on the Evernote app. Evernote is designed to capture information through note taking (including pictures, web pages, drawings, and even audio), track and organize this material, and then save and archive the information. Evernote Corporation describes itself as "not only an organization, rather it is a family of professionals who are creative, innovative and experienced in their respective fields."[2]

Around the globe, individuals, communities, and organizations advocate for and support the entrepreneurship movement. Many colleges and universities offer courses, degrees, and competitions for entrepreneurship teams. Communities provide support through services such as incubators that foster planning and startup activities. Organizations like UNESCO's Global Action Programme on Education for Sustainable Development

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1   Robin Wauters. "Evernote CEO Phil Libin: 'My Advice to Aspiring Entrepreneurs? Don't Do It.'" *The Next Web*. April 27, 2012. https://thenextweb.com/video/2012/04/27/evernote-ceo-phil-libin-my-advice-to-aspiring-entrepreneurs-dont-do-it-video/
2   "Evernote SuccessStory." *SuccessStory*. June 24, 2018. https://successstory.com/products/evernote

holds a Youth Entrepreneurship Competition annually.[3] That is where student Chloe Huang, in 2017, submitted her idea for an algae energy pavilion to the Education for Sustainable Development competition. Huang recognized the problem of lakes suffering from oversaturation of algae and saw a solution in converting the algae into a biofuel, creating green energy while alleviating an environmental problem.[4]

In the examples of both Libin and Huang, the entrepreneurial products focus on the use of technology and improving life, but they also represent two vastly different approaches to entrepreneurship. Libin's focus was on improving quality of life by allowing users to track and organize information in their business and personal lives, whereas Huang focused on a global environmental issue to sustainably improve water quality. Each idea solves a problem that many people might not even have noticed. Becoming aware of problems that need to be solved, then solving the problem to make our lives easier or better, is part of the entrepreneurial perspective.

1.1 Entrepreneurship Today

Learning Objectives

By the end of this section, you will be able to:

- Define entrepreneur and entrepreneurship
- Describe types of entrepreneurial careers and lifestyles
- Understand entrepreneurs as problem solvers
- Explain current factors driving the growth of entrepreneurship
- Compare differences in entrepreneurial opportunities around the globe

As we delve into the study of entrepreneurship, let's define what we mean by the word *entrepreneur*. An **entrepreneur** is someone who identifies and acts on an idea or problem that no one else has identified or acted on. This combination of recognizing an opportunity to bring something new to the world and acting on that opportunity is what distinguishes an entrepreneur from a small business owner. A small business owner is someone who owns or starts a business that already has an existing model, such as a restaurant, whereas an entrepreneur is someone who creates something new. This new creation can be a new process or product, a business that identifies a new or unique target market, or a combination of ideas that creates a new approach or method, for example.

In a broader sense, what people consider an *entrepreneur* can vary. Some scholars strictly differentiate between entrepreneurs and small business owners.[5] Others acknowledge that a small business owner may also be an entrepreneur—they are not mutually exclusive. Someone may start a venture that is not a completely new idea, but that introduces a product or service to a new region or market. Where does a franchise fall in this discussion? Again, there is not complete agreement, with some claiming that a franchisee and entrepreneur cannot be the same, and others arguing that a franchise is, indeed, an entrepreneurial venture. According to an article in *Forbes*, "In the for-profit world, an entrepreneur is someone who creates and runs a new business where one did not exist before. And, no, the McDonald's franchisee didn't create McDonald's. But he certainly created a McDonald's where there never was one before. Franchisees are entrepreneurs."[6] The point is that small business owners and franchisees can be considered entrepreneurs. For the purposes of this course, you will learn the key principles of entrepreneurship alongside the concepts,

3   UNESCO. "Global Action Programme on Education for Sustainable Development." n.d. https://en.unesco.org/gap

4   Chloe Huang. "Algae Energy Pavilion." *Entrepreneurship Campus*. August 1, 2017. https://www.entrepreneurship-campus.org/ideas/14/7404/

5   Hamid Bouchikhi. "A Constructivist Framework for Understanding Entrepreneurship Performance." *Organization Studies*. July 1, 1993. doi.org/10.1177/017084069301400405; William D. Bygrave and Charles W. Hofer. "Theorizing about Entrepreneurship." *Entrepreneurship Theory and Practice* 16, no. 2 (1991): 13–22.; Michael A. Hitt, R. Duane Ireland, S. Michael Camp, and Donald L. Sexton. *Strategic Entrepreneurship: Creating a New Mindset*. (Hoboken, NJ: Wiley-Blackwell, 2002).; Jeffry A. Timmons. *New Venture Creation: Entrepreneurship for the 21st Century*. (Irwin Press, Burr Ridge, IL: Irwin Press, 1994).

strategies, and tools needed to succeed as a small business owner or franchisee.

Entrepreneurs have many different talents and focus on a variety of different areas, taking advantage of many opportunities for entrepreneurial ventures. An **entrepreneurial venture** is the creation of any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established. For some entrepreneurs, this could be a for-profit venture; for other entrepreneurs, this could be a venture focused on social needs and take the form of a nonprofit endeavor. Entrepreneurs might take a variety of approaches to their entrepreneurial venture, such as those shown in Table 1.1.

Types of Entrepreneurs

Type of Entrepreneur	Approach to Venture
Innovators	Find new approaches, methods, or products that add value through solving a problem in a unique manner
Creators	Make something new or see a problem that other people have not noticed
Market makers	Innovate or reinvent their market from a future perspective by asking what the market could evolve into
Expanders and scalers	Seek out opportunities to expand upon previously created methods, processes, or products

Table 1.1

In this course, you will explore these myriad avenues toward entrepreneurship.

ARE YOU READY?

How Do You Define Success?

What is your personal definition of success? How would you define success for your venture idea? Take time to consider these questions carefully.

- Write your answers to both questions as formal descriptions of your definition of success.
- After completing your definitions, meet with your family members or your personal support group (the important people whose support you need to achieve the defined success statement) to discuss your personal definition of success.
- After hearing their input, you might want to revise your personal success statements.

Follow through with this activity by talking to your startup team or other supporting people about your venture's success definition. This activity may help guide you in decision-making throughout your life journey and the journey of starting your venture. It will also be helpful when you and your startup team

6   Paul B. Brown. "Franchisees Are Entrepreneurs (Let the Debate Begin)." *Forbes*. September 19, 2012. https://www.forbes.com/sites/actiontrumpseverything/2012/09/19/franchisees-are-entrepreneurs-let-the-debate-begin/#55c9fb8f2bf3

create a vision statement for your venture.

The Entrepreneurial Lifestyle and Career

People often have thought of entrepreneurs as corporate rebels, nonconformists, or activists. Being an entrepreneur has become synonymous with being an innovator, a change agent, or a risk taker. Regardless of job titles or descriptive characteristics, entrepreneurship has a universal appeal for how people think and engage with the world.

Choosing the path of entrepreneurship requires a willingness to take on calculated risks. The difference between risk and *calculated* risk is **due diligence**, or conducting the necessary research and investigation to make informed decisions that minimize risk. Not everyone is comfortable letting go of a steady paycheck, especially when we know that there is no long-term guarantee that the paycheck will continue into the future. In one approach to minimizing personal financial risk, some startup entrepreneurs continue with their current employment while working on the side to develop their idea into a venture that eventually will generate an income. Until the venture requires near full-time work and generates income, maintaining an outside income works well for many entrepreneurial teams.

Consider the eyeglass startup Warby Parker (Figure 1.2). Dave Gilboa and Neil Blumenthal, lead entrepreneurs for Warby Parker, were still working their normal jobs when they approached an angel investor with their idea. The angel investor asked a few questions and wasn't impressed. This investor believed that Gilboa and Blumenthal should demonstrate their solid commitment to the venture by quitting their day jobs to dedicate more time and energy to Warby Parker. Instead of following that advice, Gilboa and Blumenthal kept their day jobs while they continued to work toward building their venture, and Warby Parker eventually became highly successful. There are many paths to becoming an entrepreneur, and many paths to creating a successful venture (see Entrepreneurial Journey and Pathways). It is important to identify the path that works best in your life—and for the venture—and that supports your goals and your unique situation and visions.

Figure 1.2   (a) Co-founder and co-CEO Dave Gilboa helped push (b) Warby Parker to become a successful entrepreneurial venture. (credit (a): modification of "775208326EC00084_TechCrunch" by TechCrunch/Flickr, CC BY 2.0; credit (b): modification of "Warby Parker Aventura Mall" by Phillip Pessar/Flickr, CC BY 2.0)

Within the entrepreneurial world, the idea of a **lifestyle venture** has evolved to mean a business in which the founders' primary focus is the lifestyle they will attain through becoming entrepreneurs, rather than a primary

interest in financial rewards through the selling of the business. Within the entrepreneurial world, harvesting is the typical exit strategy. The **harvest** is the point at which the investors and entrepreneurial team receive their return on creating and building the venture.

For a lifestyle venture, the entrepreneur is more likely to be a solo entrepreneur, someone who moves forward in starting a new venture without the support of a team or group of likeminded individuals who recognize the value or potential of an entrepreneurial idea that could potentially result in significant returns. A lifestyle venture is also more likely to be funded through family and friends, and more traditional methods such as a bank loan or a small business loan. This lifestyle includes greater freedom to decide areas of responsibilities, hours of contribution to the venture, and other decisions that support the desired lifestyle. An example of a startup lifestyle venture is The Wander Girls, a company that identified the unique concerns of women traveling alone.[7] The Wander Girls organizes trips and events for groups of women traveling in India. A team member organizes the trip, travels with the female tourists, and handles daily interactions and transactions.

Another example of a lifestyle venture is based on how an entrepreneur aligns values, interests, and passions to create a balance between enjoying life and earning enough money to support those passions. Roxanne Quimby had a passion for living off the grid, creating her own life in the woods of Maine, and not being restricted by the rules and regulations required when working as an employee. After becoming a parent, Quimby faced the challenges presented by her lifestyle choices and started making candles to earn enough money to support her family. Eventually, Quimby's lifestyle candle-making business expanded into the highly successful Burt's Bees Corporation, moving her lifestyle business into a career as the CEO of Burt's Bees (Figure 1.3). After selling Burt's Bees to Clorox Co., Quimby continued her passion for the north woods of Maine by donating land and money to create a wildlife sanctuary and preserve that land from development.

Figure 1.3   The Burt's Bees product line grew from an idea for a lifestyle entrepreneurial venture into a major company. (credit: "Burt's Bees" by Carol Bleistine/Flickr, CC BY 4.0)

Quimby's latest endeavors include creating a pasta company, My Pasta Art, focused on increasing employment opportunities for people in northern Maine,[8] and building the tourist industry to encourage people to enjoy the region's beautiful habitat and scenery. Although she is highly successful from a financial perspective, money was never the motivation for her ventures. As you can see, there are many paths to finding your career in entrepreneurship, and multiple trigger points at which you might make the decision to become an entrepreneur.

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7   The Wander Girls. n.d. http://thewandergirls.com/
8   Mary Pols. "Making Pasta's the New Focus for Roxanne Quimby." *Portland Press Herald*. August 13, 2017.

How Can You Put Your Strengths to Work?

Create a list of ten strengths that you currently possess. If you need help creating your list, ask your friends or family what they believe you are good at doing. Think about what achievements you have accomplished, what compliments you have received, and what people say about you. The answers to these questions will help you identify your strengths.

- Create a list of ideas that build off your strengths or are related to your strengths.
- Then analyze this list to create another list of possible businesses that you could start that relate to your strengths.

The Entrepreneur as a Problem Solver

What are some challenges you face in your life? Have you ever actively thought about how you could solve those problems? Or have you actively identified exactly what the problem is from an analytical perspective? We often have a tendency to jump quickly from noticing a problem to selecting a solution, with little understanding of whether we have even correctly identified the problem. Identifying the problem—and testing the potential, novelty, and feasibility of your solution—is an important part of resolving the problem. Often, when we start to explore the problem, we find that it has multiple causes. Among them are:

- The need for something to be better, faster, or easier
- The effects of changes in world on your industry, product, or service
- Market trends based on geography, demographics, or the psychology of the customers

You will learn more about identifying opportunities in Identifying Entrepreneurial Opportunity and Problem Solving and Need Recognition Techniques.

One characteristic of a savvy entrepreneur is recognizing the ability to identify a problem from an opportunity-identification perspective. We might identify feeling hungry as a problem, but an entrepreneur would identify the problem using an **opportunity-identifying perspective** by determining how the problem could be translated into an opportunity to create a new venture—perhaps combining the problem of feeling hungry between meals into a street kiosk or a vending machine with food choices or creating a new snack that is nutritious, satisfying, and portable. People need to eat, and they get hungry, but during a busy day with no open time or convenient food, people end up hungry. Rephrasing the problem, or need, from an opportunity viewpoint opens the search for a sustainable solution beyond the simple awareness of feeling hungry. We might solve this problem by opening a snack bar with offerings that contain essential vitamins and proteins, and is easy to transport with a long shelf life. Understanding the problem from the perspective of how to solve it for one person into how to solve it for multiple people rephrases the problem into an opportunity-identification perspective.

You might also have an interest in solving food-related problems on a larger scale. People trapped in a war-torn region may not be able to leave the safety of their shelters to find food, grow food, or barter for food, or they may not have the money to buy food. How could you reach your target market within a war-torn area? Red Cross emergency response vehicles traveled 2.5 million miles to deliver food, relief supplies, and support to communities affected by disasters during 2017.[9] That's the equivalent of driving around the globe 103

times. Could your idea of creating a snack bar fit into a partnership with the Red Cross?

Although this might seem like a simple problem with a simple solution, persevering from the recognition of a problem to finding a realistic solution, then moving that solution forward into a successful venture, requires an entrepreneurial mindset. Every day, people become entrepreneurs as they identify and solve problems, or face new challenges or frustrations, and resolve them in creating products or services to address these issues.

WHAT CAN YOU DO?

Recognizing Problems

In your daily life, what problems do you encounter? What would make your life easier? How would you finish this sentence: "If only _____ existed, my life would be better or easier"? To spur your creativity, you might research global problems to find an area that interests you, that sparks your passion for living a fulfilling life. When identifying a problem, consider process-related problems as well as service-related problems.

For more ideas like Chloe Huang's, visit the UNESCO Global Action Programme on Education for Sustainable Development (https://en.unesco.org/gap) and review other submissions that may activate your own creativity in thinking about how you want to contribute your skills and knowledge to improve our world.

- What problem have you identified?
- What can you do to resolve that problem?

Factors Driving the Growth of Entrepreneurship

Do you know anyone who has lost their job? Or who has been rejected or mistreated at work? Or had their income reduced, or benefits removed? Research shows that 47 percent of all US employment is at risk through artificial intelligence and other technologies, although there will also be new opportunities for jobs that currently don't exist.[10] These types of experiences and outlooks have provided the impetus for many people to start their own businesses. When we work for someone else, we are at the mercy of their decisions and actions, but we get paid and don't carry the full risk of their decisions. When we work for ourselves, we get to make the decisions (not that making decisions is easy). But when we have our own business, we have greater control—in exchange, we also carry the risk for all decisions we make. This control over decision-making is one reason that some people find the world of entrepreneurship attractive.

Another contributing factor to the desire to become an entrepreneur is the excitement and fun of creating something new. Many entrepreneurs are excited at the idea of moving the concept through to the materialization of the idea.

A third factor that supports the growth in entrepreneurship is the combination of retirement and longer life expectancies. Many people enjoy working. For them, retirement consists of too much open time and not

9   American Red Cross. "2017 in Review: Red Cross Delivers More Food, Relief Items, and Shelter Stays Than Last 4 Years Combined." December 18, 2017. https://www.redcross.org/local/georgia/about-us/news-and-events/news/2017-in-Review-Red-Cross-Delivers-More-Food-Relief-Items-and-Shelter-Stays-than-Last-4-Years-Combined.html

10   Carl Benedikt Frey and Michael A. Osborne. "The Future of Employment: How Susceptible Are Jobs to Computerization?" *Technological Forecasting and Social Change* 114 (2013): 254–280. https://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

enough activities or the type of engagement with the outside world that fulfilled their needs during their working lives. Retirement also presents unique financial considerations, depending on an individual's lifetime savings and planning. The combination of having available time and a desire for continued earnings encourages some older adults to explore their own entrepreneurial opportunities.

A fourth factor driving the growth of entrepreneurship is the expanding awareness and support of entrepreneurship as a viable career choice. In much of the twentieth century, families encouraged their children to find a stable career with a large corporation. During this era, there was a certain expectation of reciprocal loyalty between the employer and the employee based on some traditional employee-employer roles in that century. The general, informal agreement was that if employees came to work every day and fulfilled their responsibilities, they would have long-term employment with that corporation. But as competition increased and new business practices evolved, this unspoken guarantee no longer held true. The model of certainty of employment gradually disappeared. As people acquired a new perspective on their careers and income, they increasingly realized that we are all responsible for our own paths. Most studies suggest that people change their careers between three and seven times.[11] Note that this is not how often people change jobs, but how often they change their careers, moving from one industry to another, or moving from one type of work to a different type of work. The older model of stability through working hard for someone else has vanished. This awareness and acceptance have encouraged recent generations to consider creating their own futures through entrepreneurial ventures.

Just as individuals have become aware of the benefits of entrepreneurship, communities and organizations have also become aware of how entrepreneurial ventures add economic development and enhancements worth supporting, bolstering opportunities for those who decide on this path.

Entrepreneurship around the Globe

In the United States, entrepreneurial opportunities abound, relatively speaking. Between 1990 and 2014, the number of campus-based entrepreneurship education programs increased from 180 to over 2,000.[12] Comparing globally, the United States has the greatest number of entrepreneurial ventures, with Switzerland, Canada, Sweden, Denmark, and Australia following in order, according to Global Entrepreneurship Index, a global consulting firm (Figure 1.4).

11   Dawn Rosenberg McKay. "How Often Do People Change Careers?" *The Balance*. September 20, 2019. https://www.thebalancecareers.com/how-often-do-people-change-careers-3969407
12   Infographic.ly Team. "Infograpic: The Growth of Entrepreneurship around the Globe." *Entrepreneur Middle East*. January 26, 2017. https://www.entrepreneur.com/article/288286

Nations with Most Attractive Entrepreneurial Ventures

Nation	Gross Domestic Product	GEI
1. United States	52,676	83.6
2. Switzerland	54,933	80.4
3. Canada	42,104	79.2
4. United Kingdom	37,451	77.8
5. Australia	42,149	75.5
6. Denmark	44,005	74.3
7. Iceland	34,541	74.2
8. Ireland	42,012	73.7
9. Sweden	45,533	73.1
10. France	37,948	68.5

Attractiveness of Entrepreneur Ecosystem

Inforgraphic.ly Team. "Infographic: The Growth of Entrepreneurship Around the Globe."
Entrepreneur Middle East. January 26, 2017.

Figure 1.4   The number of entrepreneurial businesses, in millions, is shown for several countries. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Why is the United States leading with the greatest number of entrepreneurial ventures? What does it take to become an entrepreneur? In addition to having an entrepreneurial mindset (see The Entrepreneurial Mindset), entrepreneurs also need education and funding to support their new ventures.

You will learn more about funding in Entrepreneurial Finance and Accounting, but as an introduction, you should know there are three primary sources of outside funding: family and friends, angel investors, and venture capitalists. Some family members and friends are willing and able to invest money in helping the entrepreneurial team. An angel investor is someone who has available funds and an interest in supporting a new venture. They are often entrepreneurs who have successfully launched and harvested their own ventures, and who have an interest in helping other entrepreneurs in their startups, staying active in the entrepreneurial world, and a desire to receive a return on their investment in the venture. Angel investors often provide funding early in the life of a venture. As the venture grows, it typically requires more funding, at which time venture capitalists may invest in the venture. A venture capitalist (VC) is a group of people (or organizations) who pool resources to invest in entrepreneurial ventures, contributing larger sums of funds than are available through angel investors. In each funding round, investors receive an equity stake in the venture with expectations that at some point in the future, the venture will be sold, or harvested, at which time the investors will receive a return on their investment. Because they tend to be in larger groups, VCs typically have access to larger amounts of money and resources than individual angel investors. (You will also learn about other types of financing, such as bank loans and bootstrapping, in Entrepreneurial Finance and Accounting.)

In the United States, VCs contributed $72.3 billion in 2015 for 3,916 deals, or funding rounds. In China that same year, $49.2 billion were invested in 1,611 ventures.[13] European VC investment totaled $14.4 billion and

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13   Infographic.ly Team. "Infographic: The Growth of Entrepreneurship around the Globe." *Entrepreneur Middle East*. January 26, 2017. https://www.entrepreneur.com/article/288286

1,598 deals. Tracking these numbers over time shows steady increases in VC funding as entrepreneurial ventures have become more common (Figure 1.5).
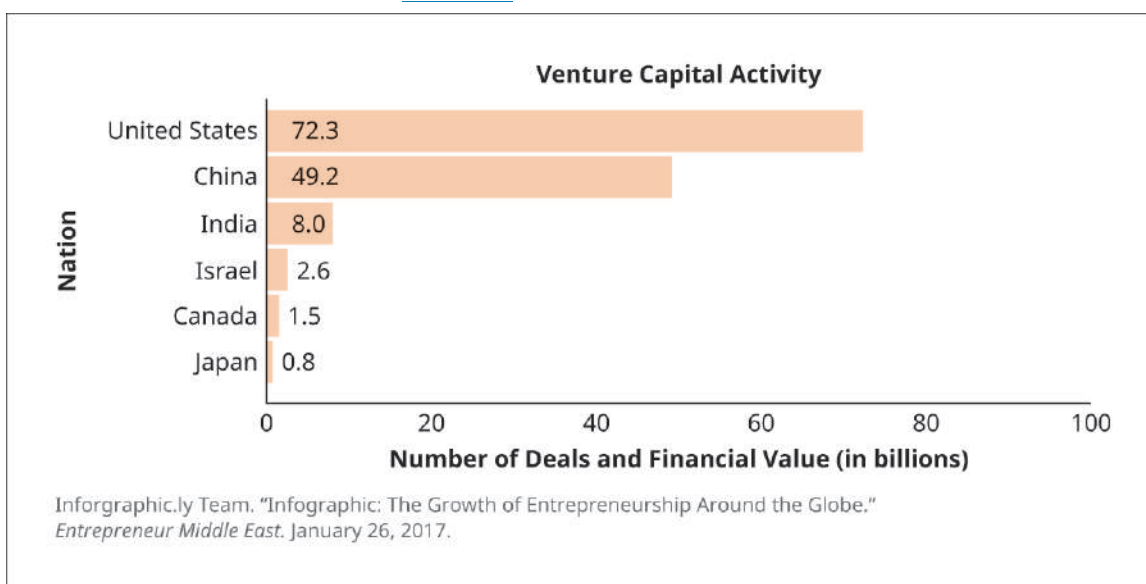
Figure 1.5   The total venture capitalist investment and number of deals for several countries are shown. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Other factors that can affect entrepreneurial opportunity include employment rates, government policies, and trade issues. For example, in the Middle Eastern kingdom of Saudi Arabia, a newer driver of entrepreneurship includes a high unemployment rate with a large percentage of the population in its prime earning years. In the past, employment was less of a concern because of dependency on state support from oil revenue. The population received monthly allotments to cover expenses from state-owned oil production. More recently, the population has become restless, with a desire to become productive and have greater control over their own resources. And the rulers recognize that oil production income is volatile and unsustainable. Today, with more future-oriented leaders, countries in the Middle East desire to encourage their citizens to consider starting their own businesses.[14] The example of entrepreneurship in the United States has spread around the globe, with other countries taking an interest in developing support systems to encourage their populations to become entrepreneurs.

As noted, the United States is a world leader in entrepreneurial innovation. Perhaps because the United States is, in large part, a nation of immigrants, with people arriving from all over the world, Americans have few prescribed traditions that encourage conformity. America's longstanding traditions and reputation for individualism, ingenuity, and self-reliance have reinforced this mindset. However, the governments of other nations have discouraged their citizens from independent or innovative thinking. Some cultures emphasize political, cultural, and economic unity, and place a strong value on not being noticed, blending in, and following prescribed habits and traditions. Countries like Japan, France, Russia, China, and others continue to reflect these norms. Other countries have complex bureaucracies that prevent quick responses and place barriers to entrepreneurial activities. Parts of worldwide economic structures (banking, investments, and technology) are not accessible or even explicitly exclude some nations and the poor. Systems like this discourage people from coming forward with entrepreneurial ideas because the culture and bureaucracy

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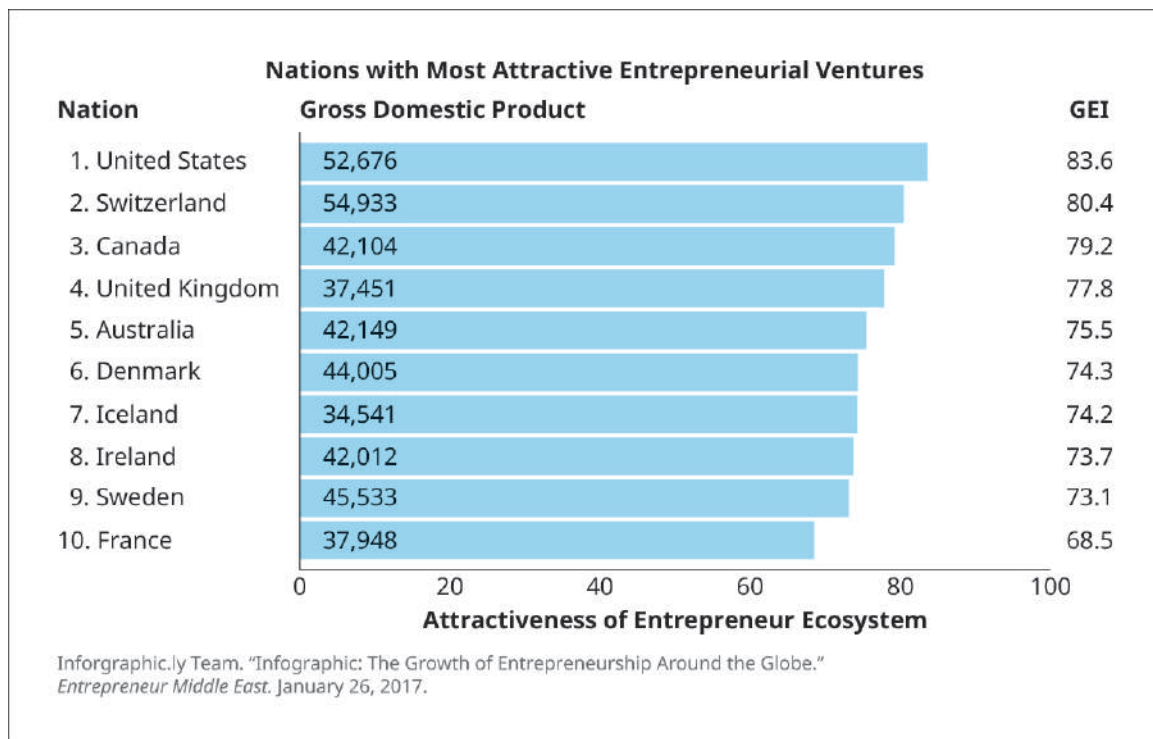14   Infographic.ly Team. "Infographic: The Growth of Entrepreneurship around the Globe." *Entrepreneur Middle East*. January 26, 2017. https://www.entrepreneur.com/article/288286

prevent people from finding access to information necessary for the successful advancement of an idea. In contrast, other countries are noticing the benefits of encouraging their populations to become more open-minded and creative through new ventures.

LINK TO LEARNING

Transparency International is an organization that tracks corruption, which can be an inhibitor to entrepreneurship. The Transparency International website (https://openstax.org/l/52TransparencyI) provides information to rank 180 countries in identifying the abuse of entrusted power for private gain.[15]

Key characteristics that encourage entrepreneurship include support for freedom to create and innovate. What conditions encourage creativity and innovation? Acceptance of failure is a key characteristic for success as an entrepreneur. Many of the great inventions in the United States resulted after dozens of failures, as when Thomas Edison eventually developed a working light bulb. Edison identified a problem: Once the sun set, working hours were restricted, as were daily activities such as reading a book or washing dishes. Edison, along with many other inventors, recognized the need for an artificial light source. Consider how complex this idea was and how many failures must have occurred before creating a product that emitted light.

Another condition that encourages entrepreneurial behavior is the ability and opportunity to connect with other people to discuss ideas, problems, challenges, and solutions. This connection with other people, in an open environment that supports the exchange of ideas, is essential for encouraging creativity and innovation.

With the advent of the Internet, people around the planet are becoming increasingly aware of geopolitical and environmental situations across the globe. As more people observe these changes and situations, more people exchange ideas. These discussions can generate new opportunities for people to discover methods for solving problems. Any one of us could be living in one country but identifying a problem in another country. Given our interests and backgrounds, we could actively choose to develop a solution for that problem. What we need, as a general approach, is an efficient and transparent way to form companies and enable constructive competition, along with continued free and fair trade.

These are just some of the areas that many nations and organizations consider as they seek to encourage a transition away from group-prescribed thinking toward uniquely individual entrepreneurial ideas. Each of us encounters life from a different perspective. Although we all might recognize the restrictions presented by the sun setting every night, only a few people might question why we couldn't change that situation by creating our own light. Similarly, someone in another country may observe our country (or vice versa) and ask why that country has a particular problem. Meanwhile, people living with that problem may have become so accustomed to it that they might not recognize the opportunity to seek solutions.

Increasing opportunities in entrepreneurial education are also driving growth. More colleges and universities are teaching entrepreneurial studies and opening entrepreneurial centers that encourage students from every discipline to become entrepreneurs.[16],[17] As the employment and entrepreneurial landscape continue to

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15   Transparency International. n.d. www.transparency.org
16   National Survey of Entrepreneurship Education. n.d. www.nationalsurvey.org
17   "The Princeton Review & Entrepreneur Name the Top Undergraduate & Graduate Schools for Entrepreneurship Studies for 2020." Cision PR Network. November 12, 2019. https://www.prnewswire.com/news-releases/the-princeton-review--entrepreneur-name-the-top-undergraduate--graduate-schools-for-entrepreneurship-studies-for-2020-300955876.html

evolve, some institutions have started offering courses to prepare students for work in the gig economy.[18] In fact, some of the best new entrepreneurial ideas come from groups of students in different majors who collaborate to create new, innovative business ideas that meet specific needs and challenges in today's world. In some cases, students from different universities around the globe are connecting to come up with business ideas to solve global problems, such as the lack of clean drinking water and the need for medical vaccination programs. Technology and global travel have made such partnerships more common and very productive.

The world of entrepreneurship opens doors for each of us to look beyond our own self-created barriers and explore opportunities around the world. Consider the creation of Starbucks, borne from the realization of how pleasant it can be to sit at a European café and drink excellent coffee. Awareness of an idea that is commonplace in one country, but new to a different country, presents the possibility of introducing that idea to another nation. In the Starbucks example, was there a problem that needed to be solved? Not necessarily, but the founder, Howard Schultz, had a desire to bring a specific quality-of-life element from one country to another, a business idea with an entrepreneurial aspect. One of the entrepreneurial aspects of creating Starbucks was the idea of mass expansion of coffee shops. Prior to Starbucks, the idea of creating a high-quality coffee drink hadn't been developed. Even more significant was the idea of expanding the business across the United States and then around the world.

Given the growth of coffee shops throughout the United States, we might not think that this idea is innovative, but before Starbucks, coffee typically was served at a diner, and it was served out of habit, rather than as the main attraction. With Starbucks, people changed their ideas about coffee and their coffee-drinking habits. Although businesses like Dunkin' Donuts served coffee, their focus was on selling donuts, not coffee. As Starbucks grew through repositioning coffee as their main product, other companies like Dunkin' Donuts and McDonalds realized the missed opportunity in not reinventing the coffee market with multiple choices of high-quality coffee. In fact, Dunkin' Donuts has changed its name to just "Dunkin," removing the emphasis on doughnuts.[19]

Social and Environmental Issues and Opportunities

A **social entrepreneur** has an interest in solving a social, environmental, or economic problem. A social entrepreneur identifies a problem with a social or community focus, a concern for quality of life, or concern for our entire planet's health (you will learn more about social entrepreneurship in The Ethical and Social Responsibilities of Entrepreneurs). One such person is Angad Daryani, a young serial inventor. Daryani left school in the ninth grade to join the Media Lab at the Massachusetts Institute of Technology (MIT), where he worked on an industrial-scale air filter to clean pollutants and carcinogens out of our planet's air. Daryani's home country of India is the world's third largest emitter of carbon dioxide, according to Global Carbon Atlas, behind China and the United States (Figure 1.6).[20]

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18   Diane Mulcahy. "Universities Should Be Preparing Students for the Gig Economy." *Harvard Business Review*. October 3, 2019. https://hbr.org/2019/10/universities-should-be-preparing-students-for-the-gig-economy
19   Kate Taylor. "Dunkin' Donuts Is Officially Dropping the 'Donuts' from Its Name Despite Earlier Backlash." *Business Insider*. September 25, 2018. https://www.businessinsider.com/dunkin-donuts-changes-name-no-donuts-2018-9
20   "Fossil Fuel Emissions." Global Carbon Atlas. 2017. http://www.globalcarbonatlas.org/en/CO2-emissions

Figure 1.6   The Mumbai skyline is clouded by hazy pollution. (credit: modification of "Smog over Mumbai" by Christian Haugen/Flickr, CC BY 2.0)

WHAT CAN YOU DO?

Social Entrepreneurship

Consider a social issue that you might feel compelled to take on as a passion project. Some social issues include childhood hunger, access to clean water, access to education, or opioid abuse. Watch Johann Hari's Ted Talk on addiction (https://openstax.org/l/52HariTedTalk) to learn more.

- Do you have any ideas for creating an entrepreneurial venture around the idea of building quality relationships and communities?
- How would you balance a passion project with an entrepreneurial purpose?

Not only is Daryani interested in solutions for air pollution, but his product will also provide financial gains and add to his personal credibility as a **serial entrepreneur**, or someone who starts and harvests multiple entrepreneurial ventures. Darvani describes himself as an inventor and social entrepreneur, combining his interest in improving lives through a variety of entrepreneurial ventures including products like Sharkits (a do-it-yourself-kit company that teaches children how to build technology), the SharkBot 3D Printer (an attractive, low-cost, and reliable 3D printer), and several other projects that combine technology and human needs. As each of these products advances to commercialization, the products and technology are becoming more applicable for other uses as well. For more examples of projects that Darvani is working on, take a look at his website (http://www.angadmakes.com), which includes videos and articles, and highlights the international recognition he has received for his innovative work.

ENTREPRENEUR IN ACTION

Angad Daryani

Research Angad Daryani and his technology to remove air pollution (https://www.cnn.com/2018/03/28/health/angad-daryani-tomorrows-hero/index.html).

- What other products could this technology or methodology be used for, besides the originally intended application of improving air quality?
- What critical decisions would you anticipate that Angad will face in creating and commercializing his product?
- How would you define success for Angad or this air-cleaning company?

1.2 | Entrepreneurial Vision and Goals

Learning Objectives

By the end of this section, you will be able to:

- Define an entrepreneurial vision
- Develop a vision statement

When you think of yourself as a successful entrepreneur, what types of images or feelings do you experience? Do you find yourself daydreaming about creating the next great solution to society's problems, or do you see yourself providing a solution for the next health or environmental crisis? Maybe you can imagine yourself creating something that equally balances art, function, and ingenuity.

This section is designed to help you develop your entrepreneurial vision. Vision is an important part of everyone's future, and this is especially true for entrepreneurs. Establishing your vision is the first of several steps toward making your venture a reality.

Many would-be entrepreneurs aspire to launch the next great business or organization that will change the world. Some know exactly what they want to create, whereas others figure it out as they go along. Although there is no secret to success, you do need to have some idea about what you envision for your entrepreneurial future. What do you see in your future? How do you want to contribute to the world?

Entrepreneurial Vision

Every successful entrepreneur that you encounter or read about likely started with an image or idea related to something he or she felt passionate about creating. This occurs even when the person has no idea how (or if) what they desire to accomplish or create will become a reality. An entrepreneur's vision is the start of a roadmap that will determine where he or she wants to go with their entrepreneurial efforts. Vision speaks to what the entrepreneur wants the business to look like in the future—perhaps five or ten years out. Unfortunately, many potential entrepreneurs have dreams and ideas but never develop a concrete vision. A **vision statement** is the picture you have for what the venture will become in the future: what it will grow into. Be aware, though, that oftentimes, the identified vision at the start of the venture changes into something

different. In later chapters, we discuss how this change requires open-mindedness and a willingness to adapt. The **mission statement** is a formal declaration about what the venture will do, what value it will provide to the end customer, and how it will accomplish this action. In describing your mission, carefully think about the value proposition that you provide. The **value proposition** is a summary statement that conveys the benefits your product, service, or unique business process/model provides to customers. This relates back to the perspective of problem solving. Not only do you need to solve the problem, but you also must provide value. We might solve a problem, but if the value proposition isn't relevant or seen as "real" by the customer, the venture will probably not be successful. Both concepts of a future vision and the mission of the venture should be formalized into statements.

In spite of your best efforts, you may have trouble putting your entrepreneurial vision on paper. This is normal, especially in the early stages of the process. You may want to start with an outline and fill in the details later. Or set aside a short time each day that you can spend on this task so you train your mind to think about the vision you are setting for yourself. If you experience a mental block, try changing your environment—go outside, try a different time of day, or go to a setting that has similarities to the business you are interested in creating. You might also consider talking with someone who has experience in the industry to give you suggestions. Or better yet, find a mentor in your chosen area of interest and keep this person apprised of your progress. Having someone to bounce ideas off is a great asset to have when imagining the possibilities of the future.

WORK IT OUT

Finding a Mentor

Mentorships can provide you with numerous benefits (Figure 1.7).

Figure 1.7   Finding a mentor can provide you with invaluable benefits. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Read the article at https://www.forbes.com/sites/goncalodevasconcelos/2017/11/02/my-best-advice-for-entrepreneurs-find-a-mentor-this-is-why-and-how/#2bec86b1d469 on the benefits of having a mentor, and click on the resources the author provides in the article.

Then read the article at https://www.inc.com/young-entrepreneur-council/4-types-of-mentors-every-young-entrepreneur-should-have.html, which discusses types of mentors. Notice that in this second article, the author focuses on sales, operations, business development, and entrepreneurial experience as the most significant areas that need expertise for startups.

Next, describe the areas that you would want help from a mentor for learning and developing your business idea. Then, list a few possible avenues where you could find a mentor who fits your needs. Considering the information in these articles, how would this information help you develop your statements and describe your value proposition?

An **entrepreneurial vision** considers what you want your venture to become, what this venture will look like, what the driving forces are, and what values and culture should surround it. Each individual entrepreneur has a unique picture of what the venture will become. For example, Kevin F. Adler wanted to help homeless people. He created Miracle Messages, a volunteer-based nonprofit organization with a goal of helping homeless people reconnect with loved ones. The vision for this organization includes building a vast network of volunteers and partnerships to stop homelessness and bring people together. This vision is about creating community, helping each other, and strengthening communities. The business model encourages homeless people to create short Miracle Messages through video, audio, or text, with messages then uploaded to social

media and other methods to find that person's loved one.

WHAT CAN YOU DO?

Globalizing Miracle Messages

Go to the website www.miraclemessages.org to learn about the vision and mission of Miracle Messages. Their slogan, "Everyone is someone's somebody," conveys their culture of care and concern for all human life. As you read about this organization, consider what this organization could become in the future, with an extensive network that supports connecting volunteers to homeless people, then to loved ones, and to other organizations that support the physical relocations and resources to address the original reasons why the person became homeless. How can this organization become a global business? Consider families dislocated through wars, famine, and other disasters who want to find their loved ones. The infrastructure developed with Miracle Messages could be replicated for other populations besides homeless people in the United States. Depending on the founder's vision, Miracle Messages could continue to focus on homelessness in the United States, or the vision could expand into other geographic areas and needs.

In an entrepreneurial venture, when the vision has a shorter timeline, such as five years, it could focus on a local problem or situation, and over time evolve into a vision that is broader and includes more diverse markets or populations. Your vision should inspire the people involved in your startup to support your venture. Use your imagination to create this picture of your venture with a focus on the future of the venture. Even though entrepreneurs use their imaginations and creativity in developing this picture, they also need to understand the venture's industry, the competition, and trends that are evolving or might evolve in the future. This information helps guide the vision for the venture and define how it is uniquely different from any other business. Ideally, the vision should be insightful, bold, inspirational, and believable, and it should be developed into a formal vision statement.

The vision statement should also be clearly stated and discussed with the startup team. Although you might not have a startup team, a mentor, or a support group developed yet, to create an entrepreneurial venture, you will need support. Your support network understands that working without pay is often the normal situation at the beginning, with the potential for financial rewards coming when the venture is harvested or sold. For some entrepreneurs, knowing the vision includes the sale of the venture to another group or corporation is difficult to accept. However, that is the point at which the venture can grow to become ever more viable. Alternatively, if your vision is to be a small business owner, such as owning a franchise, then you are buying into a business plan package that has already fine-tuned the processes and decisions to support your success as the owner/manager of that business. A small business owner starts or buys into a business idea that already exists, whereas an entrepreneur is someone who seeks to create something new through either new products, services, methodologies, or combinations of ideas that create a new venture or organization.

The lead entrepreneur should share the vision statement with employees and investors, as these groups are formalized, communicating what this vision means personally and to the success of the venture. You might also need to revisit this vision as your venture grows, making changes based on your decisions and knowledge

about your industry, products, and customers' needs. Even if your vision statement changes based on new information and decisions, creating an initial vision statement is a valuable step and will help guide your decisions.

ARE YOU READY?

A Personal Vision Statement

What do you want your life to look like ten to twenty years from now? Consider these questions:

- Where are you living?
- What are you doing for a living?
- What does your home look like?
- Who lives in your home?
- What are you doing with your life?

You could describe a typical workday and weekend day in your life as part of answering these questions. Create a vision statement that describes the answers to these questions.

Creative Approaches to Developing Your Vision

There are many definitions of and ways to express creativity (you will learn more about creativity in Creativity, Innovation, and Invention). Artists typically show their creative side in their art, musicians show their creativity through music, and writers express their creativity in writing. Others express technical creativity through cell phone innovations or new car technology. It is up to you to determine how you will express your creativity in your venture and in your professional life. In most cases, when people follow their passions, their creativity flows from that passion.

One approach to discovering your vision for your future is to begin with the end in mind. What picture of your desired future do you have in mind? How could this vision fit with the ideas you have of creating a successful venture? Notice that these questions are about both your personal future and the vision for your venture's future. These two pictures should coexist. The vision for your personal future should allow for the necessary resources to support the venture's future, just as the venture's future will provide for your personal future. We will discuss work-life balance later in the chapter to help you identify what creates success as you describe your vision.

Another approach to developing your vision is to use a creative thinking process. This type of thinking allows people to come up with ideas that they might not have had without adopting a creative mindset. The creative thinking process (covered in more depth in Creativity, Innovation, and Invention) has four steps: preparation, incubation, illumination, and verification (Figure 1.8).
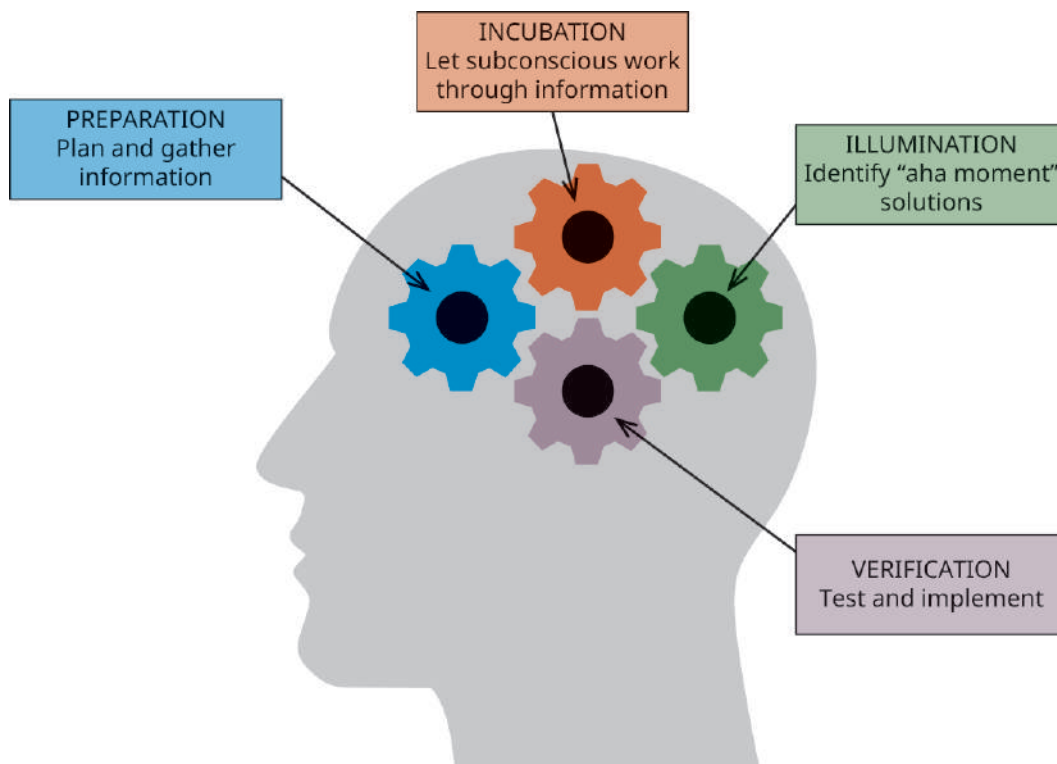
Figure 1.8   These are the four steps of the creative thinking process. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In the preparation stage, gather information and collect ideas. As part of the process of tapping into creative ideas, you can apply **divergent thinking** by generating as many ideas as possible, even when those ideas do not seem logical. Create a list of conflicting ideas, or ideas that are diverse and disparate. *Preparation* is the first step of the creative thinking process. The next action is to walk away from thinking about the activity: *incubation*. We are programming our minds to realize that the work done in preparation is an important topic for consideration. When we walk away from consciously thinking about the activity or problem, we allow our unconscious minds to continue to think about the activity, even though our conscious minds are busy doing other things. This incubation period is essential for advancing creativity. In the incubation stage, you might go for a walk, take a nap, or just continue with your daily activities. At some point, you may have a sudden inspiration or *illumination*—an *aha!* moment—that clearly addresses the activity or problem you want to solve. In this step, the answer often pops into our conscious minds, and we recognize how to proceed. The last step is *verification*, crafting our vision statement or message, or responding to the exercise in creative thinking. You can apply this creative thinking process to many different business situations. Once we further develop and crystallize our ideas (the Business Model Canvas discussed in Launch for Growth to Success is a good tool for this activity), we provide an opening for a creative and viable solution as we continue to think about the issue.

Design thinking, brainstorming, and mind mapping are tools that you will learn about later in the course. Although these tools may be familiar, there are specific methodologies that can optimize their success in entrepreneurial situations. Brainstorming requires that participants generate ideas around the desired topic without judgment. You can do this alone or with others, but including other people provides a greater variety of ideas, as one person's ideas might trigger another idea from someone else. Be sure to write down your thoughts so that you can return to them later. Brainstorming is different from divergent thinking, which does not require ideas to be associated with the identified topic. For example, in brainstorming on the topic of

helping the homeless population, we might come up with ideas such as finding community food and housing, or providing free medical care. Using divergent thinking, we would arrive at more diverse ideas, such as filming homeless people then uploading the videos to a social media website to connect family members with the homeless person. These tools could incorporate divergent thinking in the idea-generation step, but typically, unless people are taught how to use divergent thinking, the ideas generated are more structured and constrained, and more logical. As much as we want to encourage divergent ideas, we also want to discourage any judgment around our ideas. Once we start judging our ideas, we restrict our creativity and end up with less than ideal solutions. Approach this process with some playfulness and relaxation.

Mind mapping is another popular technique for creative thinking. Here, you create an illustration on paper or a chalk board. Write down the words that come to mind then link those words together with lines in a diagram that shows how each word relates to the others. The idea is that one word can lead to another. You can discover associations that might not have been evident before you created the mind map.

You can conduct research on entrepreneurial ideas by creating surveys and asking people questions about their experiences related to your idea. For example, let's say you are considering creating a new non-messy health food that can be eaten while commuting to work. You could ask people about their experiences eating while commuting to work or ask questions about nutritional concerns or diets. Or you could find secondary data on when people eat, eating while commuting, popular diets, or other related topics. Or you could find case studies that focus on a few in-depth similar areas of interest or perform your own case studies by selecting a few peers to track their eating habits. Or you could create a prototype of your product and ask people to tell you about their experience using your product. You will learn more about research strategies in Identifying Entrepreneurial Opportunity, Problem Solving and Need Recognition Techniques, and Entrepreneurial Marketing and Sales.

ARE YOU READY?

Creativity through a Change in Routine

Practice your creativity skills by changing your routine. Because our brains block out many routine activities, such as our commute to work, or other repetitious habits, we often fail to notice our surroundings. Pick one day this week to experience the world through a new perspective. Change your routine in as many ways as possible. As you change your routine, pay attention to how you are experiencing the day.

- What was the experience like?
- Did you notice being more alert to your surroundings?

Consider how you can use this experience to learn how to identify new opportunities and to interact with people, situations, and objects to identify problems in a way that could be translated into an entrepreneurial venture.

Achieving Balance

Entrepreneurship comes with many challenges because the entrepreneur must wear many hats. This is especially true if the entrepreneur is the only employee in the business. But regardless of the business model,

all entrepreneurs must be able to achieve balance in their lives between their dedication to growing their entrepreneurial venture and their personal life. Developing a vision that includes different areas of your professional and personal life can help make this type of balance achievable.

How do you define balance in your life? What areas do you consider when you think about a balanced life? Having enough money to support your lifestyle might be one goal. Other areas might include physical activities or hobbies, social interactions and entertainment, satisfaction with how you earn money, your family and personal relationships, and other interests and values. Some entrepreneurs start lifestyle ventures to achieve this balance. But how do we achieve balance when our goal is to be a career entrepreneur?

A **career entrepreneur** is someone who takes on the daily management as the owner of the venture, accepting, and perhaps enjoying, the daily risks and rewards of managing and building the venture such as Roxanne Quimby. For Roxanne Quimby, growing Burt's Bees involved making difficult decisions, such as relocating from Maine to California to meet the growth needs of the company. Even though Roxanne wanted to provide employment opportunities to people in northern Maine, she knew that her business needed the right infrastructure for success, and that infrastructure wasn't available in Maine. If you choose to become a career entrepreneur, your focus may be primarily on advancing your entrepreneurial idea into a successful venture, like Roxanne did with Burt's Bees; this can come at the expense of personal life goals.

Many career entrepreneurs need support from family and friends who accept that the lead entrepreneur's attention and energy are required for the success of the venture, and many lifestyle entrepreneurs will find challenges in meeting the needs of the venture while maintaining work-life balance. Discussions with family, close connections, and the entrepreneurial team should occur in the early idea-formulation stage to gauge the support of the people whose interests might be compromised by the entrepreneur's dedication to advancing the venture.

Clearly defining your idea of success for your life, and for your venture, is an important step in achieving balance. What are your priorities? What can you do to balance the success of your new venture, the success of your own life, and the success of your family? Considering that balancing all the roles that we have in life is a frustration point for many people, can you find an opportunity to create an entrepreneurial venture?

WORK IT OUT

Exploring What Success Means to You

What is your own definition of success? It's helpful for your entrepreneurial ventures for you to explore and define what success means for you personally and professionally.

- This short Ted Talk explores what makes a person successful: https://www.ted.com/talks/richard_st_john_s_8_secrets_of_success?referrer=playlist-short_talks_to_watch_during_yo. Knowing how you personally define success is a worthwhile activity to help achieve balance.
- Consider these eight secrets to success as you think about work-life balance: https://www.ted.com/talks/nigel_marsh_how_to_make_work_life_balance_work
- Here is another Ted Talk that offers perspective on our lives and what we consider as success: https://www.ted.com/talks/alain_de_botton_a_kinder_gentler_philosophy_of_success

After reviewing these resources, think about how you would define success, and how you can use that

knowledge to plan for a satisfying work-life balance.

As you explore what success means for your venture and how your definition aligns with balance between your personal life and dedication to your venture, you should consider some of the unique challenges entrepreneurs can face. For example, there might be a learning curve in unfamiliar areas of business, such as accounting or finance. Or you might face a dilemma about whether to expand a product line, or whether or where to open a new location. Entrepreneurs often mention the physical requirements of starting up a business. Physical demands can include the sheer stamina needed to clean a new space, move in, and set up shop. Depending on your business, you also might need to adjust to being on call twenty-four/seven. Here again, developing a vision of where you want to be in the future can help you plan for the challenges you will face in the early stages of your business.

Entrepreneurship can be especially draining if you are not prepared for the tasks at hand—as can be the case with any professional or personal role. Therefore, self-care and emotional awareness can play a key role in maintaining your emotional health as an entrepreneur. Taking time for yourself is very important. This could involve creating a time management calendar. Tracking how you spend your time can keep you on schedule with tasks and prevent you from expending too much on any one area of the business or your personal life in detriment to the other. Taking time away from the business is emotionally healthy and can provide important perspective that can help you make better decisions. "Leaving work at the office" is a successful strategy that many business people use to separate their personal and professional lives. If this is not possible—for example, if you work from home—setting aside family or personal time can allow for work-life balance.

Having trusted advisors and mentors for your business and personal life can also promote emotional health. When you face a decision or challenge that you have difficulty with, it is important to have someone to talk to who knows you and knows your situation. Some entrepreneurs may find themselves in their first experience of leading others, with total responsibility for the outcomes as owner of the business. Every business person should have a personal leadership improvement plan. This plan can take the form of academic classes or professional coaching, but sometimes, it will be a personal commitment to improvement. You should identify your preferred leadership styles, as well as leadership strengths and weaknesses. It might be useful to look back on your own work experiences to identify which leadership traits you admired and which ones you didn't. As with any other business skill set, you can learn and improve these strengths in yourself. You also can hire people with complementary skills to handle the areas that you feel unsure about.

Being aware of your own strengths and weaknesses, as well as of your preferences and dislikes, will help you achieve and maintain balance in your life. Having counselors, mentors, advisors, checklists, and timelines can keep you on track and prevent any one area of your business or personal life from taking over or being neglected.

The Importance of Goals

Entrepreneurial vision imagines a future, whereas goals focus on a desired outcome. Although vision is key to creating the future that you want for yourself and your business, goals are important to help you realize the steps needed to make that vision a reality.

Read through your definitions of success and your vision statement. Now create a list of possible actions that will help you achieve success and accomplish your vision. Review your list and categorize the words and actions in terms of relevance and time frames.

SMART goals are well-structured and defined goals that are specific, measurable, achievable, realistic, and timely (Figure 1.9).

- Specific: Your goals should be precise rather than overly broad.
- Measurable: You should be able to test in some **quantifiable manner** whether a goal has been met, meaning that there needs to be some method to determine if the goal has been met or not.
- Achievable: The goal must be attainable; it cannot be so lofty that it cannot be accomplished. On the other hand, the goal should not be so easy that it can be accomplished quickly or with little effort.
- Relevant: The goal should be well suited for what you want to accomplish; this means that the goal should be relevant to the outcome needed.
- Timely: Each goal needs to have a defined deadline, the time when the goal must be accomplished. What time frame do you have for completing your goals? How does this timeline fit into your overall plan?
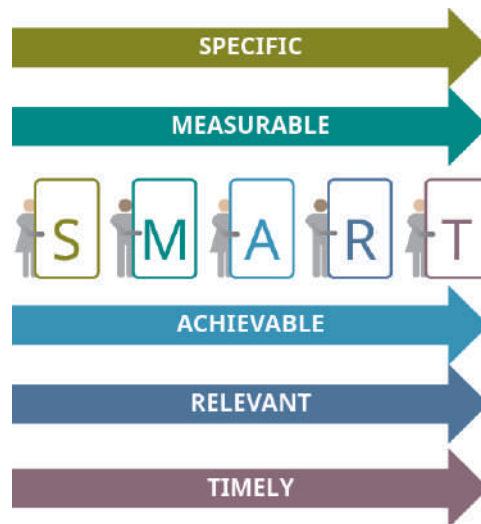
Figure 1.9   Creating SMART goals can help you realize your vision. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

For example, if your personal definition of success and your vision for your future include financial independence—with, say, a vacation home in the mountains—what goals can you define today that will lead to this outcome? You would include financial goals tracked either monthly or yearly to save a set amount of money based on your projection of how much money it will take to own these two vacation homes. You would also set goals about finding the right locations. This process is also necessary to support the success of your business venture. Setting goals is a powerful approach that leads us to the future we want for our lives.

ENTREPRENEUR IN ACTION

Roomify's Goals

Research Roomify at https://www.inc.com/profile/roomify and www.roomify.com. If you were one of the cofounders of this company, what goals would you create for this business? Should you harvest the company? Expand into other related products? Repackaging products for ease of purchasing is an excellent idea that can be translated into other areas. Can you think of a new idea based on repackaging

products that is focused on the benefits of saving people time and the hassle of decision-making? Create a list of at least ten ideas based on the idea of saving people time and adding convenience to their lives. Which ideas most appeal to you?

Here is a fictional example of an entrepreneur's goals, which we can test against the SMART criteria to see if they are feasible. Soraya runs a small tutoring business in Dallas, Texas. Her target market is high school students. Soraya is currently the only employee in her sole proprietorship, but she hopes to hire more employees soon. She is excited about her business, and so far, she has done well in the four years that she has been operating it. On the advice of a friend in business school, Soraya has defined three business goals for the next year. They are:

1. Increase sales by 50 percent.
2. Open a new location.
3. Hire two employees.

In reviewing these goals using the SMART criteria, it is evident that goals one and three are *specific* because they are quantitative, but goal two is not. All three goals can be *measured*. With Soraya as the only employee, it is unlikely that she can achieve goals one and two, but goal three is *achievable*. And hiring more staff would increase the likelihood of achieving additional goals. All three goals are *relevant* to growing the business. And each goal could use more detail in terms of being *timely*. That is, in order to increase sales by 50 percent in the upcoming year, Soraya should have additional monthly or quarterly sales goals to meet her annual goal. Likewise, the opening of a new location requires more time-bound details, such as leasing or purchasing the location, and determining the business model for this location. Finally, hiring additional employees should have a time component as well, such as a timeline for recruiting, interviewing, selection, hiring, and training. Therefore, Soraya's goals are appropriate for her small tutoring business, but they need refining so that they meet the SMART criteria. Soraya is more likely to achieve SMART goals, and they are more likely to lead to desired business outcomes.

1.3 The Entrepreneurial Mindset

Learning Objectives

By the end of this section, you will be able to:

• Explain what it means to have an entrepreneurial mindset
• Describe what is meant by entrepreneurial spirit or passion

Entrepreneurship takes many forms (see Table 1.1), but entrepreneurs share a major trait in common: An entrepreneur is someone who identifies an opportunity and chooses to act on that opportunity. Most business ventures are innovative variations of an existing idea that has spread across communities, regions, and countries, such as starting a restaurant or opening a retail store. These business ventures are, in some ways, a lower-risk approach but nonetheless are entrepreneurial in some way. For example, Warby Parker, a profitable startup founded by four graduate students at Wharton, disrupted a major incumbent (Luxottica) by providing a more convenient (online initially), affordable, and stylish product line for a large segment of consumers. In this sense, their innovation is about creating something new, unique, or different from the mainstream. Yet they attracted an existing, and in some ways mature, sector of an established industry. In a different way, McDonalds, which is 90 percent owned by franchisees, introduced an "all day breakfast" menu in 2017 that

was hugely successful; it also targeted a larger segment (in part younger consumers) and brought back consumers who had chosen other options. In summary, many entrepreneurs start a new venture by solving a problem that is significant, offering some value that other people would appreciate if the product or service were available to them. Other entrepreneurs, in contrast, start a venture by offering a "better mousetrap" in terms of a product, service, or both. In any case, it is vital that the entrepreneur understand the market and target segment well, articulate a key unmet need ("pain point"), and develop and deliver a solution that is both viable and feasible. In that aspect, many entrepreneurs mitigate risks before they launch the venture.

Being aware of your surroundings and the encounters in your life can reveal multiple opportunities for entrepreneurship. In our daily lives, we constantly find areas where improvements could be made. For example, you might ask, "What if we didn't have to commute to work?" "What if we didn't have to own a vehicle but still had access to one?" "What if we could relax while driving to work instead of being stressed out by traffic?" These types of questions inspired entrepreneurial ventures such as ride-sharing services like Uber, the self-driving vehicle industry,[21] and short-term bicycle access in the free bike-sharing program in Pella, Iowa (Figure 1.10).[22]

Figure 1.10   A bike-sharing program in Pella, Iowa, allows users to access bikes at a variety of locations. (credit: "Corral of VeoRide Dockless Bike Share" by "paul.wasneski"/Flickr, Public Domain)

These ideas resulted from having an **entrepreneurial mindset**, an awareness and focus on identifying an opportunity through solving a problem, and a willingness to move forward to advance that idea. The entrepreneurial mindset is the lens through which the entrepreneur views the world, where everything is considered in light of the entrepreneurial business. The business is always a consideration when the entrepreneur makes a decision. In most cases, the action that the entrepreneur takes is for the benefit of the business, but sometimes, it helps the entrepreneur get ready to adopt the appropriate mindset. The mindset becomes a way of life for the entrepreneur. Entrepreneurs often are predisposed to action to achieve their

21   Matthew DeBord. "Waymo Could Be Worth as Much as $75 Billion—Here's a Brief History of the Google Car Project." *Business Insider*. September 9, 2018. https://www.businessinsider.com/google-car-project-history-2018-8

22   Ethan Goetz. "Bike Share Program Launched Monday." *The Chronicle*. July 2, 2018. https://www.pellachronicle.com/gallery/bike-share-program-launched-monday/article_950cebac-7e49-11e8-97a0-8fd615410188.html

goals and objectives. They are forward thinking, always planning ahead, and they are engaged in "what if" analyses. They frequently ask themselves, "What if we did this?" "What if a competitor did that?"—and consider what the business implications would be.

Most people follow habits and traditions without being aware of their surroundings or noticing the opportunities to become entrepreneurs. Because anyone can change their perspective from following established patterns to noticing the opportunities around them, anyone can become an entrepreneur. There is no restriction on age, gender, race, country of origin, or personal income. To become an entrepreneur, you need to recognize that an opportunity exists and be willing to act on it. Note, however, that the execution of the entrepreneurial mindset varies in different parts of the world. For example, in many Asian cultures, group decision-making is more common and valued as a character trait. In these regions, an entrepreneur would likely ask the advice of family members or other business associates before taking action. In contrast, individualism is highly valued in the United States and so many US entrepreneurs will decide to implement a plan for the business without consulting others.

Entrepreneurial Spirit and Passion

An entrepreneurial spirit allows entrepreneurs to carry a manner of thinking with them each day that allows them to overcome obstacles and to meet challenges with a can-do attitude. What does it mean to have an entrepreneurial spirit? For the purposes of this discussion, it could mean being passionate, purposeful, positive, bold, curious, or persistent.

The founders of Airbnb have a passion for supporting individual rights to rent out unused space. Why should the established model of hotels prevail? Why shouldn't an individual homeowner have the freedom to rent out unused space and leverage that space into an income? Airbnb has succeeded in creating more flexible and affordable options in the space of the rapidly growing "sharing" economy. At the same time, some states and municipalities have raised issues about the regulations monitoring ventures like this. While entrepreneurial spirit is partly about fighting for individual rights and freedoms, there should be a balance between economic freedom and consumer protection. The entrepreneurial spirit involves a passion for presenting an idea that is worthwhile and valuable, and a willingness to think beyond established patterns and processes, while still keeping in mind local laws and regulations, in the quest to change those established patterns, or at least to offer alternatives to those established patterns.

Passion is a critical component of the entrepreneurial process. Without it, an entrepreneur can lose the drive to run the business. Passion can keep an entrepreneur going when the outside world sends negative messages or less-than-positive feedback. For example, if you are truly passionate about starting an animal shelter because of your love of animals, you will find a way to make it happen. Your internal drive to help animals in need will spur you on to do whatever it takes to make the shelter become a reality. The same is true of other types of startups and owners with similar passions. However, passion needs to be informed by the entrepreneur's vision and mission—passion of the sake of passion is not enough. A clear mission statement—which details why the business exists and the entrepreneur's objectives for achieving that mission—will guide an entrepreneur's passion and keep the business on track. Passion, vision, and mission can reinforce each other and keep the entrepreneur on the right track with next steps for the business.

Some ideas might seem small or insignificant, but in the field of entrepreneurship, it's important to recognize that for every new startup, someone else may recognize a spin-off idea that expands upon the original idea. The opportunities for identifying new possibilities are endless. Review your work in creating spinoff ideas for Angad Darvani's projects, or Kevin F. Adler's Miracle Messages venture. Or consider possible spin-off ideas

around the technology used in agriculture. Creating spin-off ideas fits well with our discussion of divergent thinking and brainstorming. Through these processes, we can discover new uses for existing technology, just as Ring did by using video technology to add security by allowing customers to see who is at the door without opening it.

An Entrepreneurial Mindset in Your Discipline or Field

Within your industry of interest or area of study, what are the challenges that create frustration? How can these be turned into opportunities? Earlier in this chapter, we discussed Evernote, a company that focuses on expanding our memories by storing and organizing information. Let's look at some other examples of entrepreneurial endeavors in specific industries to help you plan your own venture in your own industry.

In the agriculture industry, insects, weeds, weather conditions, and the challenges of harvesting crops are all ripe for entrepreneurial activities. The move toward organic produce has also affected this industry. From an entrepreneurial perspective, what products could you invent to support both organic farming and the problems of insects that damage or destroy crops? The old method was to use chemical sprays to kill the insects, but today, the growing demand for organic foods and increased awareness of the impact of chemical sprays on our environment are changing this scenario. One new idea to solve this problem combines a vacuum cleaner with an agriculture product.

LINK TO LEARNING

Watch this video on the creation of a crop vacuum that sucks up insects and bugs (https://openstax.org/l/52BugVacuum) to learn more.

A bug vacuum is an example of how using divergent thinking contributed to the solution of removing bugs from crops without using chemicals. In the group activity of creating divergent ideas, this idea may not have been received well. However, in the incubation stage, the idea must have come forward as a viable solution. Entrepreneurs frequently face the challenge of pressure to conform to established habits and patterns within industries.

Often, the entrepreneurial mindset includes futuristic ideas that shake up the normal, conventional processes that are grounded in experience over time. Tried-and-tested processes and products that have a proven history of success can be a formidable obstacle to new ideas. A new idea may even appear as impossible or outlandish, perhaps even an embarrassment to the steady and predictable practices established within an industry. This can create a dilemma: Do we try something new and unproven that lacks documented research? Sometimes, we must disregard our past successes and research to be open to new possibilities for success and failure. An entrepreneurial mindset includes creativity, problem-solving skills, and a propensity to innovation.[23] Open-mindedness is one characteristic that supports creativity, problem solving, and innovation. Taking the time to explore new ideas, dream, reflect, and view situations from a new perspective contribute to the entrepreneurial mindset. Some innovations can lead to disruptions within the industry, or even create a new industry.

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23   Emma Fleck. "Needed: Entrepreneurial Mindset." *Central Penn Business Journal*, *34*(12), 10. http://pageturnpro2.com.s3-website-us-east-1.amazonaws.com/Publications/201803/15/83956/PDF/131668002208352000_CPBJ033018WEB.pdf

The innovator's dilemma was presented by Clayton Christensen to explain **disruptive technology**, which are technologies that, once introduced, displace established patterns, processes, and systems previously accepted as normal or accepted. One example of a disruptive technology is Airbnb, a company that threatens the established hotel industry by connecting personal resources to people who desire those resources. If you have a spare bedroom that you aren't using, why not sell that space to someone who wants and needs the space?

Airbnb has become a significant threat to the established hotel industry's business model of building large hotels and renting rooms within those hotels to their customers. Airbnb has reconfigured that model, and since its 2008 launch, 150 million travelers have taken advantage of 3 million Airbnb listings in more than 191 countries. Airbnb has raised more than $3 billion (plus a $1 billion credit line) and is considering selling stocks to support significant expansion. The value of Airbnb is approximately $30 billion. Compare this market value to Hilton's market capitalization of $19 billion and Marriott's of $35 billion. If you were the CEO of Hilton or Marriott, would you be worried? The hotel industry recognized Airbnb as a threat, and in 2016, began a campaign to create legislation to rein in Airbnb's growth and popularity. From the hotel industry's perspective, Airbnb is not playing by the same rules. This is the definition of disruptive technology, the focus on creating a new idea or process that negates or challenges established process or products.[24]

Sometimes disruptive technologies result from *not* listening to customers. Customers don't always know what they want. Customer groups might need to be redefined by the entrepreneurial team on the basis of better models, knowing when to invest in developing lower-performance products that promise lower margins while still satisfying the need, and knowing when to pursue small markets at the expense of larger or established markets. Basically, disruptive technologies occur through identifying new and valuable processes and products.

The founders of Airbnb recognized that some people have unused resources, bedrooms, that other people need. We can apply this idea to other unused resources such as vehicles and motor homes. We see this model reproduced in short-term car rental and bike-sharing programs.

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24   Katie Benner. "Inside the Hotel Industry's Plan to Combat Airbnb." *New York Times*. April 16, 2017. https://www.nytimes.com/2017/04/16/technology/inside-the-hotel-industrys-plan-to-combat-airbnb.html

🔑 Key Terms

career entrepreneur someone who takes on the daily management as the owner of the venture, accepting, and perhaps enjoying, the daily risks and rewards of managing and building the venture

disruptive technology technology that once introduced, displaces established patterns, processes, and systems previously accepted as normal or accepted methods

divergent thinking process of generating as many ideas as possible, even when those ideas do not seem logical; the list of ideas can be conflicting, diverse, and disparate

due diligence conducting the necessary research and investigation to make informed decisions that minimize risk

entrepreneur someone who identifies an idea that no one else has acted on or identified; small business ownership and franchising are also entrepreneurial options

entrepreneurial mindset awareness and focus on identifying an opportunity through solving a problem, and a willingness to move forward to advance that idea

entrepreneurial venture any business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established

entrepreneurial vision idea of what an entrepreneur wants a venture to become, what it will look like, what the driving forces are, and what values and culture should surround it

harvest point at which the venture is sold, at which time the investors receive a return on their investment

lifestyle venture business whose founders' primary focus is the lifestyle they will attain through becoming entrepreneurs, rather than a primary interest in financial rewards

mission statement statement of an organization's reason for being that defines its primary long-term goal, explains what the venture will do, what value it will provide to the end customer, and how it will accomplish that action

opportunity-identifying perspective method for identifying a problem and determining how it could be translated into an opportunity to create a new venture

quantifiable manner method to determine if a goal has been met or not

serial entrepreneur entrepreneur who becomes involved in starting multiple entrepreneurial ventures

SMART goals well-structured and defined goals that are specific, measurable, achievable, realistic and timely

social entrepreneur entrepreneur who has an interest in solving a social, environmental, or economic problem

value proposition summary describing the benefits (value) customers can expect from a particular product or service

vision statement picture of what the venture will become in the future or what the venture will grow into

📄 Summary

1.1 Entrepreneurship Today

An entrepreneur is someone who takes on an entrepreneurial venture to create something new that solves a problem; small business ownership and franchising are also entrepreneurial options. The venture could be for profit or not for profit, depending on the problem it intends to solve. Entrepreneurs can remain in a full-time job while pursuing their ideas on the side, in order to mitigate risk. On the opposite end of the spectrum, entrepreneurs can take on lifestyle ventures and become serial entrepreneurs. There are many factors driving the growth of entrepreneurship, including employment instability, motivation to create something new, financial factors and free time associated with retirement, and the greater acceptance of entrepreneurship as

a career choice. The cultures of nations around the world affect the ability for entrepreneurs to start a venture, making the United States a leader in entrepreneurial innovation. Entrepreneurs often find inspiration in social, environmental, and economic issues.

1.2 Entrepreneurial Vision and Goals

Establishing an entrepreneurial vision helps you describe what you want your venture to become in the future. For most entrepreneurial ventures, the vision also includes the harvesting or selling of the venture. There are creative ways, such as brainstorming and divergent thinking, as well as investigative ways to define an entrepreneurial vision. Once you have established your vision, it is important to write goals to help you realize the steps toward making your vision a reality.

1.3 The Entrepreneurial Mindset

Identifying new possibilities, solving problems, and improving the quality of life on our planet are all important aspects of entrepreneurship. The entrepreneurial mindset allows an entrepreneur to view the world as full of possibilities. Entrepreneurial passion and spirit help entrepreneurs overcome obstacles to achieve their goals. Disruptive technologies involve using existing technology in new ways and can provide new opportunities as well as new challenges. Entrepreneurship is transforming some industries and potentially creating others, though many entrepreneurs create value by starting small businesses, buying franchises, or introducing new services in mature industries. The key thing to remember is that anyone can be an entrepreneur and that new technologies are making the cost of starting a new business less costly, but still risky at some level.

Review Questions

1. What factors contribute to a growing interest in entrepreneurship?
  A.   unemployment levels
  B.   low job turnover rates
  C.   increasing levels of creativity
  D.   decreasing rates of discrimination

2. Angel investors contribute to the entrepreneurial world by _____.
  A.   outpacing venture capitalists in access to startup funds
  B.   directly investing in entrepreneurial startups
  C.   holding seminars to teach people how to become an entrepreneur
  D.   forming groups of other investors to supply greater quantities of investment funds to entrepreneurs.

3. An entrepreneur is someone who _____.
  A.   creates a small business based on other existing businesses
  B.   creates a home-based business that sells products available through other retailers
  C.   creates a business around the idea of solving a problem
  D.   is highly creative

4. Roxanne Quimby of Burt's Bees is an example of an entrepreneur primarily for which of the following reasons?
  A.   She saw available resources and recognized the resources could be used to create a business.
  B.   She acted on her passions.
  C.   She solved a significant societal problem.
  D.   She had the time and energy to dedicate to starting business.

5. In the early stages of developing an entrepreneurial venture, the entrepreneur might seek funding from which group?

    A.   venture capitalists

    B.   the local bank

    C.   friends and family

    D.   shark tank

6. The acronym SMART for goal setting stands for _____.

    A.   short-term, measurable, accurate, relevant, and timely

    B.   specific, measurable, accurate, relevant, and timely

    C.   specific, measurable, achievable, realistic, and time oriented

    D.   specific, measurable, achievable, results, and time oriented

7. A vision statement does not include _____.

    A.   a picture of the future described in words

    B.   concepts and ideas that inspire and focus people's actions toward a united outcome

    C.   both creative and exploratory process in creating the vision

    D.   the scope of the venture

8. Which one of the following is not a quantifiable result?

    A.   5 percent annual growth in sales

    B.   increase market share by 2 percent

    C.   decrease collection of accounts receivable by $5,000.00

    D.   increase creativity throughout the venture

9. Which of the following is not a creativity building technique or tool?

    A.   conducting a case study

    B.   brainstorming activities

    C.   mind map creation

    D.   brain writing

10. Disruptive technologies include all but which of the following?

    A.   new methods or approaches that make established methods obsolete

    B.   self-booking of air travel

    C.   restaurant food delivery services

    D.   a change from ownership of resources to the ability to have access to resources

11. The entrepreneurial mindset includes _____.

    A.   a willingness to develop ideas that are not always initially popular

    B.   a willingness to wait for an idea to become popular before moving forward with that idea

    C.   an ability to focus on past successes

    D.   a belief in following tradition and established patterns

Discussion Questions

1. Why is the United States a leader in entrepreneurship?

2. What commonalities do the top five countries have that put them in the lead for entrepreneurial ventures?

3. One of Roxanne Quimby's motivations in starting businesses included helping employ people in her community. How does or doesn't this motivation fit in the definition of an entrepreneur as someone who identifies a problem and solves that problem?

4. What are the similarities and differences between the business ventures of Wander Girls and Roxanne Quimby?

5. Why is knowing your vision for the future important?

6. Why should we create goals using the SMART method?

7. What is the value in using divergent thinking when trying to solve a problem?

8. How would you explain the concept of an entrepreneurial vision to your college roommate who is a history major?

9. What is the primary difference between divergent thinking and brainstorming?

10. Identify five disruptive technologies and the industries that these technologies impact.

11. In thinking about the future, and your own experiences, what opportunities are there for disruptive technologies in one or two familiar industries?

12. What is the difference between an entrepreneurial mindset and entrepreneurial spirit?

13. Describe your own level of entrepreneurial spirit.

Case Questions

1. What suggestions could you make to Angad Daryani on other products that would fit his focus on improving the lives of people?

2. On Angad Daryani's website, he says he believes "that the path humanity follows, need to be pivoted for the better." What other needs or problems do humans have? Create a list of twenty needs that would fit Angad Daryani's belief statement.

3. Research Miracle Messages. Identify Miracle Messages vision statement, mission statement, and value statements. Do not copy their statements, but rather create your own statements based on what you would create if you were the lead entrepreneur for this organization.

4. Identify five other organizations that have services or products that you would want to partner with if you were the lead entrepreneur of Miracle Messages. What value does each of these five organizations provide to Miracle Messages' vision, mission, and value? What services or products are not supported either through Miracle Messages or the five organizations you addressed? What new for-profit or nonprofit could be created as a spinoff idea from your research on Miracle Messages?

5. Review the website http://www.coastaltractor.com/ to learn more of about Coastal Tractor. What spinoff ideas could you identify using this same technology or concept as the bug vacuum?

6. In reviewing Coastal Tractor's website, what evidence of an entrepreneurial mindset is present within this company's website?

7. Do you think Coastal Tractor is using a disruptive technology? Why or why not?

Suggested Resources

1.1 Entrepreneurship Today

https://www.entrepreneurship-campus.org

https://youtu.be/zV2vi8FilLM

1.2 Entrepreneurial Vision and Goals

The following links might provide you with more ideas about creating a vision statement.

https://website-designs.com/business/the-importance-of-a-vision-statement-for-entrepreneurs/

https://www.businessnewsdaily.com/3882-vision-statement.html

Check out this website's ideas for developing your vision: https://www.executestrategy.net/blog/write-good-vision-statement

Eleven Free Goal Setting Software & Tools You Can Use: http://www.goal-setting-college.com/goal-setting-software/11-goal-setting-software-tools-you-can-use-for-free/

YouTube: Achieve More by Setting Smart Goals: https://www.youtube.com/watch?v=yA53yhiOe04

Twenty-four Essential Mind Mapping and Brainstorming Tools: http://mashable.com/2013/09/25/mind-mapping-tools/#jP47h7Q818qM

Read more about the challenges of work-life balance and what brings satisfaction to entrepreneurs in this article: https://www.wsj.com/articles/why-some-entrepreneurs-feel-fulfilledbut-others-dont-1432610236

Learn about applying a SWOT analysis (strengths, weaknesses, obstacles, threats) to your personal life: https://www.forbes.com/sites/lisaquast/2013/04/15/how-to-conduct-a-personal-s-w-o-t-analysis/

1.3 The Entrepreneurial Mindset

M. M. Baluku, J. F. Kikooma, and K. Otto, "Positive mindset and entrepreneurial outcomes: The magical contributions of psychological resources and autonomy." *Journal of Small Business & Entrepreneurship* 30, no. 6 (2018): 473–498.

E. Fleck, "Needed: Entrepreneurial mindset." *Central Penn Business Journal* 34, no. 12 (2018): 10.

M. Israr and M. Saleem, "Entrepreneurial intentions among university students in Italy." *Journal of Global Entrepreneurship Research* 8, no. 1 (2018): 1.

https://www.christenseninstitute.org/results/?_sft_topics=disruptive-innovation

2

The Entrepreneurial Journey and Pathways

Figure 2.1   College graduates face numerous choices and challenges when deciding which pathway will lead to career satisfaction and success. (credit: modification of "commencement graduation ceremony" by "Goodfreephotos_com"/Pixabay, CC0)

Chapter Outline

Introduction

What do you plan to do with your life after graduating from school? This is one of the most common—and admittedly most terrifying—questions that students are asked on a regular basis. There are literally thousands of career choices and just as many pathways or options to reach them. How do you decide which career pathway is best for you? You might select a new career based on your major, a favorite high school subject, the advice of a family member or friend, or an inspirational summer or internship experience.

What if none of those options reflect the future that you see for yourself? It may mean that you are destined to create your own career path by becoming an entrepreneur. Regardless of the career pathway that you follow, your entrepreneurial journey begins with a single step.

2.1 Overview of the Entrepreneurial Journey

Learning Objectives

By the end of this section, you will be able to:

- Explain the entrepreneurial journey to explore and discover entrepreneurship as a career choice
- Identify the steps, decisions, and actions involved in the entrepreneurial journey
- Recognize the rewards and risks of the steps in the entrepreneurial journey

Self-Employment as an Entrepreneurial Journey

When the economy and the job market are strong, the entrepreneur has a safety net that decreases the risks in creating a new **venture**, a startup company or organization that conducts business or is created to satisfy a need, and allows for a quick recovery if the venture is not successful. There are more new startups when there are high levels of confidence in both the venture's success and the entrepreneur's confidence in finding employment if the venture fails. People over 40 years of age account for most new startup activity, in part because of the continuing trend in which a business may choose not to hire an employee but instead hire an **independent contractor**, a person who provides work similar to an employee without being part of the payroll for the contracting business, and who is responsible for paying their own taxes and providing their own benefits. With previous knowledge and expertise, this group of entrepreneurs recognizes opportunities created by this move away from hiring full-time employees to more outsourcing to independent contractors. One contributor is the gig economy, which involves using temporary and often transitional positions hired on a case-by-case basis, rather than keeping a full staff of hired employees. Advantages for the employer include a decrease in cost of benefits and loyalties to specific employees. Advantages for the hired worker or independent contractor (sometimes called a freelancer) include no long-term commitment and flexibility in accepting contracts. From an entrepreneurial perspective, the creation of websites that support the gig economy offers opportunities for independent ventures. Many people today are becoming small entrepreneurs. This process goes by a variety of names, such as the sharing economy, the gig economy, the peer economy, or the collaborative economy. Maybe it means driving for a company such as Lyft, Uber, or GrubHub, or perhaps offering services through TaskRabbit, UpWork, or LivePerson. The projected numbers of independent contractors and on-demand workers are stated as 42 percent for small businesses by the year 2020, a growth of 8 percent from current figures.[1] And a projection of greater than 50 percent of the workforce will be independent contractors by 2027 if this trend continues at the current pace.[2] In the "Freelancing in America: 2019" report, the sixth annual study by UpWork and Freelancers Union, 57 million United States citizens are estimated to freelance, with income approaching 5 percent of US gross domestic product (GDP) at nearly $1 trillion and earning a median rate of $28.00 an hour, representing a hourly income greater than 70 percent of workers in the overall US economy.[3] One report found that 94 percent of net job growth from 2005 to 2015 was in alternative work categories, with 60 percent due to independent contractors and contract company workers.[4]

According to the US Bureau of Labor Statistics, the number of self-employed Americans is growing, with 9.6 million self-employed people at the end of 2016. That number is expected to grow to 10.3 million by 2026.[5] A

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1   David Pridham. "Entrepreneurs: Here's Good News for 2018." *Forbes*. 2018. https://www.forbes.com/sites/davidpridham/2018/01/10/entrepreneurs-heres-good-news-for-2018/#660f5ebd6659
2   UpWork and Freelancers Union. "Freelancers Predicted to Become the U.S. Workforce Majority within a Decade, with Nearly 50% of Millennial Workers Already Freelancing, annual 'Freelancing in America' Study Finds." *UpWork*. October 17, 2017. https://www.upwork.com/press/2017/10/17/freelancing-in-america-2017/
3   UpWork. "Sixth Annual 'Freelancing in America' Study Finds That More People Than Ever See Freelancing as a Long-Term Career Path." *UpWork*. October 3, 2019. https://www.upwork.com/press/2019/10/03/freelancing-in-america-2019/
4   David Pridham. "Entrepreneurs: Here's Good News for 2018." *Forbes*. 2018. https://www.forbes.com/sites/davidpridham/2018/01/10/entrepreneurs-heres-good-news-for-2018/#660f5ebd6659; Lawrence F. Katz and Alan B. Krueger. "The Rise and Nature of Alternative Work Arrangements in the United States, 1995–2015." 2016. https://scholar.harvard.edu/files/katz_krueger_cws_final_nov2018.pdf.
5   Elka Torpey and Brian Roberts. "Small-Business Options: Occupational Outlook for Self-Employed Workers." *US Bureau of Labor Statistics*. May 2018. https://www.bls.gov/careeroutlook/2018/article/self-employment.htm

more recent study by FreshBooks' second annual "Self-Employment" report predicts that 27 million US employees will leave traditional work in favor of self-employment by 2020, tripling the current population of full-time self-employed professionals to 42 million. The main driver for this change in the workforce is a greater desire for control over one's career with the ability to have greater control over working hours and acceptance of work.[6],[7] Of course, self-employment is a broad category that includes small-business owners as well as entrepreneurial startups and freelance gig employees. Since 2016, there has been a downward slide in the number of employees working for self-employed businesses, which results from a variety of factors, including difficulties in finding qualified employees, qualified employees having more employment options, such as employment through the gig economy, outsourcing activities, and technology actions that decrease the need for employees, with entrepreneurial activity remaining steady.[8]

Entrepreneurship around the World

In a 2017 *Business Insider* article, "America Needs Immigrant Entrepreneurs," David Jolley writes that immigrants constitute 15 percent of the US workforce and 25 percent of the country's workforce of entrepreneurs.[9] Forty percent of startups include at least one immigrant. Jolley's article cites a study that identified immigrants as twice as likely to start a business as native-born Americans. In 2016, 40.2 percent of Fortune 500 companies were founded by at least one immigrant or a child of immigrant parents. Dinah Brin, writing for *Forbes*, stated in a 2018 article that immigrants form 25 percent of new US businesses and that new immigrant-owned firms generated 4 to 5 million jobs.[10]

These statistics and other findings have prompted countries such as Canada to revise their immigration policies to attract more entrepreneurial-minded immigrants. A World Bank report from May 2018 ranked the United States 53rd out of 190 countries for ease in starting a business, with higher scores representing greater ease.[11] The same report ranks the United States eighth for ease of doing business. The difference in these rankings indicates that once a business is established, factors such as regulations, permits, access to credit, and infrastructure support the business owner's ability to continue the business, but actually starting the business is more challenging. For any given country, ease in starting a business and the country's interest in supporting entrepreneurial activity are crucial in both attracting entrepreneurial people and supporting their ability to open a business. Imposing restrictive regulations and processes on new ventures significantly decreases the number of new ventures.

According to a 2018/2019 report, the highest rate of entrepreneurial activity worldwide in 2018 was in Angola at 41 percent.[12] Angola's low-income economy meant fewer employment opportunities, creating pressures to find other ways to earn an income. Guatemala and Chile reported 28 percent and 25 percent of entrepreneurial activity, respectively, with medium- and high-income economies. These percentages are quite high, considering that these economies offer employment opportunities in existing companies. In terms of

6   Carly Moulton and Dave Cosgrave. "Second Annual Self-Employment Report." *FreshBooks*. 2017. https://www.freshbooks.com/wp-content/uploads/2018/04/2018selfemploymentreport.pdf

7   OECD Data. "Self-employment Rate." *OECD.org*. n.d. https://data.oecd.org/emp/self-employment-rate.htm.

8   Arnobio Molrelix. "The Biggest Reason the U.S. Needs Small Businesses to Thrive Has Nothing to Do with Taxes or the Economy." *Inc.*, Dec. 20, 2018. https://www.inc.com/arnobio-morelix/inc-entrepreneurship-index-2018-q3.html

9   David Jolley. "America Needs Immigrant Entrepreneurs." *Business Insider*. September 5, 2017. https://www.businessinsider.com/america-needs-immigrant-entrepreneurs-2017-9

10   Dinah Wisenberg Brin. "Immigrants Form 25% of New U.S. Businesses, Driving Entrepreneurship in 'Gateway' States." *Forbes*. July 31, 2018. https://www.forbes.com/sites/dinahwisenberg/2018/07/31/immigrant-entrepreneurs-form-25-of-new-u-s-business-researchers/#10ee8099713b

11   "Ease of Doing Business Rankings." *Doing Business*. May 2019. http://www.doingbusiness.org/en/rankings

12   Niels Bosma and Donna Kelley. "Global Entrepreneurship Monitor 2018/2019 Global Report." *GEM Consortium*. January 21, 2019. https://www.gemconsortium.org/report/50213

innovation, India at 47 percent, and Luxembourg and Chile at 48 percent each, take the lead in offering new products and services not previously available. This entrepreneurial activity reflects the ease of starting a business. The Netherlands, Poland, and Sweden were reported as the easiest countries in which to start a new business, in part because many people in those countries view entrepreneurship as an attractive lifestyle. As you can see, both economic opportunities and a country's specific support for entrepreneurial behavior contribute to the number of people who enter entrepreneurial activities.

From a gender perspective, there are currently over 11 million woman-owned businesses in the United States. This number includes both small business owners and entrepreneurs. Thirty years ago, there were only 4 million woman-owned businesses.[13] The number of woman-owned businesses has increased 45 percent between 2007 and 2016, five times faster than the national average, with 78 percent of new women-owned businesses started by women of color.

Starting Your Entrepreneurial Journey

How do you fit into this entrepreneurial journey? This chapter will help you to explore and discover your potential for entrepreneurship as a career choice. Think of this exploration and discovery experience as a way to map out a strategy to reach your goals or dreams. Let's imagine that your dream vacation is a hiking trip to Glacier National Park in the US state of Montana. Just as hikers have different levels of experience, so do entrepreneurs. Just as your plan for a wilderness hike would involve many stages, your entrepreneurial journey involves multiple levels of self-discovery, exploration, experiences, and accomplishments on your way to success. For our purposes, the term **entrepreneurial venture** means any type of new business, organization, project, or operation of interest that includes a level of risk in acting on an opportunity that has not previously been established. For each story of entrepreneurial success that is shared—such as that of Facebook or Airbnb—there are even more lesser-known entrepreneurial success stories such as Zipline, a company that delivers medical supplies in Rwanda and Ghana by drone. These entrepreneurs faced the same dilemmas in pursuing their passion, or opportunities, which led them to their entrepreneurial destiny. They courageously stepped out of their comfort zones to explore the possibilities that lie ahead. What is the difference between entrepreneurs and you? The main difference is taking that first step. Many people have ideas that fit into the definition of an entrepreneurial idea but never take that first step. Just as the Chinese philosopher Lao Tzu suggests, every journey begins with a single step.

ARE YOU READY?

Taking the First Step

Go to Fire Nation's website on taking the first step (https://openstax.org/l/52TakeFirstStep) to learn more. Changing your mindset (your perception of yourself and your life situation) and encountering trigger events (significant external situations) can nudge you into taking the first step toward being an entrepreneur.

- Is there a venture you've always thought you should start but never did?
- Think about what factors are stopping you. Consider your mindset and how you might change your

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13   Gary Stockton. "Statistics and Obstacles Facing Women Entrepreneurs." *Experian*. January 29, 2018. http://www.experian.com/blogs/small-business-matters/2018/01/29/statistics-and-obstacles-facing-women-entrepreneurs/

> mindset so that your venture could become a reality.
> - What are some possible trigger events that could make the difference between starting your venture and waiting to start your venture?

Opening your future to the possibility of starting your own venture brings new and exciting experiences (Figure 2.2). Every entrepreneur moves through several steps in considering the entrepreneurial journey. Once you understand this journey, the steps will help you define your path toward creating and starting your new venture. Each step of this process offers another level of understanding that prepares you for long-term success. How will you achieve this success? By taking one step at a time, exploring and learning, considering new ideas and expectations, and applying these experiences to achieve your personal outcome. Think of the entrepreneurial journey as a guide to knowing what is in store for you as you start your new venture.

Figure 2.2   For some, preparing for an entrepreneurial journey may seem like going on a river-rafting adventure that combines beautiful scenery with some exciting, but perhaps frightening, challenges. (credit: "Hands Up" by Jeramey Jannene/Flickr, CC BY 2.0)

One benefit of outlining a step-by-step process is the opportunity to explore different paths or behaviors that may lead to an entrepreneurial venture. Think again of your dream visit to Glacier National Park. How would you get there? What equipment would you need? What kinds of experiences would you expect to have? Think of the Glacier National Park journey as your entrepreneurial journey, a metaphor intended to help you as you create your career as an entrepreneur.

What makes someone ready or willing to choose entrepreneurship over becoming an employee of an established business or a small business owner? It takes confidence, courage, determination, resilience, and some know-how to select entrepreneurship as a career as well as the recognition of the opportunity. An

entrepreneur is defined as someone who not only recognizes an opportunity but who also is willing to act on that opportunity. Both actions are required. We might identify an opportunity, but many people do not act on the idea. Confidence, courage, and willingness are necessary to take that first step, as well as remembering the following:

- You are unique. Even if two similar people attempted to launch identical ventures, the results would likely not be the same. This is because each one of us has different ideas, approaches, available resources, and comfort levels, all of which influence the venture's development and eventual success.
- Although there are no hard and fast rules or theories of the best way to launch into entrepreneurship, we can gain wisdom from the lessons learned by experienced entrepreneurs.
- Selecting an entrepreneurial career requires honesty, reflection, and a tendency to be action oriented. You will need to recognize your own strengths, limitations, and commitment as part of that honesty. Reflection is required for self-growth—seeking improvements in your own skills, interactions, and decision making—and commitment is required to maintain consistency in your willingness to make the new venture a top priority in your life. You will also need to understand that you cannot accomplish everything by yourself, and you may need to ask for help. It helps to be curious, open, and able to take calculated risks and to be resourceful and resilient when faced with challenges or obstacles.

ARE YOU READY?

Entrepreneurial Potential Self-Assessment

Take this quick Entrepreneurial Potential Self-Assessment (https://openstax.org/I/52EntSelfAssess) to assess your potential to become an entrepreneur. After completing this self-assessment, what new information did you learn about yourself? Do you think your answers will change as you acquire more life experiences and education? Why or why not?

ARE YOU READY?

Optimizing Interest Areas

What are three areas that interest you? These could be hobbies, work activities, or entertainment activities. How would someone else describe your skills and interests, or what you are known for? Answering these questions provides insights into your strengths and interests. Next, what is one area that you are passionate about? What strengths could you bring to this passion to build your own business?

Keep an open mind in looking for an opportunity that fits your strengths and interests. If you decide to explore entrepreneurship, what would be your first step? What are your initial thoughts about being an entrepreneur? What would you review or search to find more information on your idea or area of interest? With whom would you first question or discuss this idea? Why?

The Entrepreneurial Journey as a Trip

The **entrepreneurial journey** is your exploration to discover if entrepreneurship is right for you. Every entrepreneurial journey is unique; no two individuals will experience it in the same way. Along the way, you will find opportunities and risks coupled with challenges and rewards. It's useful to think about the entrepreneurial journey as an exciting trip or other adventure. Most of the preparations and steps involved with planning a trip are like those for starting a venture. Just as you would plan and prepare for a trip—starting with inspiration and leading up to finally traveling on the trip—you might follow similar steps to launch a venture. And just as you would prepare for any challenges that you might encounter on a trip—bad weather, lost luggage, or detours—so you should consider potential obstacles or barriers along your entrepreneurial journey (Figure 2.3). Think of these difficulties as opportunities to learn more about the entrepreneurial process—and about yourself and how you manage challenges.

Figure 2.3   The entrepreneurial journey might also include potential obstacles and barriers that travelers on this path must overcome. (credit: "Flickr - The U.S. Army - Camp Taji obstacle course" by The U.S. Army/ Wikimedia Commons, Public Domain)

Developing a venture can be an exciting and active experience. It is also a lot of hard work, which can be equally rewarding and enjoyable. Here we present the entrepreneurial journey as seven specific steps, or experiences, which you will encounter along the road to becoming an entrepreneur. You'll find more information about the entrepreneurial journey in other chapters in this book.

- Step 1: Inspiration – What is your motivation for becoming an entrepreneur?
- Step 2: Preparation – Do you have what it takes to be an entrepreneur?
- Step 3: Assessment – What is the idea you plan to offer through your venture?
- Step 4: Exploring Resources – What resources and characteristics do you need to make this venture work?
- Step 5: Business Plan – What type of business structure and business model will your venture have?
- Step 6: Navigation – In what direction will you take your venture? Where will you go for guidance?
- Step 7: Launch – When and how will you launch your venture?

As you work through each step of the entrepreneurial journey you should prepare for significant aspects of this experience. You will meet with rewards and challenges, the consequences that result from the decisions made at various points along your journey. To visualize the steps of the entrepreneurial journey, imagine your possible hiking trip to Glacier National Park (Table 2.1). Just as hikers have different levels of experience, so do

entrepreneurs. Compare the following aspects of preparing for a hike with aspects of your entrepreneurial journey.

Hiking and Entrepreneurial Journey Metaphor

Type of Hiker	Mountain Hiking Skill Level	Entrepreneurial Journey Equivalent
Walker	• Basic or limited hiking experience	• New or limited entrepreneurial exposure • Never started a venture
Climber	• Moderate hiking experience • Special skills for adventure, difficult terrain	• Some entrepreneurial knowledge or experience • Exposure to entrepreneurship (family or friend in business)
Mountaineer	• Experienced hiker with technical skills for climbing hills and mountains	• Experienced entrepreneur • Attempted or launched a venture (solo or with partner)

Table 2.1

Step 1: Inspiration

When you think of being an entrepreneur, what is the inspiration for your venture? Just as you might have an inspiration for a hiking trip to Glacier National Park, you will have an inspiration behind the decision to become an entrepreneur. When you're planning a trip to a new and exciting place, one thing you might do is to imagine what you will experience along the journey and on arriving at your destination (Figure 2.4). This portion of the entrepreneurial journey includes imagining yourself as an entrepreneur or as part of an entrepreneurial team. For this stage, you need a creative, open, and innovative state of mind, also known as an entrepreneurial mindset, which is discussed in more detail in The Entrepreneurial Mindset and Creativity, Innovation, and Invention. Dream *big* about your potential future and opportunities (Figure 2.5).

Figure 2.4   The journey to entrepreneurship is as important as reaching your destination. (credit: "raise challenge landscape mountain" by "mohamed_hassan"/Pixabay, CC0)

Figure 2.5   When inspired to start an entrepreneurial venture, one questions whether they can do it and identifies obstacles that might present challenges. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 2: Preparation

Just as when you are preparing for a trip, you need a plan (Figure 2.6) to move forward on your entrepreneurial journey. Before your dream hiking trip, you might gather information about Glacier National Park from a trusted source, such as a good friend with travel experience, or you might conduct online research. Your friend's feedback could be just the motivation you need to try this experience yourself. Or you might use your research to determine if the trip is possible. You will need to look at maps, either online or on paper. Either way, you might also consider travel and accommodation options, such as booking a flight and finding a place to stay. You might want to create benchmarks to align your journey with your available resources, such as the amount of time and the amount of money you have to spend on the trip.

Benchmarking is a method of tracking target expectations with actionable results by comparing one's own company's performance with an industry average, a leader within the industry, or a market segment. Benchmarking can help design the trip to meet incremental goals and timelines. From both a travel plan and

an entrepreneurial perspective, although benchmarking is used as a control mechanism, we know that situations can arise that require an alteration in the plan, causing the benchmarked items to also need adjustments.

Figure 2.6   It is important to plan out your entrepreneurial journey, as you would plan out a trip. (credit: "#conservationlands15 Social Media Takeover, August 15th, Santa Rosa and San Jacinto National Monument in California" by Bureau of Land Management/Flickr, CC BY 2.0)

LINK TO LEARNING

Which type of benchmarking will help you the most in beginning your entrepreneurial journey? Visit the American Society for Quality's resource page on benchmarking (https://openstax.org/l/ 52ASQbenchmark) for help.

To plan for an entrepreneurial journey, you should first conduct some preliminary research regarding your venture idea. Your research must be honest and objective if it is to give you a clear picture of the venture. Next, you might organize and prioritize your research and thoughts. For instance, you might see an idea like yours online or on television, and feel disappointed that someone stole your great idea or beat you to the punch. This is a common occurrence in entrepreneurship, but it should not discourage you. Instead, use that knowledge and energy to find an overlooked or different aspect of your original idea. The difference might even be the focus on a different **target market**, a specific group of consumers for whom you envision developing a product or service. Further, it is critical to maintain a fluid focus upon expanding the scope of a product or service to uniquely differentiate provisions of benefits apart from existing benefits or those offered by competitors. A focus on a different target market is exactly how the Jitterbug smartphone was created, because it targeted senior citizens. The Jitterbug smartphone offers a larger screen, larger buttons, and simpler features that make it easier for older people to make quick calls or send texts.

Preparation also includes opening space in your life to the time and energy commitment needed to support your new venture. Are the important people in your life willing to support the interest and passion you will

need to dedicate the time, energy, and other resources to this new venture? Review the questions shown in (Figure 2.7) to consider your answers to these questions. Preparation through research and other activities is discussed in more detail in Identifying Entrepreneurial Opportunity.

Figure 2.7 In preparing for your venture, you need to ask what you want to accomplish, what you want to offer, and who you want to target. You also need to consider what potential obstacles might present challenges. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 3: Assessment

Now that you have decided where to go for your trip and have gathered information to prepare for it, the next action is to create and set your schedule. This action is simple but critical, because it involves connecting and coordinating information and resources that fit your lifestyle and needs. For example, you might schedule an early-morning Uber or Lyft to the airport and electronic delivery of your plane tickets to your smartphone. For the entrepreneurial journey, this phase might also include recognizing appropriate relationships and gathering needed resources. For many entrepreneurs, the opportunity to receive guidance from trusted advisors or mentors may provide valuable insights on how to manage the process. This step allows for reflection on your idea and intentions. After you've done your researching and gathering knowledge about your idea through the preparation step, is the idea still viable? Is the idea still interesting to you? With a better understanding of the industry, your idea, and your own interests that you gained in Step 2, is this idea something that you still want to explore? This step is discussed more fully in Problem Solving and Need Recognition Techniques with deeper coverage on the topic of opportunity recognition (Figure 2.8).

Figure 2.8   Assessing relationships and resources allows for reflection on your idea and intentions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 4: Exploring Resources

Regardless of where you might travel, you could not complete your trip without adequate resources such as available financing. There are many ways you might fund a hiking trip: savings, loan, pay-as-you-go, sponsorship (family or friends), or any combination of these options, to name a few. No matter how you finance your trip, it might help to have a balance of available credit and cash on hand to support your day-to-day expenses and any extracurricular activities or even unforeseen emergencies. As discussed in Entrepreneurial Finance and Accounting, the US Small Business Administration (SBA) provides funding opportunities.

This scenario is mirrored in the entrepreneurial journey. Just as you wouldn't begin a trip without adequate resources, including access to cash, you wouldn't begin your entrepreneurial journey without the necessary resources, including cash. The options between funding a trip and funding a new venture are similar, but they have different names. For example, on a trip, you might use the cash you have on hand, from savings or a personal loan. For an entrepreneurial journey, you might address **cash management**—management of cash inflows and outflows to support cash needs of the venture—to include **bootstrapping**, a funding strategy that seeks to optimize use of personal funds and other creative strategies (such as bartering) to minimize cash outflows. (See Entrepreneurial Finance and Accounting for more information on bootstrapping.) Bootstrapping includes ideas like leasing instead of purchasing, borrowing resources, or trading unneeded resources for needed ones. Another example of cash management includes a business model that offers subscriptions rather than a payment received for an item purchased. Subscriptions provide the entrepreneur with cash up front, with the buyer receiving benefits throughout the year. Consider the example of Amazon. Amazon offers Prime with a yearly subscription service, as well as Subscribe & Save, Amazon Instant Video, Amazon Mom, and Amazon Web Services, all based on a subscription business model.

According to Entrepreneur.com, other potential subscription-based models include services or products geared to older consumers, with 8,000 people turning sixty-five every day. A similar idea offers services to college students. Both ideas would offer family members a subscription that sends monthly gifts or products to either the elderly person or college student. We also see this model offered to pet owners who pay a monthly subscription to receive treats and toys for the family dog. Looking back at Amazon, we see the company offering the ease of repeat purchases for frequently used products such as vitamins and air filters.

ENTREPRENEUR IN ACTION

Prospurly

Prospurly is a subscription-based company that uses Cratejoy's subscription platform to sell small-batch artisanal products for bath, body, and home, marketing a natural lifestyle focused on the happiness of living a simple and appreciated life. Conduct your own research on Prospurly and other subscription-based businesses. Read the article, "How I Built a Subscription Business That's Made over 50k in 6 Months," on Cratejoy (https://openstax.org/l/52CratejoyProsp) for more information about this company and Prospurly's move from ideation to profitability.

Other ideas for finding funding include applying for grant funding. The importance of cash and cash management requires in-depth coverage, which is presented in Entrepreneurial Finance and Accounting and Business Structure Options: Legal, Tax, and Risk Issues.

The idea of exploring resources includes many other options besides how to fund a new venture. In a trial run, you would offer your product or service for sale within a limited market on a test basis to evaluate what additional resources are needed to support the success of the venture (Figure 2.9). Examples of places where a trial run fits well, depending on your product, include farmers markets, in-home sales, or through friends and family. The idea is to track the feedback you receive about your product or service. How do people react to the price, the quality of the product, the packaging? You can experiment by selecting one variable to adjust—changing the price, the packaging, the sales pitch, the presentation, or the quantity—to track reactions and make improvements based on this feedback. You may then decide to adjust other variables to gather more information, as well as considering what other resources are needed for the success of the new venture. Financing and ideas to preserve your financial stability are discussed more fully in Entrepreneurial Finance and Accounting.

Figure 2.9   During a trial run, you can use a limited market to test your product or service. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 5: Business Plan

The ability to travel and visit new locations is a privilege and a great opportunity to gain exposure to new

experiences and opportunities. In addition to the work involved in preparing for a trip, the act and process of traveling involves constant decision making to achieve your desired goals and outcomes. For instance, should you travel to one location in Glacier National Park and explore that area in depth? Or should you attempt to visit as many areas of the park as possible with your given resources and abilities?

The challenge at this step of your entrepreneurial journey is to remain focused on managing your resources to meet your goals and outcomes as you write your business plan for your new venture. You will need to focus on the skills, experience, and resources necessary for your venture, and the management and decision making required to ensure success and adjust your plan based on changes and new information. Just as you might find a location in Glacier National Park where you want to stay for a couple of nights, a deviation from your original business plan (discussed in Business Model and Plan) will also require adjustments and changes based on new information and insights.

Be honest with yourself by running a reality check about your ability to manage a venture, especially from a personal-capacity perspective. For example, if you start a business, will it be a part-time or full-time venture? Will you start while in school? Or will you wait until after graduation? The timing of opening the venture can be the difference between success and failure. Consider the difference between hiking in Glacier National Park in the middle of winter, when the daytime temperature is thirteen degrees below zero, and hiking in the middle of summer, when the daytime temperature is seventy-nine degrees. The timing of your visit to the park is an important part of your enjoyment and success in reaching your destination. In planning for your trip, you would pay attention to your departure time to ensure enjoyment and success in your adventure. Similarly, as part of your business plan, you would also research the best time to open your venture.

Finally, during your travels, getting lost, overwhelmed, or sidetracked is always possible. If you get lost when traveling, you might refer to social navigation apps such as Google Maps, Waze, or HERE WeGo, to find turn-by-turn directions and information. Or you might refer to a weblink, a printed map, or a local expert or guide familiar with the area. The business plan is your map. You should identify decision points and **milestones**, significant key accomplishments, in your plan. Milestones could include points such as hitting your **breakeven point**, the point at which income from operations results in exactly enough revenue to cover costs. If the financial projections in your business plan are unattainable, what is your next move within the plan? If you don't reach the milestones identified in your business plan, what alternative choices can you make to redirect your venture? The business plan, in its first draft, should inform you whether your venture has a chance at success. If there are negative areas, what can you change? Building this plan before starting the business provides you with knowledge and insights about your idea. Make any necessary changes to the plan to strengthen the possibility of success. Then when you open the venture, track whether the reality of the venture aligns with your business plan's projections and expectations. The business plan functions as both a road map to help you see where you are going next in building your venture and as a checklist to track whether you are on course or need to make adjustments. When entrepreneurs get off track, they can check out self-help websites, speak with a business coach or counselor, or contact local agencies or organizations, including those affiliated with the federal SBA. Organizations that offer free (or low-cost) small business counseling, mentoring, and training, include:

- SCORE (Service Corps of Retired Executives): https://www.score.org/
- Small Business Development Center (SBDC): https://www.sba.gov/offices/headquarters/osbdc/resources
- Women's Business Center (WBC): https://www.sba.gov/local-assistance/
  find/?type=Women%27s%20Business%20Center&pageNumber=1
- US Export Assistance Center: https://www.export.gov/welcome
- Veterans Business Outreach Center (VBOC): https://veteransoutreachcenter.org/

- Other organizations include locally organized support such as pop-up entrepreneurial schools like PopUp Business School (https://www.popupbusinessschool.co.uk/) and https://www.pbs.org/newshour/show/this-free-program-trains-people-how-to-start-a-business-but-without-debt

These and other resources will be discussed in more depth in Building Networks and Foundations. Look at the review questions and the discussion questions at the end of this section to prepare for creating your business plan. Business plans (Figure 2.10) are discussed more fully in Business Model and Plan.
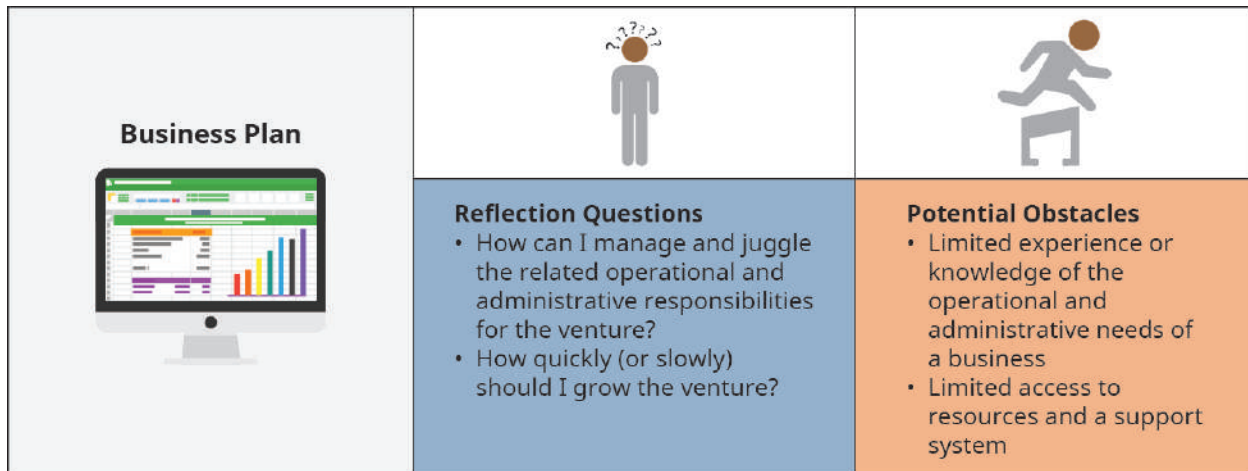
Figure 2.10   Writing a business plan before launching a venture can give you important insights into your idea and can help you modify your business before launch to give it a better chance of success. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 6: Navigation

Once you've completed your trip, reflect on the experiences you had. No matter how well you feel you have planned, there is no way you can prepare for all of the potential challenges, changes, and obstacles that may occur: missed or changed flights, poor weather, an unexpected illness, a trail or road closed for repairs, or sudden good fortune. What parts of the trip went well? If you ran into a problem, how did you handle it? Was the problem something you could have anticipated and planned for? Or was it unexpected? What did you learn from the experience? If you were planning a trip to another national park, what would you do differently in your planning stage? Just as seasoned travelers adjust to their circumstances and learn from their experiences, so should you, as an entrepreneur, learn to adjust by meeting and managing challenges head on.

After completing your business plan, you will probably need to adjust your plan (Figure 2.11). You might decide that you will not have enough resources to survive the time until your venture reaches the breakeven point, or you might determine that the location you selected is no longer available. There are multiple variables that require further exploration and research.

By nurturing an entrepreneurial mindset, you will be better prepared when opportunities, challenges, or obstacles surface. Although you won't be able to predict or plan for every potential scenario along the entrepreneurial journey, an entrepreneurial mindset helps you to be resourceful when opportunities, challenges, or disappointments occur. By unpacking, or by taking an inventory of your available resources, you can also get a better picture of what you may need to unload, retain, or discard, or even if a new direction is the best course of action. On your entrepreneurial journey, evaluating the experience or situation is a perfect opportunity for you to determine how realistic, overambitious, or shortsighted your dreams and goals for your venture may be. This chapter will explore your vision for your future and your venture. Does your vision

include a level of flexibility when you discover new information that supports exploring a new area?
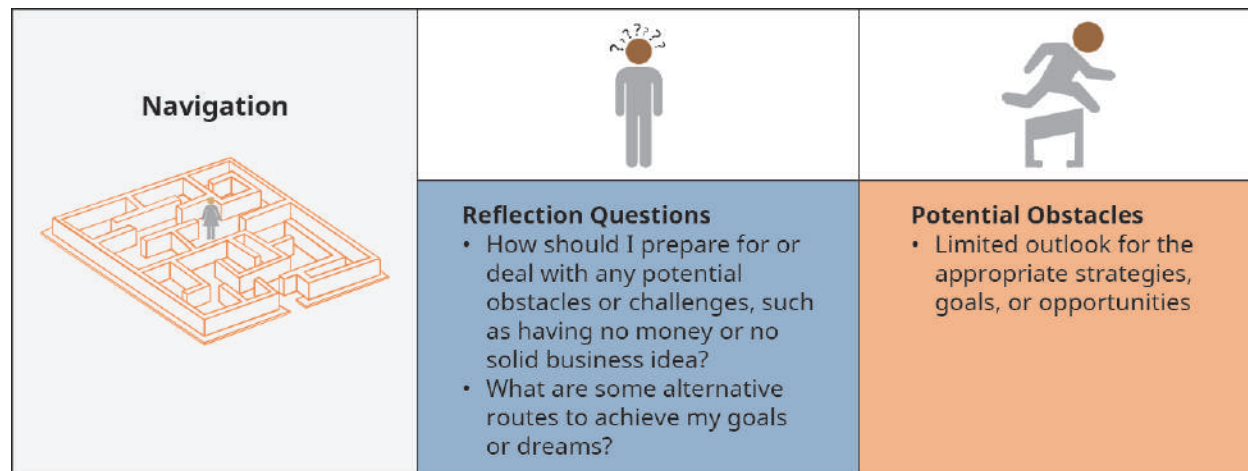
Figure 2.11   Navigation involves being prepared for and making changes when faced with obstacles. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Step 7: Launch

The actual launch is the exciting event when you open your business. By this point, you have made improvements to your product through feedback received in your trial run; you've identified the value or benefits provided by your product; you've identified your target market; and you've identified the location of your launch, whether it is a geographical location or an Internet location.

Inc. magazine provides an analysis of the best locations to launch a new venture, with Austin, Texas, taking the lead (see "Surge Cities: These Are the 50 Best Places in America for Starting a Business," in Suggested Resources). Consider your target market and the resources necessary to support your venture when choosing the location for your launch. Advice from within the entrepreneurial world suggests that sometimes the launch should take place "under the radar," meaning in a location where you can make mistakes, fine-tune your business model and offerings, and even become successful without competitors noticing that you have created a disruption within the industry. (You will learn more about this in Launch for Growth to Success).

Even as you are launching your venture, many variables will require your attention, just as we covered in Step 7. Navigating through these variables as your venture grows requires constant attention as new potential opportunities arise.

ENTREPRENEUR IN ACTION

Sixto Cancel and Think of Us

Sixto Cancel successfully faced the harsh challenges of aging out of the foster-care system without adult support or guidance. He imagined a better foster-care system for young people then cofounded the firm Think of Us. Think of Us is a platform that helps young people in foster care build their own personalized digital advisory board of supportive adults who act as a virtual life-coaching group. The adults guide the young people through the foster-care system and ensure that they are able to become independent

when they leave the system at age eighteen. For more information about this venture, visit www.thinkof-us.org.

2.2 The Process of Becoming an Entrepreneur

Learning Objectives

By the end of this section, you will be able to:

- Describe the evolution of entrepreneurship through American historical periods
- Understand the nine stages of the entrepreneurial life cycle

Scholars of business and entrepreneurship have long debated how people become entrepreneurs. Are entrepreneurs born or made? That is, are some people born with the natural skills, talent, and temperament to pursue entrepreneurship? Or can you develop entrepreneurship skills through training, education, and experience? These questions reflect the classic debates known as "nature versus nurture" or "born versus made," which attempt to explain the determinants of a person's personality and character.

This debate has been around for centuries. In classical Greece, Plato supported the nature argument, whereas Aristotle believed in the nurture perspective. During the eighteenth-century Enlightenment period, Immanuel Kant (1724–1824; supported the supremacy of human reason) and John Locke (1632–1704; opposed authoritarianism) argued their views. Kant firmly believed that obedience was the expected and desired behavior, whereas Locke believed in allowing some degree of freedom and creativity. The focus of the aspects of this argument changed when late-nineteenth-century psychologists sought to understand how individuals obtain knowledge, and as modern psychologists concentrated on additional factors such as intelligence, personality, and mental illness.

Scott Shane, a professor of entrepreneurial studies at Case Western Reserve University, codirected a study using identical twins and fraternal twins as the research subjects. Shane determined that entrepreneurs are about 40 percent born and 60 percent made, meaning that nature—that is, an individual's DNA—is responsible for 40 percent of entrepreneurial behaviors, whereas nurture is responsible for about 60 percent of entrepreneurial behaviors.[14] Although "nature versus nurture" and "born versus made" are parallel arguments, researchers and experienced entrepreneurs suggest a combined viewpoint. You can unite your natural talents and abilities with training and development to achieve a well-rounded entrepreneurial experience and outcome. Once you determine that entrepreneurship is in your future, the next action is to establish a process to follow, such as identifying useful reading materials, attending classes or workshops, finding a mentor, or learning by doing through simulations or firsthand experiences. Firsthand experiences occur throughout our days and lives as we gain relevant experiences and as we develop a mindset to seek out opportunity-recognition behaviors. Completing coursework, such as reading this textbook, and reviewing the suggested resources provided within this textbook are actions that can support your knowledge and awareness of entrepreneurship as a valid option for your future.

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14   I. Mount, "Nature vs. Nurture," *Fortune Small Business* 19, no. 10 (2009): 25.

ARE YOU READY?

Entrepreneurial Personality Test

Review Bill Wagner's article "What's Your Entrepreneurial Personality Type?" in *Entrepreneur* at this link: https://www.entrepreneur.com/article/84134. Then, go to The Entrepreneur Next Door at http://www.theentrepreneurnextdoor.com/ to take the Entrepreneurial Personality Test to find your personality type.

- Think about your results. Are you a generalist or a specialist?
- Once you know this information, what other entrepreneurial personality types do you fit into?
- How can you use this information in your pursuits as an entrepreneur?
- What does this information tell you about selecting members of your startup team?

Historical Perspective

The evolution of entrepreneurship in the United States has spanned centuries. Entrepreneurs have responded to and innovated within the political and economic conditions of their times. The United States' economic and industrial spirit has inspired generations of entrepreneurial Americans. Understanding this history might help you appreciate the importance of entrepreneurship as you consider your own entrepreneurial journey.

During the late 1700s, the Pembina Band of Chippewa Indians lived along the Red River of the North, which flows through North Dakota and Minnesota, and into Canada. European explorers established trading posts in this region and bargained with the Pembina and others for pemmican, a buffalo or fish jerky created by tribes for survival during harsh winters when food was scarce. The Pembina pemmican was exported internationally through trading with French, Canadian, British, and other explorers.[15] The Pembina solved a problem of food scarcity, then leveraged the product to trade for other products they needed that were available through the trading posts.

In the late 1880s, Madam C. J. Walker, an African American hair-care entrepreneur, developed and marketed her products across the United States (Figure 2.12), hiring sales agents and founding the Madam C. J. Walker Hair Culturists Union of America and the National Negro Cosmetics Manufacturers Association in 1917.[16] She started her company with a philosophy of "hair culture," which quickly became popular and eventually led to steady employment for African American women. Another African American, Charles Drew, established the national blood bank in the late 1930s, just before World War II gave rise to the need for quick access to blood.[17] He researched transfusion medicine and saw a need that he wanted to fulfill. Drew applied the ideas from his doctoral thesis to create the blood bank and continued to innovate, developing mobile blood donation stations.

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15   "Summary of North Dakota History – Fur Trade." State Historical Society of North Dakota, Red River Fur Traders. n.d. https://www.history.nd.gov/ndhistory/furtrade.html
16   "Madam C. J. Walker's 'Wonderful Hair Grower.'" *National Museum of African American History and Culture,* Smithsonian Institution. https://nmaahc.si.edu/blog-post/madam-cj-walker%E2%80%99s-%E2%80%9Cwonderful-hair-grower
17   "The Color of Blood." *National Museum of African American History and Culture*, Smithsonian Institution. https://nmaahc.si.edu/blog-post/color-blood

Figure 2.12   Madam C. J. Walker developed her own hair care line, which is still sold today. (credit: Collection of the Smithsonian National Museum of African American History and Culture, Gift from Dawn Simon Spears and Alvin Spears, Sr.)

Many innovations and entrepreneurial activities are not achieved by one person acting alone. One example is the invention of the cotton gin in 1794, attributed to Eli Whitney, and possibly based on a design by Catherine Greene and African Americans working as slaves. Some scholars believe that the cotton gin had the unintended consequence of hardening the grip of slavery in the South.[18] Eli Whitney, a descendant of a British immigrant, leveraged his status as the creator of the cotton gin to manufacture muskets for the US government, becoming known as a pioneer of American industry with a focus on standardization.[19]

Colonial and Early America: 1607–1776

The earliest concept of an "entrepreneur" can be traced to this era, from the French *entreprendre*, which translates as "to do something" or "to undertake."[20] Jean-Baptiste Say (1767–1832), a French philosopher, economist, and businessman, supported lifting restraints to encourage business growth, a highly liberal view in the late 1700s. "The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield," is a concept attributed to Say, as is the word *entrepreneur*.[21]

Entrepreneurial-minded persons included merchants, landowners, manufacturers in textile-related trades, shipbuilders, explorers, merchants, and world market traders.[22] The first immigrants to the British colonies

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18   "Cotton Gin and Eli Whitney." *History.com*. August 21, 2018. https://www.history.com/topics/inventions/cotton-gin-and-eli-whitney
19   William O. Scheeren. "Invention of the Cotton Gin." *Department of History*, Ohio State University. n.d. https://ehistory.osu.edu/articles/invention-cotton-gin
20   Russell S. Sobel. "Entrepreneurship." *Library of Economics and Liberty*. 2008. http://www.econlib.org/library/Enc/Entrepreneurship.html
21   Tim Hindle. "Entrepreneurship." *The Economist*. April 27, 2009. Adapted from Tim Hindle, *The Economist Guide to Management Ideas and Gurus*, Profile Books.

took advantage of several key inventions developed before this era, such as printing, double-entry bookkeeping, and improvements in ship design and navigational instruments. The first North American patent was granted in 1641 by the Massachusetts General Court to Samuel Winslow for a new process for making salt. The entrepreneurial spirit of the early colonists helped shape an economic landscape that lasted for generations. Some notable pioneering inventors and entrepreneurs are shown in Table 2.2 and (Figure 2.13).

Notable Early US Inventors and Entrepreneurs

Inventor or Entrepreneur	Contribution(s)	Significance
Pierre-Esprit Radisson (1640–1710), French explorer	Founded Hudson's Bay trading company	Offered bartering of furs for textiles and guns
William Penn (1644–1718), colonist	Founded Commonwealth of Pennsylvania as a sanctuary for Quakers	Early social entrepreneur
Sybilla Masters (1676–1720), inventor	Invented method to clean and refine Indian corn grown by early settlers	Patent for a process for cleaning and milling Indian corn (1715)
Thomas Hancock (1703–1764), merchant	Founded trading house that furnished multiple goods	Sought alternative funding sources to finance business interests
Benjamin Franklin (1706–1790), inventor, publisher, statesman	Established printing franchises and an infrastructure for his apprentices to launch in other colonies	Epitome of an inventor and serial entrepreneur

Table 2.2

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22   J. McAllister. "Colonial America, 1607–1776." *Economic History Review*. 42, no. 2 (1989): 245–59. https://www.jstor.org/stable/2596204?seq=1#page_scan_tab_contents
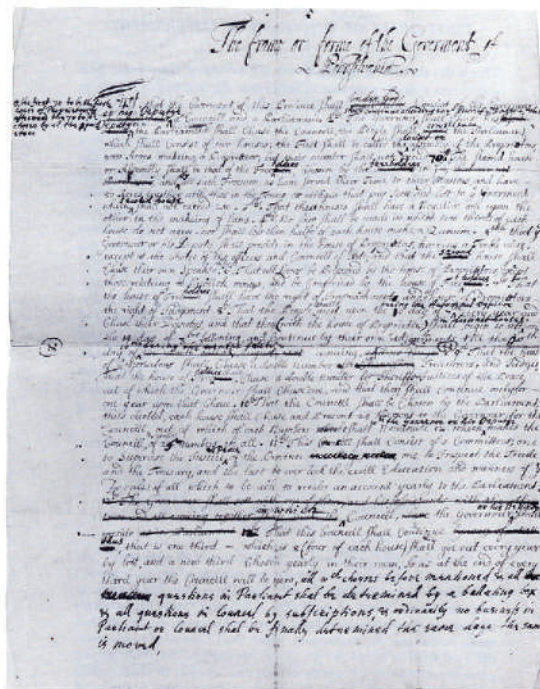
(a)   **(b)**

Figure 2.13   (a) William Penn founded the Commonwealth of Pennsylvania as a sanctuary for persecuted Quakers. This colony could be considered an early form of social entrepreneurship. Shown is his first draft of *The Frame of Government in Pennsylvania*. (b) As one of the country's founders, Benjamin Franklin contributed to the Declaration of Independence. His accomplishments as a printer, writer, postmaster, diplomat, and scientist (he contributed to the understanding of electricity) epitomize serial entrepreneurship. In this painting by Charles Mills, a young Ben Franklin is seen operating a printing press. (credit (a): modification of "William Penn - The First Draft of the Frame of Government - c1681" by University of Pennsylvania/Wikimedia Commons, Public Domain; credit (b): modification of "Franklin the printer" by Library of Congress/Wikimedia Commons, Public Domain)

As entrepreneurship flourished in the American colonies, the economic structure also began to emerge. The prevailing view of economics was associated with the stockpiling of gold and silver. Colonists perceived imports as a reduction of metal wealth—gold and silver money—and felt that exports channeled these metals back to the colonies. To categorize the economic mindset of the time, the Scottish philosopher and economist Adam Smith (1723–1790) wrote *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). This influential treatise outlined the concepts of free trade and economic expansion through **capitalism**, a system in which individuals, people, and companies have the freedom to make decisions and own property as well as benefit from their own efforts, with government playing a secondary role in oversight. This book confirmed Smith as the "father of economics" and modern free trade. Among the most significant concepts that Smith proposed were the "invisible hand" theory of supply and demand in the marketplace; the use of the GDP to measure a country's level of production and commerce; and the self-interest concept, whereby individuals inadvertently help others as they pursue their own goals.[23] The ability to gain personally from entrepreneurial activities is a key factor in supporting entrepreneurial behavior. Smith's concepts continue to influence

modern economics and entrepreneurial activity.

The First Industrial Revolution: 1776–1865

As the colonies expanded, so did opportunities and interest in property ownership, manufacturing, inventions, and innovations. An **innovation** is any new idea, process, or product, or a change to an existing product or process. The understanding and acceptance of innovation developed around 1730, when the economist Richard Cantillon identified the first academic meaning and characteristics of "entrepreneurship" as the "willingness to bear the personal financial risk of a business venture."[24] The First Industrial Revolution was notable for the explosion of inventive activities by the "great inventors," who pursued entrepreneurial opportunities to meet market needs, demands, and economic incentives.[25]

An important thing to keep in mind is that dates of inventions don't necessarily reflect specific launch dates. Development of these inventions may have been ongoing for years or decades before they were considered market-viable products.

A plethora of inventors and their inventions transformed several industries and economic classes across the growing nation. During this era, the country benefited from inventions that created, expanded, or revolutionized industry and increased wealth and expansion. These revolutionary inventors included Eli Whitney (cotton gin, 1794), Elias Howe (sewing machine, 1845), and Samuel Morse (telegraph, 1830s–1840s) (Figure 2.14). Many other people contributed to these and other inventions.

24   Russel S. Sobel. "Entrepreneurship." *The Library of Economics and Liberty*. n.d. http://www.econlib.org/library/Enc/Entrepreneurship.html
25   B. Zorina Khan and Kenneth L. Sokoloff. "'Schemes of Practical Utility': Entrepreneurship and Innovation among 'Great Inventors' in the United States, 1790–1865." *Journal of Economic History*. 53, no. 2 (289–307) doi: 10.1017/S0022050700012924
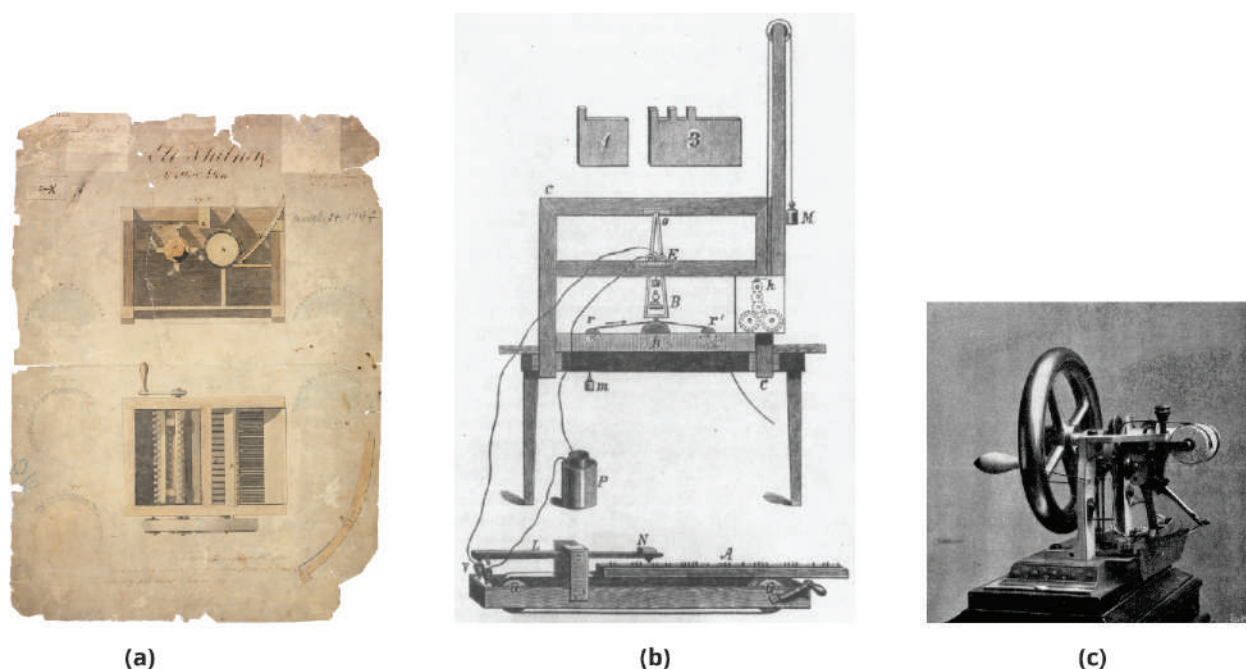
Figure 2.14   Inventions abounded during the First Industrial Revolution. (a) A US patent was granted to Eli Whitney in 1794 for the cotton gin. (b) This sketch shows Samuel Morse's telegraph. (c) Elias Howe invented the sewing machine. (credit (a): modification of "Patent for Cotton Gin (1794)" by "Gamaliel"/Wikimedia Commons, Public Domain; credit (b): modification of "Morse telegraph" by Unknown/Wikimedia Commons, Public Domain; credit (c): modification of "Elias Howe Sewing Machine 1846" by Unknown/Wikimedia Commons, Public Domain)

Although he was not an inventor but an industrialist, Andrew Carnegie provides an interesting example. A manufacturer who focused on the value of innovations and how to implement them, Carnegie adopted newly developed techniques to improve steel production. He also was among the first to implement **vertical integration**, the strategy of gaining control over suppliers of raw materials and distributors of finished products to expand or control the relevant supply chain. He developed a reliable network of suppliers and distributors to support his steel factories. Carnegie also was one of the first magnates to practice philanthropy. He gave away much of his immense fortune to support community and public library systems, concert halls, museums, and scientific research.[26]

These entrepreneurial pioneers, and many others like them, sought ways to earn a return on investment on an invention and to protect themselves legally through the patent process. A **patent** is a legal grant of protection for an inventor over the rights, usage, and commercialization of an invention for a set time period.[27] An early US patent was issued in 1790 to Samuel Hopkins for his process of making potash as a fertilizer ingredient.[28]

The innovations of women, African Americans (slaves or free persons), and other marginalized groups were crucial during this era. As we saw earlier, Sybilla Masters invented a method for grinding Indian corn. She received a patent from the English king in 1715. But because women were not allowed to file for patents or

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26   Susan Stamberg. "How Andrew Carnegie Turned His Fortune into a Library Legacy." *Morning Edition*. August 1, 2013. https://www.npr.org/2013/08/01/207272849/how-andrew-carnegie-turned-his-fortune-into-a-library-legacy

27   Shontavia Johnson. "With Patents or Without, Black Inventors Reshaped American History." *Smithsonian*. February 16, 2017. https://www.smithsonianmag.com/innovation/with-patents-or-without-black-inventors-reshaped-american-industry-180962201/

28   U.S. Patent and Trademark Office. "First U.S. Patent Issued Today in 1790." USPTO Press Release #01-33. July 31, 2001. https://www.uspto.gov/about-us/news-updates/first-us-patent-issued-today-1790

even to own property at that time, the patent was filed in her husband's name.[29] Although the invention of the cotton gin is attributed to Eli Whitney, as we have seen, it may have been based on a design by Catherine Greene and African American slaves. Social and legal discrimination could limit or conceal the identities of actual inventors, especially if they were women or slaves.[30] Most patent applicants and awardees were white males. One exception was Mary Dixon Kies, who in 1809 became the first woman awarded a patent for her process of weaving straw with silk or thread. This was a key innovation for the hat industry, due to an embargo on European goods.[31] Likewise, many slaves were extremely innovative, but laws and prejudice prevented them from filing independently for patents. Because slaves had no rights, many sought patent submissions under their owners' names but received no recognition or compensation for their efforts.[32] It was not until 1820 that an African American, Thomas Jennings, was granted a patent for a process called "dry scouring" for cleaning fabric.[33] As the successes and failures of inventors and innovations expanded, so did the consumer demand for better-performing products and services. This led to the Second Industrial Revolution.

The Second Industrial Revolution: 1865–1920

Although the First Industrial Revolution had a broad scope and a transformative impact, the Second Industrial Revolution helped shape consumer demand for the latest inventions and innovations developed by small and large businesses. The breakthroughs of this era brought applicable innovations in many fields, from chemistry to engineering to medicine.[34]

The nineteenth-century economists Jean-Baptiste Say and John Stuart Mill (1806–1873) refined and popularized Cantillion's definition of an entrepreneur to capture the spirit of their era. Their definition of "entrepreneur" describes someone who creates value by effectively managing resources for better productivity, and someone who is a financial risk taker.[35]

After the US Civil War and into the 1870s, many industries flourished with improvements in production organization (petroleum refinery storage, mass production) and technological systems (electricity and the telephone). Additional inventions included improvements in steel production, chemical dyes, transportation (diesel and gasoline engines, the airplane), assembly-line production, agriculture and food-processing improvements (refrigeration), textiles, and the typewriter (Figure 2.15).[36] As entrepreneurial activity, economic prosperity, and productivity demands increased, entrepreneurs and their inventions were highly regarded and sought after, contributing to the belief that the United States was a land of opportunity.

29   "Sybilla Righton Masters." *New Jersey Women's History*. http://www.njwomenshistory.org/discover/biographies/sybilla-righton-masters/
30   Shontavia Johnson. "With Patents or Without, Black Inventors Reshaped American History." *Smithsonian*. February 16, 2017. https://www.smithsonianmag.com/innovation/with-patents-or-without-black-inventors-reshaped-american-industry-180962201/
31   US Patent and Trademark Office. "USPTO Recognizes Inventive Women during Women's History Month." USPTO Press Release #02-16. March 1, 2002. https://www.uspto.gov/about-us/news-updates/uspto-recognizes-inventive-women-during-womens-history-month
32   Shontavia Johnson. "With Patents or Without, Black Inventors Reshaped American History." *Smithsonian*. February 16, 2017. https://www.smithsonianmag.com/innovation/with-patents-or-without-black-inventors-reshaped-american-industry-180962201/
33   Alex Camarota. "National Inventors Hall of Fame Inducts Next Class of Innovators." *Inventors Eye*. US Patent and Trademark Office. May 2015. https://www.uspto.gov/inventors/independent/eye/201506/index.jsp
34   Joel Mokyr. "The Second Industrial Revolution, 1870–1914." *Semantic Scholar*. 1998. https://pdfs.semanticscholar.org/769c/a06c2ea1ab122e0e2a37099be00e3c11dd52.pdf
35   Russell S. Sobel. "Entrepreneurship." *The Library of Economics and Liberty*. n.d. http://www.econlib.org/library/Enc/Entrepreneurship.html
36   Russell S. Sobel. "Entrepreneurship." *The Library of Economics and Liberty*. n.d. http://www.econlib.org/library/Enc/Entrepreneurship.html
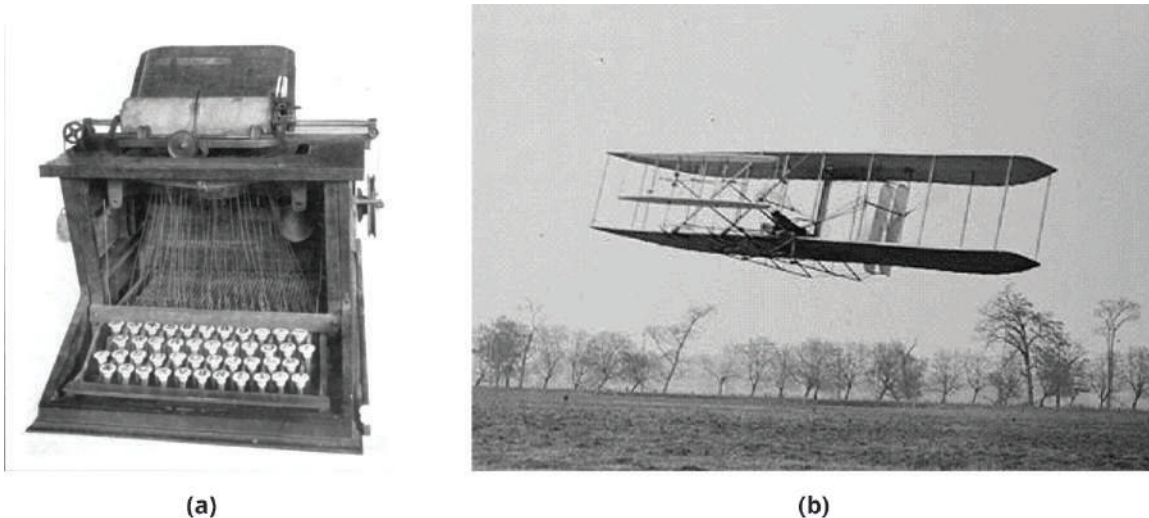
Figure 2.15   (a) The first commercially successful typewriter was produced by Christopher Latham Sholes and Carlos S. Glidden; this is their 1873 prototype model. (b) The Wright brothers are among the best-known pioneers of early flight. In this photo, Orville flies over their air field in 1904. (credit (a): modification of "Sholes typewriter" by George Iles/Wikimedia Commons, Public Domain; credit (b): modification of "1904WrightFlyer" by "DonFB"/Wikimedia Commons, Public Domain)

Interwar and Postwar America: 1920–1975

When World War I began, the US economy was in a recession, with Europeans purchasing US materials for the war. When the United States entered World War I in 1917, an economic boom ensued. Unemployment declined from 7.9 percent in 1914 to 1.4 percent in 1918 as the United States produced goods and equipment necessary to support the war efforts of the nation and its allies.[37] From an entrepreneurial perspective, World War I contributed to military-related advancements, communication equipment, and improvements in production processes. The American economic landscape began to shift during this era from small independent companies to big corporations. The smaller businesses in the previous era either dissolved or were absorbed by larger corporations. As the stock market crash of October 1929 and the Great Depression of the 1930s struck worldwide, innovation slowed. Consumer confidence waned as economic confidence and production declined, and unemployment rose.

LINK TO LEARNING

Visit the History site on the Great Depression (https://openstax.org/l/52HistGrtDepres) or PBS's American Experience article on the Great Depression (https://openstax.org/l/52PBSGrtDepres) to understand the background and circumstances that led to the stock market crash of 1929, the Great Depression, and how the United States rebounded during this period.

After World War II ended in 1945, American society shifted from reliance on the traditional entrepreneur as a resource to reliance on large organizations that offered stability and job security. Corporations continued to

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37   Carlos Lozada. "The Economics of World War I." *National Bureau of Economics Digest*. January 2005. https://www.nber.org/digest/jan05/ w10580.html

buy up small firms to standardize innovative, large-scale mass production of goods, services, and jobs. The idea of being an entrepreneur gave way to the idea of the "corporate man" with job security and health benefits offered by big employers. Although entrepreneurship did not totally vanish, its growth slowed tremendously compared with previous years and shifted to **corporate entrepreneurship**, whereby large corporations funded the development of new ideas, opportunities, or ventures through formal research and development processes that focused on the corporations' own strategies and goals. Figure 2.16 lists some of the corporations that emerged during this period.
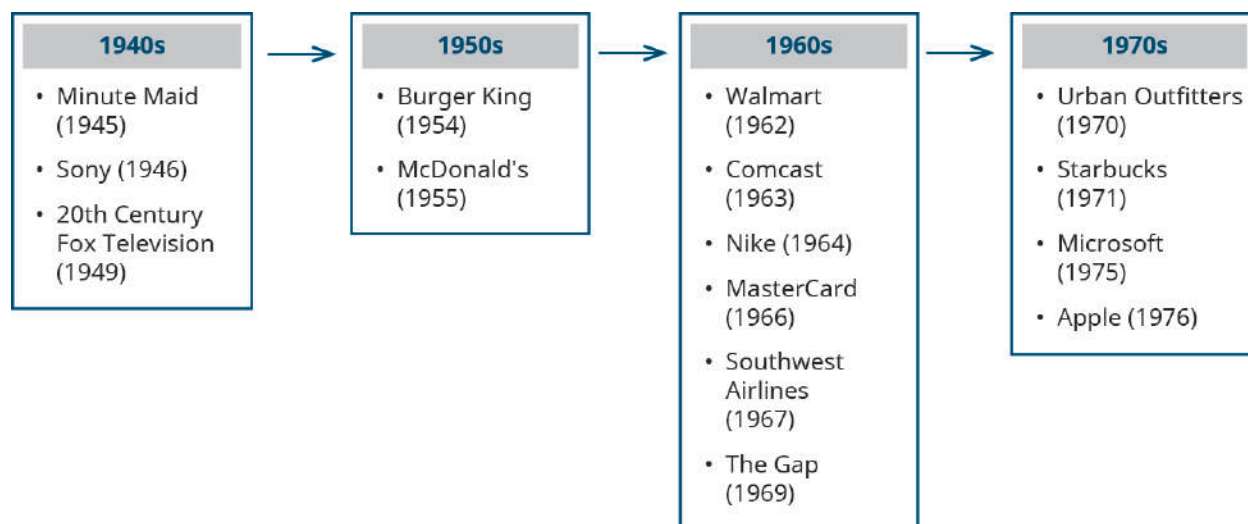
Figure 2.16   Many important corporations developed in the decades after World War I. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

As economic views and confidence in how the United States might regain economic prosperity shifted, so did the scholarly meaning of entrepreneurship. One scholar and economist, Joseph Schumpeter (1883–1950), introduced theories and terminology that continue to influence modern entrepreneurial concepts and practices. He originated two critical phrases: **entrepreneurial spirit**, which is associated with those individuals who are productive self-starters and make things happen, and **creative destruction**, which he defined as the "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."[38] Schumpeter's theory that innovation would destroy established corporations to create new ones was not a popularly held or shared view at the time. The thought leaders of this era had different approaches to addressing the rise of corporations as part of the entrepreneurial fabric of the United States. Schumpeter theorized that corporations were better positioned than individuals to support the kinds of research and development that would result in innovations and have economic impact.[39] To complement this view, he also proposed the concept that corporate support of entrepreneurs' visions would result in a sustainable "capitalistic financial system" to support and expand on the free-market system espoused by Adam Smith.[40] In contrast, the sociologist and journalist William Whyte (1917–1999) argued that entrepreneurial culture had changed because "American business life had abandoned the old virtues of self-reliance and entrepreneurship in favor of a bureaucratic 'social ethic' of loyalty, security and 'belongingness.'"[41]

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38   "Joseph Schumpeter." *New World Encyclopedia*. http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter
39   "Joseph Schumpeter." *New World Encyclopedia*. http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter
40   "Joseph Schumpeter." *New World Encyclopedia*. http://www.newworldencyclopedia.org/entry/Joseph_Schumpeter
41   William Whyte. *The Organization Man*. New York: Simon and Schuster, 1956.

Finally, it is critical to note that the growth of corporations and opportunities expanded beyond the borders of the United States. Corporations faced novel global experiences that supported Schumpeter's creative destruction theory, as other countries presented new dynamics to address. The annually created Global Entrepreneurship Monitor (GEM) report is a scholarly examination that examines how a group of nineteen countries benefited from venture-capital investments and the factors affecting those investments for entrepreneurial activity. This study addressed the question of entrepreneurial opportunities, entrepreneurial capacity, and entrepreneurial motivation as parts of the engagement within all industries and the direct correlation between venture-capital investment and high-growth startups.[42] The GEM report is created annually with timely and relevant information related to entrepreneurship and is available at this website: https://www.gemconsortium.org/. This cultural shift in the American entrepreneurial spirit generated new interest in the training and education of workers, ushering in the knowledge economy.

The Knowledge Economy: 1975 to Today

In the mid-1970s, the promises of corporate life began to lose their appeal to entrepreneurial-minded individuals. One change was established corporations' shift in focus on innovations from research and development departments to internal entrepreneurial activities by **intrapreneurs**. An intrapreneur is an employee who acts as an entrepreneur within an organization, rather than going solo. Intrapreneurs contribute entrepreneurial ideas, products, and services, using corporate work time and resources, but on a much less formal basis than past corporate contributions to innovation. Quickly evolving advances in technology have touched every industry, and people with tech know-how have become champions. Firms dominating the technological landscape include Apple, Microsoft, 3M, Alphabet (the parent company of Google), IBM, and Oracle. In today's David-versus-Goliath culture, these companies once were small startups, but now they command seemingly endless resources. New opportunities have arisen in the world of technology for those willing and able to compete with these giants. All companies, large and small, are interested in a more informed and educated workforce with specialized or advanced degrees in entrepreneurship and business administration. The new entrepreneurs are prepared to develop and lead firms that can become startup superstars. Viewed through our current lens, companies like Apple, Microsoft, Google, and others have become the new Goliaths, but in their startup days, these companies were the disruptors that fought to create new industries or reshape previously established ones.

The Entrepreneurial Process

Your approach to the **entrepreneurial process**, or the set of decisions and actions that you might follow (as in Figure 2.17) as a guide to developing or adjusting your venture, is fluid, not static. This is because your personal interests, background, experiences, resources, and connections are unique to you—but those areas may change over time. For instance, you and a friend might take an art class together for fun and both discover a hidden talent and eye for creating handcrafted jewelry that everyone loves. One day over lunch, you share some of your frustrations with your friend about an interest in potentially selling your unique creations to a local art gallery. Despite your research, you have few clues about where to start or how to get your art shown in a gallery. During your conversation, you are surprised to learn that your friend has already sold several pieces by following a mentor's advice. Through several referrals, she figured out that her best option was to create a presence on Etsy, an artisan-focused website for **e-commerce**, electronic transactions,

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42   William D. Bygrave, Pamela Lopez-Garcia, and Paul D. Reynolds. "The Global Entrepreneurship Monitor (GEM) Model for Economic Growth: A Study of Venture Capital in 19 Nations." 2001. https://www.researchgate.net/publication/ 242407165_THE_GLOBAL_ENTREPRENEURSHIP_MONITOR_GEM_MODEL_FOR_ECONOMIC_GROWTH_A_STUDY_OF_VENTURE_CAPITAL_IN_19_NATIONS

particularly over the Internet, for the exchange of goods and services. Even though you both started at the same place with similar goals, your results differed because you followed different entrepreneurial pathways. In this case, your friend decided to enter the entrepreneurial process at a different stage than you did. This type of scenario occurs every day and clarifies why ventures differ: The decisions of the entrepreneur or the entrepreneurial team are the heart and success of the venture. *Why* the entrepreneur is the most crucial resource for a venture will be discussed in more detail in later chapters.

Figure 2.17   Your entrepreneurial process may involve changing directions many times. (credit: modification of "this way or that" by Robert Couse-Baker/Flickr, CC BY 2.0)

If you decide to take the leap into entrepreneurship, you should follow a certain process before you launch your venture. What is that process? As we discussed previously in the steps of the entrepreneurial journey, you need to think through your goals, prepare and follow an action plan, make sound decisions and adjustments along the way, and persevere through challenges and crises to ensure a successful journey. If that sounds like you have some work to do, you are correct. However, if you follow or recognize the stages in the journey and keep track of the related elements, it could be the most satisfying work of your career. Many people find the entrepreneurial journey fulfilling, in part because they get to define their own paths. The plan to graduate, then find a career working hard to help a company or organization reach its goals, are even more satisfying when you can work for yourself to create your own path and purpose in the world.

Before you create your path, a key action in the entrepreneurial process is developing your entrepreneurial mindset. Recall that an entrepreneurial mindset is about being open, self-reflective, and honest about what you are willing to do and capable of doing to achieve success. For instance, are you comfortable with making sacrifices like spending an evening doing research instead of hanging out with friends or family?

The Entrepreneurial Process: Venture Life Cycle and Product Life Cycle

In general, the entrepreneurial process includes several key stages or some variation of these stages. Keep in mind that these stages do not always follow a sequential pattern, as circumstances and opportunities change. One popular method of understanding and connecting to this entrepreneurial process is to think of your new venture as similar to the human life cycle, the major stages that humans pass through in their life development, and the different growth processes in between.

As we can see in Figure 2.18 and Figure 2.19, the startup stage is similar to the birth of an infant. During the startup stage, or the birth of the idea, the venture requires resources to support the startup as the entrepreneur develops the idea, creates the prototype, and builds the infrastructure to support production. During the startup stage, cash supports building the venture. Meanwhile, the startup is seldom ready to generate sales. Planning for this situation, knowing that cash is needed but not replenished through sales, is an important consideration.
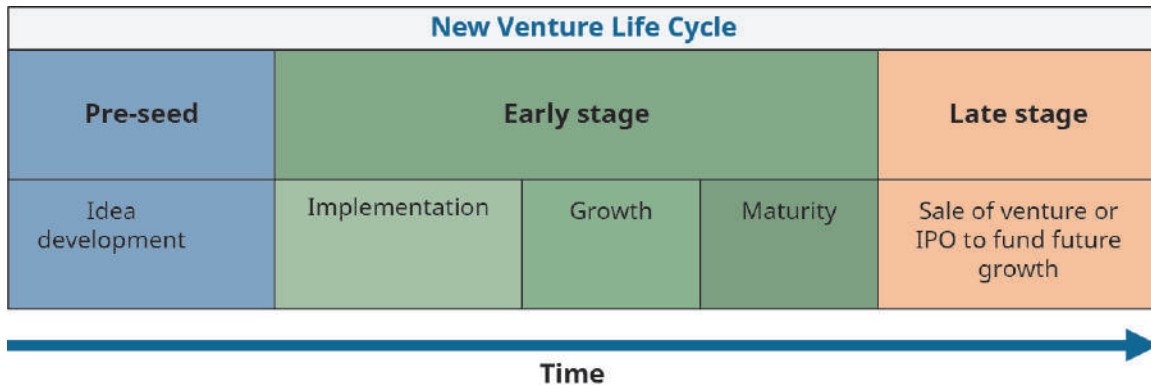
Figure 2.18 This image displays the phases that a new venture moves through as the idea is developed then created as a prototype. The prototype is then perfected in preparation for stage 4, when sales are generated. Stage 4 leads to the start of the growth stage, shown in Figure 2.19. Growth occurs through an increase in sales of the product. At this point, in the product life cycle, adding features or enhancements to the product will encourage increasing sales. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)
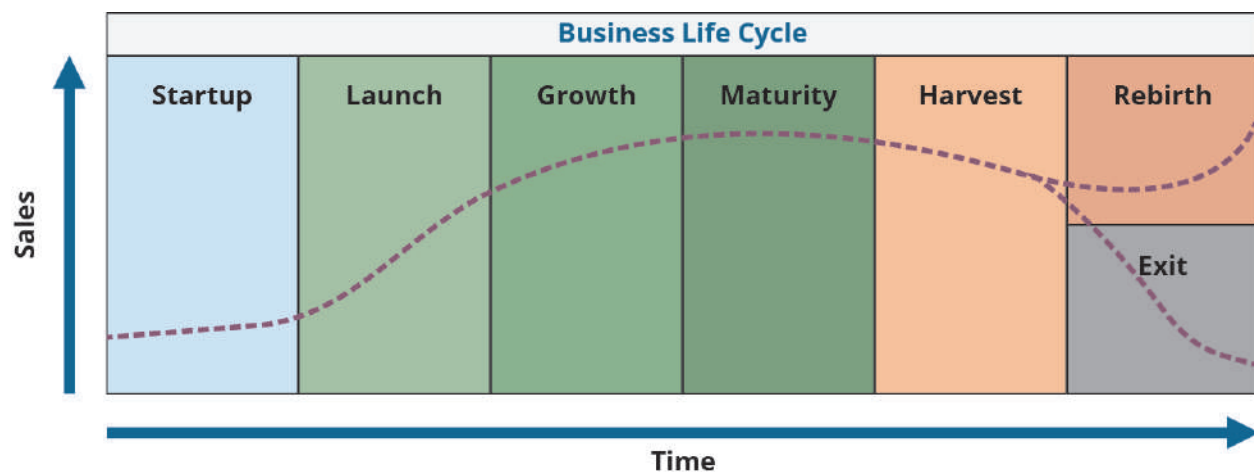
Figure 2.19 This image demonstrates the phases a business moves through from origination through the death of the business. The yellow line represents sales, or success of the business's products. We see the most sales dollars in the growth and maturity phases. At this point, the owner or entrepreneurial team must make decisions for the rebirth of the business, at which time the business returns to the growth phase. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Just as a child grows rapidly in their early years, often a business venture experiences quick growth as the product or service becomes commercialized and experiences strong demand, reflected through increasing sales and stronger knowledge and access to the target market. Again, this stage requires resources to support growth. The difference between this stage and the startup stage is cash is generated through sales activity. In

some entrepreneurial ventures, however, the growth stage is about building the venture, rather than generating sales. For ventures like YouTube, the growth stage entails increasing the inventory of videos as well as an increase in people accessing the videos.

Just as humans achieve maturity during their life cycle, the business might reach a point where growth slows and perhaps moves into a decline stage. In our human experience, we can take actions to improve or lengthen the maturity stage of our lives through better life choices, such as nutritious eating habits and exercise, to increase longevity and delay decline. We can also extend the maturity of the business and even move into a rebirth and a new growth phase through insightful decisions, such as adding new features to the product or service, or offering the product or service to a new target market. The goal in our lives, and in this analogy, is continued growth and success. Products can be altered or enhanced to extend the product's life cycle, which also extends the life cycle of the venture.

Examples of avoiding the decline and death of a business fit well into the concept of product life cycle and are prevalent in technology-related products such as the television, the personal computer, and the cell phone. For example, black-and-white televisions underwent a growth stage after World War II. Color televisions were introduced in the 1950s. As technology improved, television manufacturers have repeatedly moved through the life cycle and avoided declines in sales with new features and adaptations with options such as plasma, LED, and smart technology. An example of a product that started and then quickly declined into the death stage of the business is the eight-track player, a music player available between the mid-1960s to the early 1980s. The eight-track player replaced the reel-to-reel tape recorder as a more accessible product for installation in moving vehicles, from cars to Lear jets, to offer individual music purchased by the vehicle owner for listening while traveling. Even as the eight-track player was becoming popular, moving from the introductory stage into the growth stage of the product life cycle, the compact cassette was being developed. In the early 1980s, the compact cassette format replaced the eight-track player, abruptly ending the product life cycle of the eight-track player.

Some products lend themselves more easily than others to managing the life cycle. The goal is to manage the product for continuous growth, whereas other products, such as the eight-track player, are based on technology that quickly becomes obsolete when a better option becomes available. Other examples of products with short life cycles are categorized as fads, like the hula hoop and pet rocks—fads from the past that were reintroduced to a new generation of consumers and that moved quickly through the product life cycle into the last stage—the death of the product with sales either nonexistent or so few that the product becomes a novelty item.

The life cycles of the venture and of the product are two different concepts but are closely related. The venture will need different resources during each stage of the cycle to support the growth and success of the venture. Knowing what stage of the life cycle the product is in assists in decision making. For example, a decrease in sales triggers the need to enhance the product's value to extend and continue strong levels of growth. From the venture's perspective, managing the product life cycle also supports the continued success of the venture.

A successful venture avoids decline or death with the potential to prepare for either the sale of the venture or a public offering of stock, known as an initial public offering (IPO), which gives the company access to significant funds for future growth. Two entrepreneurial IPOs in May 2019 were Zoom and Uber. Zoom is a company that offers video conferencing, web conferencing, webinars, and cross-platform access. Uber is a ride-sharing company. Both entrepreneurial ventures used IPOs to support their future plans for growth.

Think about some of the friends you've known since childhood compared with those you've met in recent years. Suppose you plan to work on a project together and want to figure out who should handle which parts of the work. You might learn some information about a newer friend's past experiences through

conversations, observations, or other collaborations. Even so, it would not be possible—or necessary—to learn everything about their childhood and how they learned a specific set of skills or acquired certain connections. You would just start your interaction and work with your friend from the current time. The same is the case for a venture. You might start a venture from the idea-generation stage or from infancy as part of the pre-launch stage. Or you might join the process after someone else has already completed the early stages of the business—for example, by purchasing an existing business or entering into a partnership. You might not have been around when the business was launched, but you can continue with the development of the business from the present moment. Just as each stage of human experience involves different concerns and milestones, the same holds true for your venture. The venture is your responsibility to manage during each stage of the development process.

Figure 2.20 provides an overview of each stage and the associated decisions that you might consider or encounter for the entrepreneurial process.
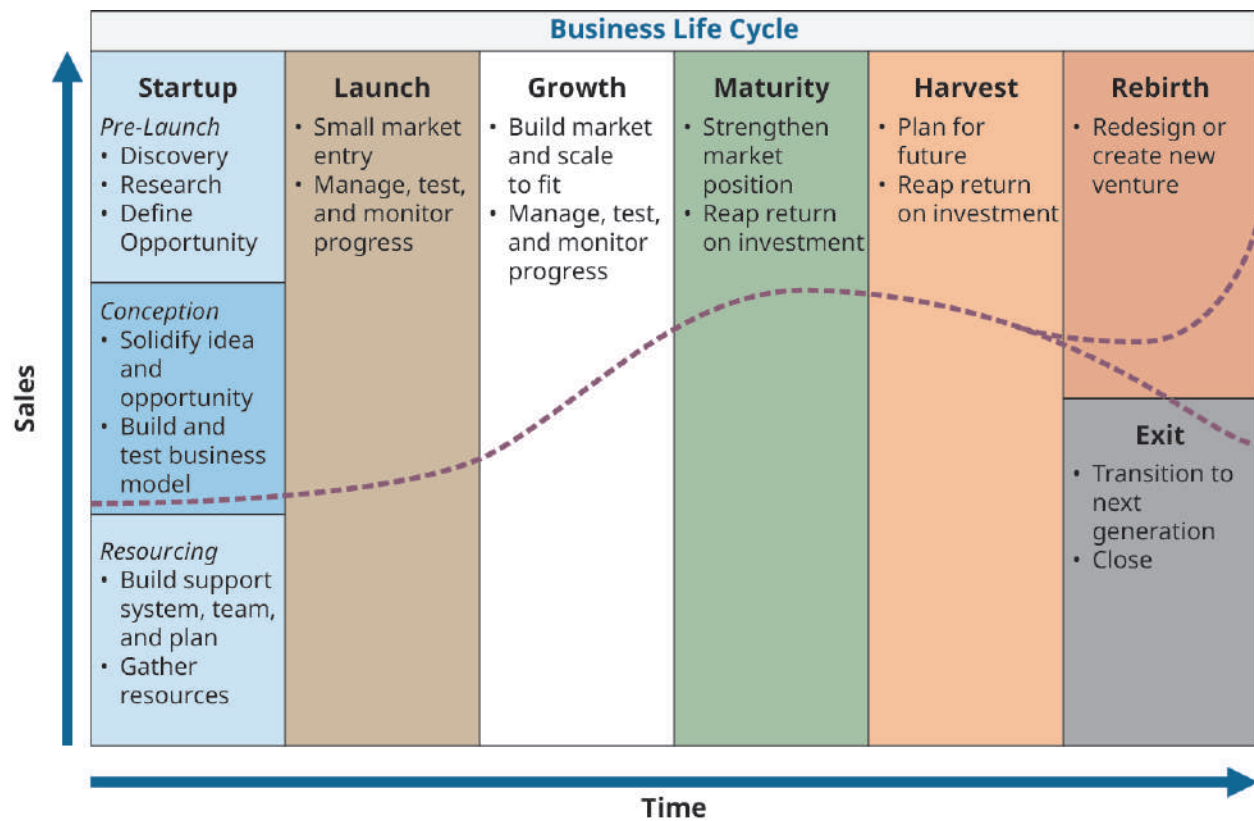
Figure 2.20 The life cycle of a venture roughly parallels the life cycle of a person through different stages that span pre-birth through infancy, youth, maturity, retirement, and then an end or a restart. However, unlike in the human life cycle, the venture stages do not have to be static or sequential. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Stage 1: Startup

In stage 1, startup activities are related to your perceptions about a potential idea, how you develop your idea, and how you might recognize appropriate opportunities. At this stage, the crucial activity is defining the opportunity to develop your concept into a realizable business venture with a strong potential for success. In this stage, you work on developing the idea more thoroughly to determine whether it fits your current and

future circumstances and goals. You will also work through exercises to distinguish ideas from viable opportunities. Each of these actions is addressed in greater detail in future chapters. The goal of this section is to introduce concepts for a greater understanding of these stages. Key actions or exercises in this stage include:

- Idea development
- Opportunity recognition
- Identification of a market opportunity
- Research and **due diligence**, or conducting the necessary research and investigation to make informed decisions that minimize risk, such as ensuring you are not duplicating an idea that already exists

Stage 2: Development

Now that you have confidence in your idea, it is time to develop a structure to determine what type of venture will work best for the idea. In Stage 2, you might select a business model (discussed further in Business Model and Plan) and pull together a team (discussed in Building Networks and Foundations) to make your dream venture a reality. The **business model** identifies how a business will build revenue, deliver value, and receive compensation for that value. Some examples of business models include monthly subscriptions, pre-sale orders, kiosk sales, and other choices. Entrepreneurial decisions in the development stage include many options to consider, including bootstrapping, starting out with limited funds, receiving venture funding from external sources, licensing to receive royalties on a per-item basis, purchasing another business, inheriting a business, franchising either through the purchase of a franchise or building your company with the goal of eventually creating your own franchise, creating a virtual web-based company, using mobile apps that support your business or connect with other businesses, founding a social venture to support a cause, consulting, or freelancing. Choosing among these options or creating your own unique approach to supporting the success of your business will change your results and success level.

Key activities in this stage include:

- Formulation or refinement of your concept
- Design of business model, plan, goals, launch team, and operational structure
- Creation of prototype product to fit market (sample or model for customer feedback)
- Further research and due diligence, as needed

Stage 3: Resourcing

Using knowledge you gained in the first two stages, in the resource stage, you will evaluate the necessary resources to support your new venture. Resources include financial support; support and selection of a manufacturing location or facility (if you are producing a physical product); personnel talents, knowledge, and skills; possible political and community support; and family support, because the new venture will require time commitments that will cut into time with your family. Fundamentals of Resource Planning discusses obtaining resources in more detail.

The key activities in this stage include:

- Gathering pertinent resources, such human and financial capital, investors, facilities, equipment, and transportation
- Establishing connections, networks, and logistics
- Further research and due diligence, as needed

Stage 4: Market Entry

Market entry—the launch of your venture—is often undertaken in a soft launch, or soft open, within a limited market to minimize exposure to unforeseen challenges. As an entrepreneur, you are presenting your new venture to a specific market to see how well it is received and supported. You might make last-minute adjustments at this stage, but the crucial part is to see how the market reacts to your venture. This is an excellent time to scrutinize all aspects of your business for solutions to unexpected problems and improvements in efficiencies, and to track customer reactions to your venture.

One of your most important responsibilities at this point is managing your **cash flow**, or the money coming into and going out of a business, as cash is essential for the success of the venture. In the early stages of the venture, you will need large amounts of cash to fund the operational activities, because your sales are not yet guaranteed. Production costs, payroll, supplies, inventory, lease payments, and marketing: All of these expenditures involve cash outflows from your venture as part of the startup costs. A successful business needs available cash as well as customers for its products and services, or it will not survive. Key activities at this stage include:

- Assessing management structure and needs, adjusting as necessary
- Managing cash flow
- Launching the entity
- Monitoring progress
- Further research and due diligence, as needed

Stage 5: Growth

The growth stage includes making decisions that support the future growth of your venture. In the growth stage, your decisions reflect the scalability of your venture. There is a big difference between a small-scale venture and a venture that must handle significant levels of sales. At this point, your organizational structure needs an update. You might need new functional levels, such as a finance department, or a human resources department, or perhaps an assistant manager. Other considerations include the size of your facilities. Is the current size, or capacity, appropriate for the growth of the venture? Other questions relate to the appropriateness of your suppliers or inventory providers. Are quality and delivery time meeting your needs? Is the payment system appropriate for your venture? In this stage, you should also monitor the growth of your venture and make appropriate adjustments. For instance, if your venture is not growing as expected, then you might go back to your business plan and see what adjustments you can make. Key actions in this stage include:

- Managing the venture
- Making key adjustments, as needed
- Further research and due diligence, as needed

Stage 6: Maturity

In the maturity stage, your venture has moved into the maintenance phase of the business life cycle. Entrepreneurs monitor how a venture is growing and developing according to the business plan, and its projections and expectations. Is your venture growing faster or slower than you expected? What milestones has it reached? What changes are needed to continue the success of the venture? How can you address those changes? Are you still able to maintain or meet the needs of the venture?

Depending on your situation, you still will need to take action to support the venture. Even if the venture is

operating efficiently and in a predictable manner, external changes could compel you to change your venture, for example, by making improvements to the product or service, finding new target markets, adopting new technologies, or bundling features or offerings to add value to the product.

One of the key points to understand at this stage is that ventures can, and often do, fail. Entrepreneurship is about taking calculated risks to achieve a reward. Sometimes your venture may not turn out how you planned. Keeping an open mind and learning from experience presents new opportunities for either changes to the existing venture or even a new venture. Consider these examples of early entrepreneurial failures by people who later went on to achieve great success:

- Bill Gates's early Traf-O-Data company failed because the product did not work
- Walt Disney was told he lacked creativity and was fired from a newspaper job
- Steve Jobs was once fired by his own company, Apple
- Milton Hershey started three candy companies before he founded the successful Hersey Company

Key actions of this stage include:

- Strengthening market position
- Awareness and willingness to change
- Reaping return on investment (ROI)

Stage 7: Harvest

At some point, your company may outgrow your dreams, ambitions, or interests. At this stage, you are harvesting or collecting the most return on your investment while planning how to retire or make a transition away from this venture. Many entrepreneurs enjoy the excitement of starting and building a venture but are less interested in the routine aspects of managing a company. In the field of entrepreneurship, the entrepreneurial team creates a venture with the goal of harvesting that venture. Harvesting is the stage when all your hard work and ingenuity are rewarded through a sizable return on the invested money, time, and talents of the startup team, including any investors. During this stage, the entrepreneurial team looks for the best buyer for the venture to achieve both a return on investment and a match for the continued success of the venture. Key actions in this stage include:

- Identifying what the entrepreneurial team, and investors, want out of the venture, their ROI
- Planning for your future: What's next on your entrepreneurial journey?

Stage 8: Exit

The exit stage is the point at which your venture either has fulfilled its purpose as a harvested success that is passed along to the next generation of business owners or has not met your needs and goals. These two situations give rise to vastly different scenarios. In the harvesting of the venture, you might receive a sizable cash payment, or a combination of cash payment and a minority share of stock in the venture's buyout. In an exit that reflects the closing of the venture, your option is most likely liquidation of assets, which you would sell to pay off any remaining creditors and investors. In both harvesting and liquidation, the challenge for you as an entrepreneur can be to accept the emotional withdrawal from a venture that has consumed your thoughts, time, and energy. The time has come for you to step out of the picture and allow the venture to be cared for by a new "parent" or to close the venture completely. Key actions in this stage include:

- Exit strategy and plan
- Transition to the next generation of owners

Stage 9: Rebirth

For some entrepreneurs, the excitement of creating a new venture supersedes the financial gain from harvesting a successful venture. The thrill of transforming an idea into a realizable opportunity and then creating a thriving venture is difficult to find elsewhere. In the rebirth phase, the entrepreneur decides to seek out another new venture to begin the process all over again. As an experienced entrepreneur, you can create a new type of venture or develop a new spin-off of your original venture idea. At this point, you have become a **serial entrepreneur**, an entrepreneur who becomes involved in starting multiple entrepreneurial ventures. Key actions in this stage include:

- Redesigning or creating a new venture
- Bringing in a new entrepreneurial team or the team from the previous venture

LINK TO LEARNING

"Drop into" Man Crates to learn about this entrepreneurial venture. Who is their clientele? Does this company sell an experience, a product, or both? What life cycle stage is this business in now? Applying your assessment of the company's life cycle stage, pretend that you are the CEO of the company. What recommendations do you have for the company's continued success and growth?

Visit the Man Crates site (https://openstax.org/l/52ManCrates) to learn more.

2.3 Entrepreneurial Pathways

Learning Objectives

By the end of this section, you will be able to:

- Understand how venture opportunities present different pathways to entrepreneurship
- Describe methods for finding your personal path to entrepreneurship

When you think of which career pathway (as in Figure 2.21) to follow, you might not think of being an entrepreneur in the same way that you would think of being a nurse, an attorney, or an engineer—but you should. Entrepreneurship offers you the chance to express your creativity and business acumen and to control your destiny. Conversely, if you were to earn an engineering degree, your employment options could involve working for an engineering company. Your job would be relatively secure and structured, with a paycheck and some perks. Or you could leverage your engineering degree into an entrepreneurial venture.

The entrepreneurial journey includes multiple experiences and decisions that will help you reach your entrepreneurial goals. For example, some individuals inherit a family business. If your choice career proves not so ideal or available as planned, entrepreneurship may be an attractive option. However, a growing number of people intentionally choose business ownership as a vehicle for fulfilling their career goals and interests. If you reach this crossroads in selecting your ideal vocation, how do you successfully navigate the entrepreneurial pathway as a career option? Your entrepreneurial journey might travel several paths, each presenting obstacles, twists, and turns before you reach your destination. Many of today's entrepreneurs have followed different pathways—sometimes conventional, sometimes not—that have led to the creation of various

business structures matched to each entrepreneur's spirit. These businesses include established or adapted business models that met a need, solved a problem, or developed a social solution.

Regardless of the type of entrepreneurial venture you may choose, many pathways can take you to your goal. Venture types differ in their missions and visions. Their purposes range from earning income (for profit) to meeting a community need through tax-exempt status (nonprofit) to solving a social or environmental problem (social enterprise) to combinations of these types (hybrid). Business Structure Options: Legal, Tax, and Risk Issues examines each type in depth.

Figure 2.21   There are many different pathways you can take on your entrepreneurial journey. (credit: "Explorer" by Sakeeb Sabakka/Flickr, CC BY 2.0)

For many established businesses, the pathway is not always as clear as the entrepreneurial process suggests. This is because entrepreneurs are opportunists, leaders, and initiators: They take calculated risks to create or adapt something to solve a problem or create a response for potential financial gain or intrinsic value. The reality is that these situations or opportunities do not always occur in a logical sequence or order. Instead, entrepreneurial-focused individuals might encounter opportunities, offers, or options that spark a new venture.

Opportunities and Options

If you are ready to launch a venture, you will find numerous situational opportunities to pursue your interests. A **situational opportunity** is one that becomes available, depending on factors such as where you work, your family obligations, your idea or invention, your unique creative expression, or a recent career search or job change. The evolution of entrepreneurship, your own receptiveness to entrepreneurial thinking, and many existing and emerging platforms make this possible.

As you plan your venture, you should consider opportunities in these areas:

- On the Job. Some workplaces offer intrapreneurial opportunities, or ventures created within the company, for entrepreneurial-minded individuals. The firm 3M, for example, has historically nurtured employee creativity and promoted innovative opportunities for employees. This environment inspired an employee project that resulted in the invention of Post-it notes. Even if a company does not support venture creation, there is also the possibility of taking the entrepreneurial idea out of the company to create your own venture.
- Family Obligations. You might work in a family-owned business or take over after family members retire or transfer ownership to other family members.
- Franchises. You might purchase an existing **franchise**, a license granted to an entrepreneur to operate under the franchise's name.
- Web-Based Venture. You might launch a product venture through Etsy, Shopify, or another e-commerce web site.
- Work for Hire, or Independent Contractor. You might launch a consulting business or work as an independent contractor to gain clients, experience, and income on a flexible schedule.
- Unemployment. Being underemployed or unemployed might make entrepreneurship a pathway to economic freedom.
- Purchase. You might purchase an existing business from a retiree, your current company, or a family that owns a business. As a business owner's life situations change, due to aging or new interests, the business becomes available for new ownership. Working for a company can offer the option of buying out the current owner to become the new owner. Purchasing an existing company provides historical financial data and decisions that support future successes. If you are employed by the company, you have the opportunity of learning details about how the business is managed, an advantage that could support your success in purchasing and managing the company.
- Frustration. You might encounter a currently existing product or situation that needs improvement or a solution, and decide to tackle the situation yourself.
- Serendipity. This is a situation in which various pieces come together to support the creation of a new company or product. The Entrepreneur in Action: Gordon Moore and Fairchild Semiconductor box describes how Gordon Moore (creator of Moore's Law on the exponential growth of a single silicon chip doubling every year) was working for Shockley Semiconductor in 1956. At that time, he had little-to-no knowledge of semiconductors. However, he quickly learned about semiconductors by applying his PhD in chemistry and physics from Caltech to the semiconductor industry. After one year of employment, Moore and seven other employees left to form Fairchild Semiconductor, financed by Sherman Fairchild. During his eleven-year employment with Fairchild Semiconductor, Moore published a paper describing what we now know as Moore's Law. His next move was based on recognizing the importance of the microprocessor in transforming the computer and related industries. After frustrations with Fairchild's lack of support for this new direction, Moore, along with a colleague from Fairchild Semiconductor, Robert Noyce, formed Intel, the second largest semiconductor chip manufacturing company in the world.

ENTREPRENEUR IN ACTION

Gordon Moore and Fairchild Semiconductor

Sometimes the path to entrepreneurship doesn't occur as you might plan or think. Consider the story of Gordon Moore, a cofounder of Fairchild Semiconductor: "Like many other scientists and engineers who have ended up founding companies, I didn't leave Caltech as an entrepreneur. I had no training in business; after my sophomore year in college, I didn't take any courses outside of chemistry, math, and physics. My career as an entrepreneur happened quite by accident. There is such a thing as a natural-born entrepreneur....But the accidental entrepreneur like me has to fall into the opportunity or be pushed into it. Most of what I learned as an entrepreneur was by trial and error, but I think a lot of this really could have been learned more efficiently."[43]

The combination of diversity in educational background and skills, the serendipity of being in the right place at the right time, and facing frustrations with the current situation can combine into recognizing an entrepreneurial opportunity. For Gordon Moore, learning about semiconductors, and creating the company Intel, was the furthest idea of what he pictured for his future. The serendipity of his experiences, knowledge, and intelligence combined to support the creation of Intel. Gordon Moore is reported to have a net worth as of October 2019 of $10.6 billion.

One core concern of entrepreneurship is how you will fund your venture and where you will find the necessary resources. Although some businesses require significant startup funding, it might surprise you to learn that many ventures have been launched by entrepreneurs who used their own capital, labor, connections, or other resources to start—an approach known as bootstrapping. Some savvy bootstrapping strategies include launching a venture part-time while maintaining a full-time job, using personal savings, bartering for services and materials, and securing pre-orders. Some entrepreneurs seek financial support for their venture through funding from angel investors, venture capitalists, or traditional loans or debt. The advantages and disadvantages of these approaches are covered in Entrepreneurial Finance and Accounting, along with an in-depth discussion of bootstrapping.

Finding Your Entrepreneurial Path

The process and pathways to entrepreneurship can be overwhelming. With so many choices and decisions involved, entrepreneurial choices can seem intimidating, and the route you follow may sometimes produce some anxiety. Before you get consumed with the technical aspects of launching a venture, it is important to start with the most important foundation: finding your personal path to entrepreneurship.

Your Personal Path through Self-Reflection

Your decision to launch a venture should not be taken lightly. Entrepreneurship requires a lot of energy, decision-making skills, tenacity, resourcefulness, and flexibility. As you consider entrepreneurship as a career,

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43   Gordon E. Moore. "The Accidental Entrepreneur." *Engineering & Science*. Summer 1994. http://calteches.library.caltech.edu/3777/1/Moore.pdf

you should complete some self-reflection to figure out how, why, and when entrepreneurship may be the right professional path for you. For example, if your personality is introverted—that is, you often find it most energizing to be alone—you might consider a venture that capitalizes on that scenario. (Recall your entrepreneurial self-assessment Are You Ready?: Entrepreneurial Potential Self-Assessment.) It might be helpful to study or meet other entrepreneurs with a venture you find interesting.

WORK IT OUT

Startup Ideas

Visit Medium.com to check out this "Top 10 Business Ideas for Startups" article (https://openstax.org/l/52TenBusIdeas) and then review the startup ideas for introverted personality types (https://openstax.org/l/52IntrovertBus) at Small Business Trends.[44],[45] Review the lists of ideas. Next create a list of five or more of your own startup ideas. Often, we gain new insights by reading through other ideas. Your idea might be a spin-off of an original ideas. Or the information you gain could trigger a brand-new idea.

Your Personal Path through Research and Experiments

A key step to finding your personal pathway to entrepreneurship is to conduct research and try out roles related to your desired venture. Researching the potential industry or entrepreneurial options available to you will provide some level of comfort and validate your decisions about what you might do next. One concrete way to do this is to "shadow" a professional in your desired field. This means arranging to be an observer during a standard workday to see firsthand what is involved in running that type of business. You may also be able to secure some experience by serving as an apprentice, intern, or lab assistant, or as an independent contractor or freelancer, an individual who contracts to offer professional services or tasks for a negotiated fee. Informational interviews—whether informal chats with new or established business owners at a trade show or networking event, or a formal question session—can also provide insight.

Your Personal Path through a Soft Launch

One sure pathway to entrepreneurship is to jump in with both feet and experience the process by launching a venture. Although this may seem like a big leap or you may feel you are not ready, remember that entrepreneurship is an experiential discipline that can be understood fully only through hands-on experiences. Launching a venture for a limited time frame or audience to gain experience, insights, and feedback about the target market or consumer—a process known as a **soft launch** (or soft open)—will provide valuable feedback on how to meet the consumer's needs or improve on your product to ensure success. You might explore a soft launch by creating a sketch or sample of what you plan to offer and asking friends and potential customers what they think, or by creating a website or app prototype to share with a limited number of people to see if it works as planned (sometimes called a beta test) and get feedback.

44   Vikas Agarwal. "Top 10 Business Ideas for Startups," *Medium*. August 25, 2016. https://medium.com/search?q=top%2010%20business%20ideas%20for%20startups
45   Annie Pilon. "50 Business Ideas for Introverts." *Small Business Trends*. October 4, 2016. https://smallbiztrends.com/2016/09/business-ideas-for-introverts.html.

2.4 Frameworks to Inform Your Entrepreneurial Path

Learning Objectives

By the end of this section, you will be able to:

- Identify common frameworks used to shape an entrepreneurial venture
- Compare how some frameworks better fit certain venture types
- Define an action plan and identify tools available for creating an action plan
- Describe some common types of entrepreneurs

In designing a venture that is sustainable or capable of being self-funded, it is helpful to use specific tools to manage information. One such tool is a **framework**—a structure or outlined process that can be used to accomplish entrepreneurial goals through problem solving, idea generation and validation, and brainstorming.

Selecting a Framework

You can choose any of several popular frameworks to help with the design and integration of your business experience and entrepreneurial thinking. The most widely used frameworks that have been developed as integrative tools to support entrepreneurial thinking include:

- Business Model Canvas (BMC) offers a simple, one-page tool used to design an innovative business model that can be presented to key stakeholders (Figure 2.22). The business model canvas is discussed more fully in Business Model and Plan.
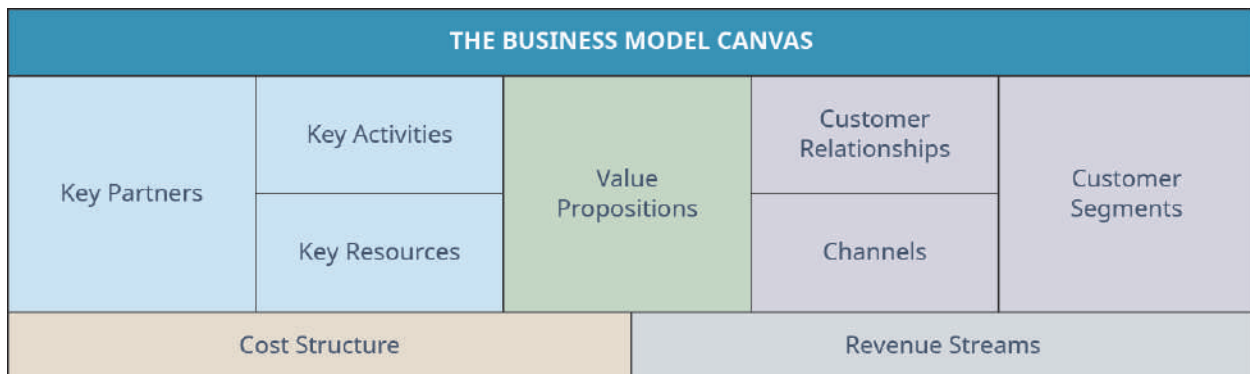
Figure 2.22 Here is an example of a Business Model Canvas with a framework to identify key components of the venture. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

- Lean Strategy Canvas is a spinoff of the BMC that introduces a potential customer feedback loop for continuous product or idea improvement to meet the market's needs (Figure 2.23). The lean strategy canvas is discussed more fully in Launch for Growth to Success.
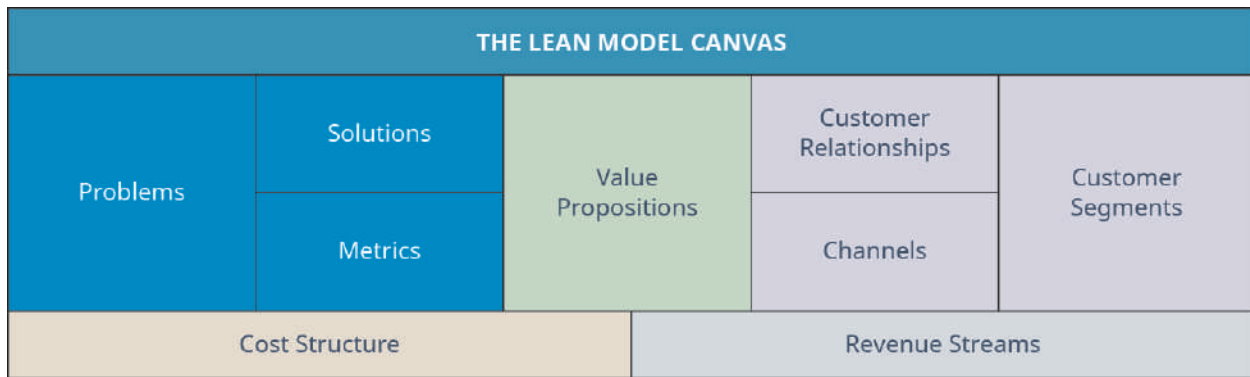
Figure 2.23   Here is an example of Lean Strategy Canvas, a framework to assist in developing the business model, and competitive advantage and related areas aligning the product and market for the venture. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

- Design Thinking Process supports a systematic, logical approach for addressing and solving problems with multiple solutions (Figure 2.24). Design thinking was first applied in relation to STEM fields—science, technology, engineering, and mathematics. Due to the success of this process, design thinking has become popular in many other areas.
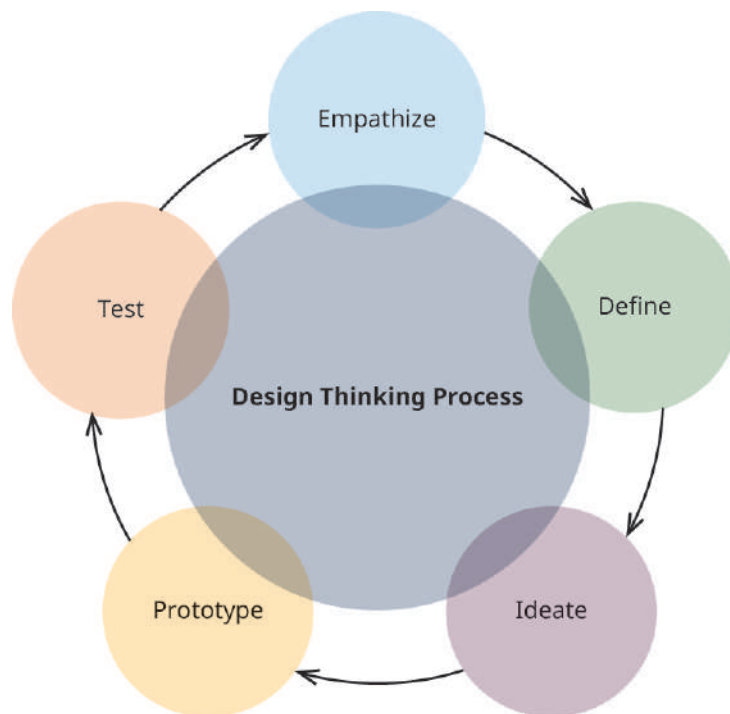
Figure 2.24   The design thinking process is a systematic approach for solving problems. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Design thinking approaches problem solving or the creation of a new venture from the perspective of the customer. For example, Amazon provides easy-to-open packages after observing the challenges customers had in opening the delivered products. Design thinking is covered in greater detail in Problem Solving and Need Recognition Techniques with applications to starting an entrepreneurial venture, product design, and

improvements to existing products.

- Four Lenses Strategic Framework is used for the development of social enterprises; assesses four
  strategic areas (stakeholder engagement, resource mobilization, knowledge development, and culture
  management) to address a social problem and provide sustainable social impact (Figure 2.25).
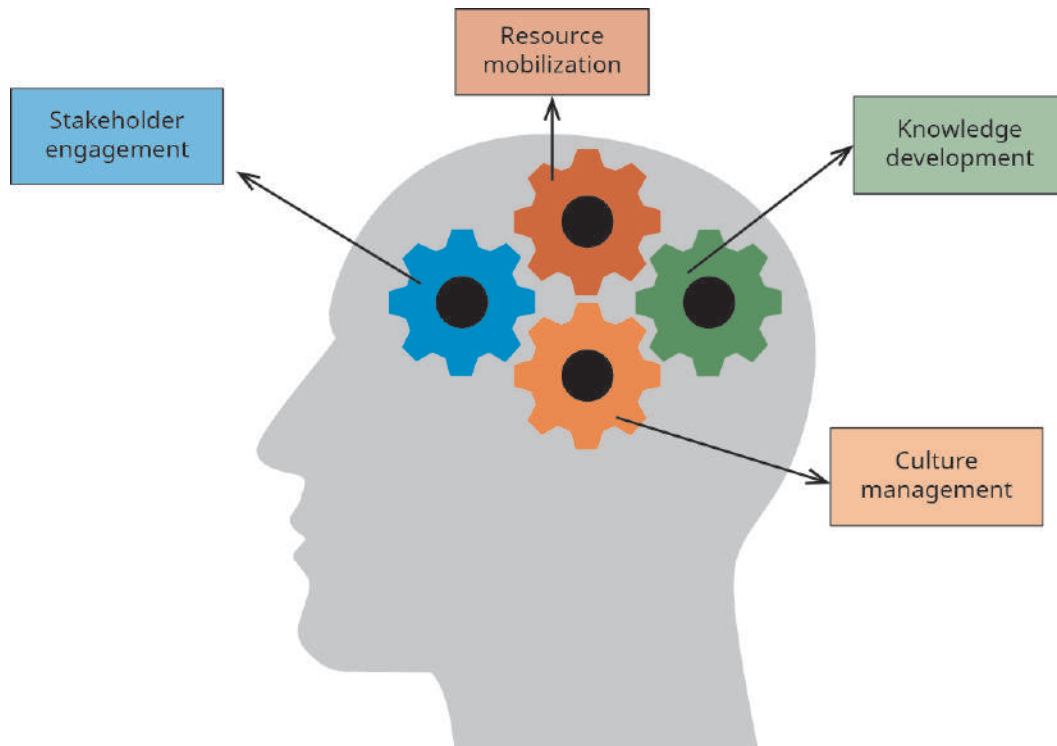
Figure 2.25   The Four Lenses Strategic Framework involves stakeholder engagement, culture management,
resource mobilization/application, and knowledge development, and can provide synergies and insights in
building compatible and aligned actions. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0
license)

The typical application of each framework is shown in Table 2.3. The process of selecting the most appropriate
framework for your entrepreneurial interests might help you understand how to develop your idea. We
recommend that you try all four frameworks before selecting one. Even though each framework is identified
for a general class of venture, each one provides a different perspective for developing your venture.

Frameworks

Framework	Description	Typical Use
Business Model Canvas	A one-page tool that maps out nine basic building blocks that are necessary for a successful business model	Helps prepare a sustainable business model

Table 2.3

Frameworks

Framework	Description	Typical Use
Lean Startup	Outlines a quick feedback loop through customer input	Used for fast-paced industries and quick idea validation
Design Thinking Process	Outlines a systematic, results-oriented process to address and solve problems	Used for the development of STEM fields with expansion into entrepreneurial ventures, products, and processes; applicable to all areas
Four Lenses Strategic Framework	A practitioner-driven model that considers four perspectives to support and develop a client-focused ecosystem	Used for the development of social ventures

Table 2.3

Applying the Framework through an Action Plan

At some point during your venture development process, it becomes critical to capture your thoughts and intentions in a meaningful and productive way. Creating a customized **action plan**—an organized, step-by-step outline or guide that pulls together the ideas, thoughts, and key steps necessary to help set the stage for entrepreneurial success—at an early stage will make the entrepreneurial process much smoother and potentially more successful in the long run. Applying an appropriate framework will provide you with a visible, tangible, strong foundation for your future venture. In completing the framework, you should identify gaps as well as ideas for further development, then add both to your action plan. Just as you can choose from several types of frameworks, you can apply any of a variety of action plans. This section introduces some widely used action-planning tools but is not exhaustive. These selected action plans are presented as a way to jumpstart your thinking for the venture creation process.

Action Plans

You may have heard stories about potential entrepreneurs who hesitated to start a venture, largely out of fear of creating a business plan. Historically, business plan creation has required significant amounts of time, resources, and research. Although business plans are still enormously valuable (and are discussed in depth in Business Model and Plan), some useful business-plan-like tools have emerged: These are essentially variations on the development, content, and structure of a traditional business plan or one of its components. One other concern about business plans is how entrepreneurs use them once they are completed. In many cases, when the venture is launched, the entrepreneurial team discovers that the business plan does not reflect the realities that the team faces. A wide range of variables can often negate the value of the business plan. The true benefit of completing the business plan is that it forces the entrepreneurial team to think through their decisions as reflected in the plan. Even if the venture and the business plan change, the process of creating the business plan encourages critical thinking and improved decisions. In real time, you will need to make changes

to your business plan and your venture. Throughout the venture's life span, you should continue your background research and projections to adapt the business plan.

Unlike with the business plan, the purpose of an action plan is to pull together the ideas, thoughts, and actions necessary to help you set the stage for entrepreneurial success. Consider what kind of action plan you need to prepare a holiday meal. We have a vision of the end result—friends and family gathered together to share a delicious, festive meal. We will need to select the right location for the holiday meal, identify the guests to invite, and create a financial budget for the related costs of the holiday meal. Then we would need to create our action plan—similar to a business plan—to identify what actions are necessary to support the event. In our action plan, we would include inviting guests to the event, drawing up a menu and a grocery list, designing a timeline to ensure that all the dishes of the holiday meal are completed in the correct sequence: We want all the food to be ready at the right time. Our action plan would also include the clean-up process and any after-dinner activities that we want at our event. As you can see, both the business plan and the action plan are necessary for success.

Once you select a framework and an action plan, you have the basic tools and information you need to outline the path of your venture. The framework offers a big picture of what you want to create and the resources required for that goal, whereas the action plan provides you with concrete actions for starting along your entrepreneurial path and, later, for supporting the business plan.

Action plans can also result from using the tools listed in Table 2.4. These tools can help you visualize the process necessary to reach your end goal by clarifying the necessary actions. They are also tangible guidelines for innovating, exploring, and creating solutions to entrepreneurial problems or opportunities. You might also use your action plan to get "unstuck" during any challenging phase of the entrepreneurial process. One word of caution regarding these tools: You need to use them to get results. So be sure you are realistic about your interests, abilities, and availability when you create your plans. For example, wireframing is a technique for webpage design used early in the development process in which content, layout, and functionality are identified prior to the actual creation of the webpage. Coincidentally, this is another application of design thinking through the focus on the end user's interaction with the website. As you can see from this example, searching for popular tools used within specific industries will provide you with support in building your framework. Table 2.4 provides a few examples of action planning tools that are used to delve into the specific topic.

Action Plan Support Tools

Tool	Description	Use
Vision or Dream Board	A visual tool to present the ideal situation that you are working towards achieving	Wireframing
Storyboard	A scene-by-scene visual of the activity process from start to finish	Downloading method (IDEO)
Mind map	A visual tool that assists with categorizing brainstorming types of ideas	Brainstorming

Table 2.4

Action Plan Support Tools

Tool	Description	Use
Hypothesis	A proposition or statement as a basis for further testing or investigating	Interviewing
Logic Map	Visual representation of relationships between various components or variables	Questionnaires

Table 2.4

The action plan support tools presented in Table 2.4 are a sample list of representative tools that are useful in motivating, inspiring, identifying, and clarifying needed actions. This list is not exhaustive; if you have something that works for you, then use it. Several apps are also available to help you capture ideas to create action plans, as shown in the Suggested Resources. The idea is to find and use a visual or tangible tool that inspires you to get focused, organized, and committed to taking the actions necessary to turn your entrepreneurial dream into a reality. Let's say you know that you want to start a venture that helps people recover after some type of disaster. You could use one of these action plan support tools, such as a mind map, to help you brainstorm possible needs resulting from a disaster in a city (Figure 2.26). You can categorize the ideas to help people and animals, or to repair the city's infrastructure. After completing the mind map, you would then consider which areas fit your interests, passions, and skills. From this point, you could identify the type of venture you want to create and the necessary actions to move forward with your idea. Using these types of tools assists in identifying actions that need to be addressed in your action plan.

Figure 2.26   From this mind map of disasters that occur and actions to take, we could focus on one action area that matches our interests, passions and skills. After selecting an area of interest, we could create another mind map focused on our area of interest to identify solution sets. Next, we could apply one of the frameworks listed in Table 2.3. From there we could create an action plan of actions needed to become more informed about the idea or solutions. As you can see, an action plan fits into multiple areas. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Types of Entrepreneurs

Recall from The Entrepreneurial Perspective that for some people, the entrepreneurial pathway is clear cut and logical. For example, a career in a biomedical lab may involve research and clinical trials that lead to patent applications for a product to sell in the marketplace, leading to a new venture. Others experience the entrepreneurial pathway through nontraditional methods, as when an unexpected opportunity arises. As the global marketplace continues to evolve, new entrepreneurial opportunities will open for individuals who are open to opportunities that build on creativity and innovation.

Traditional entrepreneurs were perceived as individuals who did not fit in a typical organizational structure or as people who had the brains, creativity, imagination, and money to launch out on their own. However, this perception is changing with increasing support to reduce barriers to enable access to entrepreneurship for all demographic groups. According to a 2018 Capitol Hill discussion on women, minorities, and entrepreneurship, the current entrepreneurial demographics show that only 12 percent of US innovators are women and that US-born minorities accounted for 8 percent, with African Americans making up only one-half of 1 percent of this group.[46] According to a National Academies of Sciences report, as cited in the same Capitol Hill discussion, women- and minority-owned small businesses received less than 16 percent of all Small Business Innovation

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46   Information Technology & Innovation Foundation. "Promoting diversity in entrepreneurship." 2018. https://itif.org/events/2018/03/07/promoting-diversity-entrepreneurship

Research (SBIT) program awards. Even though women account for 51 percent of the US population and own 29 percent of businesses, they received only 6 percent of SBIT awards.

Also cited at the Capitol Hill briefing, a 2015 report by the US Department of Commerce showed that women-owned small businesses have a 21 percent lower rate of winning federal contracts. One result from this Capitol Hill briefing was the passage of the Promoting Women in Entrepreneurship Act to require the National Science Foundation to encourage entrepreneurial programs to recruit and support women in commercial activities rather than purely laboratory-based activities. Some of the challenges identified in this discussion for groups other than the traditional entrepreneurs described include life choices such as childbearing, access to funding, and lack of support and follow-through to support women and minorities in their interests related to potential entrepreneurial activities.

Other findings drawn from the Census Bureau data and reported by the Kauffman Foundation found that over 70 percent of Asian, Hispanic, and African American entrepreneurs relied on personal and family savings as their main source of startup capital. Women also face challenges in funding, receiving just 2.2 percent of venture capital funding in 2018.[47] A bill called the Support Startup Businesses Act, reintroduced in the US Senate in 2019, would address these challenges by increasing overall funding to help startups, creating more flexibility in funding, and expanding services for startups.[48] The panelists ended the Capitol Hill discussion by noting that "bro culture" has proliferated at the expense of women- and minority-based entrepreneurial ideas. Cultural barriers, including historical disenfranchisement of women, minorities, and immigrants, arise from biases, with one speaker noting that investors ask more difficult and probing questions of male entrepreneurs but pose more skeptical questions to women.

Today, opportunities have expanded for businesses and organizations that respond to current challenges, which may include trying to improve a negative situation or finding a need in a positive situation, with an increasing awareness of the benefits provided through entrepreneurial activities. As more global, cultural, and economic issues and opportunities arise, more individuals will explore entrepreneurship as a response to these challenges. For example, noting the challenges that women and minorities face in starting a new venture, Alan Donegan and his team train people on how to turn their entrepreneurial visions into a reality through his PopUp Business School. The point is that opportunities should be available to everyone, as long as we keep an open mind when considering how change contributes to new venture creation.

WHAT CAN YOU DO?

Barriers to Funding

Given this list of cultural factors and economic factors, what can you do to assist in solving the challenges related to biases? Consider how Alan Donegan's responded to the need to educate people on how to start their own business. He created a company to address this need. You may also consider reading statistical information such as census data and news reports to identify unique target markets and potential needs that could result in a new venture.

The Kauffman Foundation reports these issues, summarized in Table 2.5.

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47   Emma Hinchliffe. "Funding for Female Founders Stalled at 2.2% of VC Dollars in 2018. *Fortune*. January 28, 2019. https://fortune.com/2019/01/28/funding-female-founders-2018/

48   Jason Rittenberg. "Startup Act Reintroduced Innovation Support." *State Science & Technology Institute (SSTI)*. January 31, 2019. https://ssti.org/blog/startup-act-reintroduced-would-expand-federal-innovation-support

Potential Barriers to Entrepreneurial Funding[49]

Potential Barrier	Challenges
Geographical barriers	Close to 80 percent of about $21.1 billion in venture-capital funding in the first quarter of 2018 was disbursed in five regional clusters—San Francisco (North Bay Area), Silicon Valley (South Bay Area), New England, New York City metro, and LA/ Orange County—with slightly more than 44 percent in the North and South Bay Areas.
Gender bias	Women are substantially less likely to start businesses than men. In 1996, the rate of new entrepreneurs for women was 260 per 100,000 people, compared to 380 per 100,000 for men. In 2017, the rate of new entrepreneurs for women was 270 per 100,000 for men.
Racial and ethnic bias	The landscape of entrepreneurship in the United States is marked by significant differences across racial and ethnic groups. Minority-owned firms are found to face significant barriers to capital. For example, minority-owned firms are disproportionately denied when they need and apply for additional credit. One study compared sources of finance and found that new black-owned businesses start with almost three times less in terms of overall capital than new white-owned businesses, and that this gap does not close as firms mature.
Lack of initial wealth	Low-income individuals without initial (pre-existing) wealth also face significant barriers to capital. Research on liquidity constraints showed that the top ninety-fifth percentile of wealthy individuals in the United States is more likely to start businesses than other income groups, and that personal and household wealth are important drivers of entry. Research at the neighborhood level found that in New York City, the richer third of neighborhoods had more than twice the rate of self-employment than the poorest third. A higher household net worth of a founder is linked to larger amounts of external funding received, even after accounting for human capital, venture characteristics, and demand for funds.
Shift in the banking industry	Large banks have become larger, while there are fewer small and medium-size banks. Larger banks survived the Great Recession with balance sheets restored, while small banks—the ones more likely to lend to entrepreneurs—were limited by both economic conditions and new regulatory barriers
Information	The persistence of information asymmetry in capital markets between the supply of

Table 2.5

Potential Barriers to Entrepreneurial Funding

Potential Barrier	Challenges
asymmetry	capital (investors) and the demand for capital (entrepreneurs) gives rise to barriers faced by entrepreneurs. Entrepreneurs face a larger challenge than established businesses in accessing capital because established businesses can leverage their longer track records and existing relationships.

Table 2.5

- What challenges do you face in these areas?
- What steps might you take to help mediate those challenges?

As the traditional view of entrepreneurship evolves, different types of entrepreneurship are emerging and are worth noting as you contemplate your entrepreneurial journey. The types presented here are among the most common today, each with its own unique opportunities and challenges.

- College Entrepreneur: As the cost of higher education continues to rise, more college students are seeking ways to reduce reliance on tuition loans by launching a venture. The college entrepreneur might launch an enterprise while attending or after graduating from college. Entrepreneurship courses might require a student to create and launch a venture as part of the curriculum, and this can turn into an actual earnings opportunity.
- Corporate Intrapreneur: If you work for a progressive company that seeks innovative solutions for growth and opportunities, you can become an intrapreneur by organizing the necessary resources to pursue a venture of organizational interest.
- Franchise Entrepreneur: Since a franchise grants a license to an entrepreneur to trade under the franchise's name, a franchise entrepreneur gains a head start in an industry by launching the franchise.
- Immigrant Entrepreneur: With increasing global unrest, more immigrants are traveling to new countries. In the United States, ethnic communities of immigrants welcome their compatriots and assist them in becoming independent through entrepreneurship. These communities pool together the necessary resources to support the new immigrant until the business is self-sustaining.
- Internet Entrepreneur: As access to technology and its related platforms increases, so do opportunities for Internet-based businesses. Internet entrepreneurs utilize social media platforms, smartphones and tablets, applications (apps), and any other form of accessible technology as their product or venture. The critical structure for these ventures is the inclusion of an e-commerce or online payment processing capability.
- Woman or Minority Entrepreneur: Women have a unique perspective and potential to capitalize on new or already existing niches in many entrepreneurial fields. Many cultural groups, such as Haitians, Cubans, or Jamaicans, also have unique marketplace skills and demands.
- Part-time Entrepreneur: In response to economic downturns, underemployment, and unemployment,

49   Ewing Marion Kauffman Foundation. *Access to Capital for Entrepreneurs: Removing Barriers*. April 2019. https://www.kauffman.org/-/media/kauffman_org/entrepreneurship-landing-page/capital-access/capitalreport_042519.pdf

more individuals are supplementing income through part-time activities, casually referred to as "side hustles." These individuals may launch businesses through multilevel marketing firms, such as Avon, Mary Kay, Stella & Dot, and others. This category may also include self-employed freelancers. Examples include writers, graphic designers, artists, web developers, and massage therapists.

- Social Entrepreneur: Some entrepreneurs are driven to offer innovative solutions to existing and emerging social problems, such as poverty, hunger, human trafficking, and environmental degradation. Most social enterprises are structured as nonprofit entities. However, increased interest in for-profit entities that marry business and social goals has given rise to a subcategory has emerged known as a B-corp (see Business Structures Options: Legal, Tax, and Risk Issues), or benefits corporation. The B-corp designation is a voluntary certification that is managed by the nonprofit group B Lab to ensure that corporations adhere to specific guidelines, rules, and accountability.

🔑 Key Terms

action plan organized, step-by-step outline or guide that pulls together the ideas, thoughts, and key steps
   necessary to help set the stage for entrepreneurial success

benchmarking comparing one's own company's performance with an industry average, a leader within the
   industry, or a market segment

bootstrapping funding strategy that seeks to optimize use of personal funds and other creative strategies
   (such as bartering) to minimize cash outflows

breakeven point level of operations that results in exactly enough revenue to cover costs

business model plan for how venture will be funded; how the venture creates value for its stakeholders,
   including customers; how the venture's offerings are made and distributed to the end users; and the how
   income will be generated through this process

capitalism system in which individuals, people, and companies have the freedom to make decisions and own
   property as well as benefit from their own efforts, with government playing a secondary role in oversight

cash flow money collected by the business through revenue and funding versus money disbursed by the
   business through expenses

cash management management of cash inflows and outflows to support cash needs of the venture

corporate entrepreneurship development of new ideas, opportunities, or ventures through formal research
   and development processes that focused on the corporation's strategy and goals

creative destruction theory developed by Joseph Schumpeter stating that entrepreneurial innovation is the
   disruptive force that creates and sustains economic growth, though in the process, it destroys established
   companies and disrupts employment

due diligence conducting the necessary research and investigation to make informed decisions that
   minimize risk

e-commerce electronic transactions, particularly over the Internet, for the exchange of goods and services

entrepreneurial journey your exploration to discover if entrepreneurship is right for you

entrepreneurial process set of decisions or actions that can be outlined and followed as a guide to
   developing or adjusting a venture

entrepreneurial spirit describes a quality of those individuals who are productive self-starters focused on
   making changes happen

entrepreneurial venture any business, organization, project, or operation of interest that includes a level of
   risk in acting on an opportunity that has not previously been established

framework structure or outlined process that can be used to accomplish entrepreneurial goals through
   problem solving, idea generation and validation, and brainstorming

franchising form of licensing that allows the business (franchisor) to share its business model to expand
   through various distributors (franchisees) for a fee

independent contractor (also, freelancer) people or businesses that provide work similar to an employee
   without being part of the payroll for the contracting business, and who pay their own taxes and pay for
   their own benefits

innovation new idea, process, or product, or a change to an existing product or process

intrapreneur employee who acts as an entrepreneur within an organization, rather than going solo

milestone significant decision point or significant accomplishment

patent legal grant of protection for an inventor over the rights, usage, and commercialization of an
   invention for a set time period

serial entrepreneur entrepreneur who becomes involved in starting multiple entrepreneurial ventures

situational opportunity one that becomes available, depending on factors such as where you work, your
      family obligations, your idea or invention, your unique creative expression, or a recent career search or
      job change

soft launch (also, soft open) launching a venture for a limited time frame or audience to gain experience,
      insights, and feedback about the target market or consumer

target market specific group of consumers for which a company seeks to provide a good or service

venture startup company or organization that conducts business or is created to satisfy a need

vertical integration strategy of gaining control over suppliers of raw materials and distributors of finished
      products to expand or control the relevant supply chain

Summary

2.1 Overview of the Entrepreneurial Journey

As you prepare for your journey into entrepreneurship, it is critical to consider the multiple aspects associated with preparing for, experiencing, and completing a journey unique to you. The key is an honest and introspective assessment of how you can make a journey that brings your desired outcomes and results. The seven steps outlined in this section will provide you with a perspective of what you might encounter on your entrepreneurial venture.

2.2 The Process of Becoming an Entrepreneur

The entrepreneurial process provides a flexible guideline for launching a venture with an individualized approach. This process should be a fluid, not static, exercise that adjusts to market needs and demands until you achieve an appropriate fit to reap the rewards of your investment. The material in this section will be covered in greater depth as you progress through the rest of the chapters. For now, gaining a perspective on the entire process provides you with a background understanding of what an entrepreneurial venture involves, from ideation through creating the venture to harvesting the venture with the potential to begin the process all over again with a new idea.

2.3 Entrepreneurial Pathways

Your pathway to entrepreneurship might arise out of necessity, opportunity, or a combination of situations. Being open to the idea of becoming an entrepreneur provides you with the potential to identify a unique opportunity that fits your interests and goals. Entrepreneurs learn to recognize when an opportunity presents itself and how and when it fits with their goals and dreams.

2.4 Frameworks to Inform Your Entrepreneurial Path

You can connect your background, training, and discipline with your entrepreneurial pathway by using frameworks that capture your developmental activities. To achieve your goals, you need some type of plan that outlines the steps you need to take to reach them. Just as there are many types of ventures, there are many versions and types of plans and tools that can assist you in developing the plan that best fits you. As more global issues and opportunities continue to arise, many different types of entrepreneurs have emerged, offering innovative solutions. The diversity of entrepreneurial types provides unique niches for opportunities that might not fit the mainstream or traditional route to entrepreneurial success.

Review Questions

1. Why is interest in entrepreneurship growing among those entering or re-entering the workforce?

2. What is an entrepreneurial mindset?

3. What does the phrase "entrepreneurial venture" refer to?

4. What does the process of "cash management" entail for a business?

5. Why is the entrepreneurial process considered a fluid process rather than a rigid step-by-step guide?

6. What does the term "creative destruction" mean?

7. What is the difference between a corporate entrepreneur and an intrapreneur?

8. What are situational opportunities?

9. What does an entrepreneurial journey entail?

10. Under which circumstances might a person choose to bootstrap a venture?

11. What is an independent contractor?

12. What does the term "framework" mean in terms entrepreneurship?

13. What is an action plan? How is it different from a framework?

14. Why are action plans useful in the development or improvement of a venture?

15. What are the characteristics associated with traditional entrepreneurship?

16. What are some biases that minorities and women face in acquiring funding?

Discussion Questions

1. What does it mean to have an entrepreneurial mindset?

2. Discuss the basis for defining a target market. How does a focus on a target market assist with the development or adjustment of an idea?

3. Explain the importance of being self-reflective and honest before, during, and after starting an entrepreneurial journey.

4. Using the information on the steps for an entrepreneurial journey, give your own example with connections to this section's main concepts.

5. Consider the potential questions that you might ask yourself before you launch a venture. Discuss two or three questions that resonate with you and your personal experiences. Why or how do these questions influence you more than others?

6. Think about yourself within the context of the "nature or nurture," "born or made" argument. How do you feel these perspectives combine in your own potential as an entrepreneur?

7. What are the similarities and differences between the life cycle stages of a person and a venture? How can these two concepts assist you in creating a successful venture?

8. Consider the historical information on entrepreneurship and innovation. How does our current economy, which is based on technology and knowledge, support entrepreneurial activity?

9. Consider the multiple pathways to entrepreneurship. How might your own current situation reflect a potential pathway to entrepreneurship?

10. Is there a difference between a soft launch and a soft open? Why are two different terms used?

11. What are the benefits of a soft launch? What are the negatives of a soft launch?

12. Outline your background and training, and then discuss the importance of connecting your background and training with a potential entrepreneurial pathway.

13. How does creating an action plan help you become a successful entrepreneur?

14. What is the connection between an action plan and a framework? How are they different?

15. Why are more individuals pursuing nontraditional entrepreneurship opportunities?

16. What is the difference between an immigrant entrepreneur and a minority entrepreneur? What are the similarities?

Case Questions

1. Review the story of Sixto Cancel and his journey to developing the social venture Think of Us.
    A.   Consider Sixto's entrepreneurial journey and the development of Think of Us. What types of challenges or obstacles do you think he had to overcome to complete his journey?
    B.   Discuss some of the advantages and disadvantages related to Sixto Cancel's background and his experiences in developing an organization and board.
    C.   Consider how Sixto Cancel developed his organization. Discuss how he followed or skipped any steps of an entrepreneurial journey.

2. Explore the websites of Cratejoy and Prospurly, which are discussed in Entrepreneurship in Action: Prospurly. How did these venture founders follow the entrepreneurial journey?

3. After researching Man Crates, explain how Man Crates has followed the model in Figure 2.20?

4. What additional ideas can you think of for starting your own business, using Man Crates as a source of inspiration?

5. Go back to the Work It Out: Startup Ideas Feature Box. Select either an idea that you've created or an idea listed on either of the websites. Where could you go to gain more information about this idea? This might mean finding a business where you could shadow someone, or perhaps an internship, or research conducted in some other manner.

6. Return to the Work It Out: Startup Ideas Feature Box and revisit the links to business ideas, using the same idea that you identified in question 1. What are five other businesses that could be spinoff ideas from your one new idea?

7. Refer to the case questions in Entrepreneurial Pathways. Select one of the framework tools discussed in this section and apply that framework to your idea.

8. Why did you select this framework over another framework?

9. By applying the framework to your idea, what new information did you learn and what information is lacking, or needs further development?

🗎 Suggested Resources

2.1 Overview of the Entrepreneurial Journey

View the YouTube video "The Jitterbug Smart phone" at https://www.youtube.com/watch?v=tRGAL42gWco to see an example of a product endorsement that geared to a specific target market.

Visit the SBA website to learn more about the local organizations that might assist you to launch or manage a venture: https://www.sba.gov/tools/local-assistance

Caron Beesley. "8 Things You Can Do to Be Taken Seriously as a Young Entrepreneur": https://kitsapscore.org/2017/08/26/8-things-you-can-do-to-be-taken-seriously-as-a-young-entrepreneur/

"Surge Cities: These Are the 50 Best Places in America for Starting a Business": https://www.inc.com/surge-cities/best-places-start-business.html

"How I Built a Subscription Business That's Made over 50k in 6 Months": https://www.cratejoy.com/sell/blog/case-study-50k-6-months-subscription-business-2/

National Association of Women Business Owners: https://www.nawbo.org/resources/women-business-owner-statistics

Are you ready to start your entrepreneurial venture? Visit the SBA site and take the Small Business Readiness Assessment: https://eweb1.sba.gov/cams/training/business_primer/assessment.htm

2.2 The Process of Becoming an Entrepreneur

Are entrepreneurs BORN or MADE? (Lord Sugard #AND Robert Greene): https://www.youtube.com/watch?v=HNHUbrVcpRA

Learn about how Man Crates was created: https://www.mancrates.com

For more information about the Pembina tribe and entrepreneurial behavior: https://www.ndstudies.gov/gr4/frontier-era-north-dakota/part-2-fur-trade-red-river/section-2-red-river-fur-traders

For more information about Dr. Charles Drew: https://nmaahc.si.edu/blog-post/color-blood

For more information about the creation of the cotton gin: https://www.history.com/topics/inventions/cotton-gin-and-eli-whitney

For more information on how to start a business: https://www.pbs.org/newshour/show/this-free-program-trains-people-how-to-start-a-business-but-without-debt

For more information on Global Entrepreneurship: https://www.gemconsortium.org/

Take the Myers Briggs test to discover your personality type: https://www.idrlabs.com/test.php

2.3 Entrepreneurial Pathways

50 Business Ideas for Introverted Entrepreneurs: https://smallbiztrends.com/2016/09/business-ideas-for-introverts.html

2.4 Frameworks to Inform Your Entrepreneurial Path

YouTube Video: Business Model Canvas Explained: https://www.youtube.com/watch?v=QoAOzMTLP5s

The Four Lenses Strategy Framework website: www.4lenses.org

Evernote, a cross-platform app that allows you to create, update, and synch notes: https://evernote.com/about

YouTube Video: We have a dream, B-corp overview and mission: https://www.youtube.com/watch?time_continue=3&v=V-VFZUFJwt4

Business Model Canvas Strategyzer: https://www.strategyzer.com/canvas

For more information on the diversity of entrepreneurs in the United States: https://www.entrepreneur.com/article/286574

For more information on entrepreneurship and resource providers supporting entrepreneurship: https://www.kauffman.org/eship-summit-2017/overview#1g

For a list of resources available to support entrepreneurship: https://www.kauffman.org/what-we-do/entrepreneurship/research/data-resources

Figure 3.1 Photo of Martin Shkreli (left). Scrabble tiles spelling SHKRELI PRISON (right). (credit (left): modification of "Martin Shkreli 2016" by House Committee on Oversight and Government Reform/Wikimedia Commons, Public Domain; credit (right): modification of "Martin Shkreli sentenced to seven years in prison for defrauding investors" by Marco Verch/Flickr, CC BY 2.0)

Chapter Outline

Introduction

Martin Shkreli, an aspiring pharmaceutical entrepreneur and former hedge fund manager, made headlines in 2015 when he capitalized on a profitable and controversial business opportunity. As the founder and CEO of Turing Pharmaceuticals, Shkreli obtained the expired patent for a lifesaving drug used to combat HIV. He raised the US market price overnight from $13.50 to $750 per pill—a 5,000 percent increase. When criticism by the medical community, the public, and politicians led to demands for a return to the original pricing, Shkreli defended his decision as a smart business practice that contributed to his firm's bottom line. Eventually, he agreed to reverse the price but later reneged on his promise, offering instead to provide discounted pricing to hospitals.

The damage to Shkreli's reputation, however, was already complete. The BBC described him as the "most-hated" CEO in America due to his business decisions, obnoxious behavior, and negative social media rants.[1] Infectious disease specialists and patient advocates rejected Shkreli's argument that his "price adjustment strategy" was helpful for patients since those being treated would need the drug long after being released

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1   Zoe Thomas and Tim Swift. "Who Is Martin Shrkeli—'The Most Hated Man in America'?" *BBC News*. August 4, 2017. http://www.bbc.com/news/world-us-canada-34331761

from the hospital. Although the pricing strategy was not illegal, Shkreli was eventually investigated and found guilty of securities fraud that involved falsely raising money from hedge fund investors and stealing money from his drug company to repay investors.[2]

3.1   Ethical and Legal Issues in Entrepreneurship

Learning Objectives

By the end of this section, you will be able to:

- Develop the ability to identify ethical and legal issues
- Develop an approach to resolve ethical/legal dilemmas once identified

What does it mean to be both ethical and socially responsible as an entrepreneur? When Martin Shkreli decided to increase the price overnight of a lifesaving HIV drug from $13.50 to $750 per pill, the public immediately characterized his actions as unethical. However, he viewed his position as responsible behavior that served the best interests of his company and his shareholders. Although Shkreli's decision to raise prices was within legal limits, his actions were critically judged in the court of public opinion.

As an entrepreneur, should Shkreli's concerns be with ensuring the sustainability of his business or with providing patients with a more affordable (less profitable) lifesaving drug? This fundamental question raises a number of related questions about the ethics of the situation. Was the decision to raise the price of the HIV drug by 5,000 percent in the best interest of the business? Was Shkreli aware of all aspects (ethical, legal, financial, reputational, and political) of the decision he made? To critically examine the decisions of an individual such as Shkreli, one needs an enhanced awareness of the multitude of stakeholders to be considered, as opposed to only shareholders.

Stakeholders

A comprehensive view of business and entrepreneurial ethics requires an understanding of the difference between shareholders, a small group who are the owners (or stockholders), and stakeholders, a large group that includes all those people and organizations with a vested interest in the business. Serving the needs of the shareholders, as perhaps Shkreli thought he was doing, is based on a limited view of organizational purpose. This view, known as the "shareholder primacy" doctrine, stems from a famous Michigan Supreme Court case involving the Ford Motor Company and two shareholders named the Dodge brothers (who would go on to form the Dodge Motor Company).[3] This case established a precedent that lasted for decades, built on the premise that the only thing that should matter to a CEO and their company is shareholder profits. However, this concept has gradually been replaced by a more progressive viewpoint, mandating the consideration of all stakeholders when making key business decisions that have potentially far-reaching consequences. As an example of this new awareness, the Business Roundtable, a group of CEOs from the biggest and most successful companies in the US, recently released a new statement addressing business ethics. The CEOs prefaced this statement saying, "Together with partners in the public, private and non-profit sectors, Business Roundtable CEOs are committed to driving solutions that make a meaningful difference for workers, families, communities and businesses of all sizes."[4]

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2   Dan Mangan. "'Pharma Bro' Martin Shkreli Found Guilty of 3 of 8 Charges, Including Securities Fraud." *CNBC*. August 4, 2017. https://www.cnbc.com/2017/08/04/pharma-bro-martin-shkreli-convicted-in-federal-fraud-case.html
3   Dodge v. Ford Motor Company, 204 Mich. 459, 170 N.W. 668 (1919).
4   "Leadership in Action." *Business Roundtable*. https://www.businessroundtable.org/

WORK IT OUT

Business Roundtable Official Statement on the Purpose of a Corporation[5]

Read the following statement on the purpose of a corporation from *Business Roundtable:*

> "Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all.

> Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide healthcare; generate and deliver energy; and offer financial, communications and other services that underpin economic growth.

> While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

> - Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
> - Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
> - Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
> - Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
> - Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

> Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country."

- Question: Does it appear that Shkreli, in the preceding pharmaceutical example, considered all the stakeholders as the Business Roundtable Statement recommends, or did he follow the older shareholder primacy doctrine approach?

The aim of this chapter is twofold: first, to assist entrepreneurs in understanding the significance of ethics and the role that entrepreneurs play in developing an ethical and responsible organization. This includes the ability to recognize and identify both ethical dilemmas and legal issues that might arise. Second, we want to enable

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5   "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans.'" *Business Roundtable*. August 19, 2019. https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

entrepreneurs to develop a moral compass that allows them to lead their business organization in a manner consistent with ethical and legal principles. An example of an ethical business organization is one that follows the Statement of Purpose by the *Business Roundtable*. This means creating a business environment in which each member of the organization is encouraged, enabled, and supported to develop the ethical capabilities to habitually and systematically differentiate between right or wrong. This also means that the organization, as a total system, provides consistent, meaningful, and timely consequences for unethical behavior and irresponsible actions.

LINK TO LEARNING

Read this article from *Forbes* to see a list of companies recently deemed the most ethical (https://openstax.org/l/52MostEthical) in the world.

Being an Ethical Entrepreneur

Whenever you think about the behavior you expect of yourself, in both your professional and personal life, you are engaging in a philosophical dialogue with yourself to establish the standards of behavior you choose to uphold—that is, your **ethics**. You may decide you should always tell the truth to family, friends, customers, clients, and stakeholders, and if that is not possible, you should have very good reasons why you cannot. You may also choose never to defraud or mislead your business partners. You may decide, as well, that while you are pursuing profit in your business, you will not require that all the money earned comes your way. Instead, there might be sufficient profits to distribute a portion of them to other stakeholders in addition to yourself—for example, those who are important because they have helped you or are affected one way or another by your business. This group of stakeholders might include employees (profit sharing), shareholders (dividends), the local community (time), and social causes or charities (donations).

Being successful as an entrepreneur may therefore consist of much more than simply making money and growing a venture. Success may also mean treating employees, customers, and the community at large with honesty and respect. Success may come from the sense of pride felt when engaging in honest transactions—not just because the law demands it, but because we demand it of ourselves. Success may lie in knowing the profit we make does not come from shortchanging others. Thus, **business ethics** guides the conduct by which entrepreneurs and their companies abide by the law and respect the rights of their stakeholders, particularly their customers, clients, employees, and the surrounding community and environment.

LINK TO LEARNING

Read the Ten Principles of the United Nations Global Compact (https://openstax.org/l/52TenPrinciples) that urges corporations to develop a "principled approach to doing business." The principles cover

human rights, labor, the environment, and corruption.

Nearly all systems of moral, ethical, spiritual, and/or religious beliefs stress the building blocks of engaging others with respect, empathy, and honesty. These foundational beliefs, in turn, prepare us for the codes of ethical behavior that serve as ideal guides for business. Still, we need not subscribe to any particular faith to hold that ethical behavior in business is necessary. Just by virtue of being human, we all share obligations to one another, and principal among these is the requirement that we treat others with fairness and dignity, including in our commercial transactions.

For this reason, we use the words *ethics* and *morals* interchangeably in our discussion. We hold that "an ethical person" conveys the same sense as "a moral person." Ethical conduct by entrepreneurs/business owners is not only the right way to behave, but it also burnishes our own professional reputation as business leaders of integrity.

Integrity—that is, unity between what we say and what we do—is a highly valued trait. But it is more than just consistency of character. Acting with **integrity** means we adhere strongly to a system of ethical values. Such values often serve as the foundation for the creation of ethical codes, or codes of conduct. A code of ethics acts to guide conduct and may be derived from a variety of sources. It could be a personal, internal code of conduct, or an official code adopted by a business organization. Or it could be an external code based on one's profession (e.g., CPAs, attorneys, CFPs, and others have professional codes of ethics), or a more broadly applicable external code such as that of the Business Roundtable or Business for Social Responsibility. Being a professional of integrity means consistently striving to be the best person and professional that you can be in all your interactions with others. Integrity in business brings many advantages, not the least of which is that it is a critical factor in allowing businesses and society to function properly. It is also a fundamental basis for developing and maintaining trust, which is vital to all contractual and informal commitments between businesses and all their key stakeholders.

Successful entrepreneurs and the companies they represent will take pride in their enterprise if they engage in business with transparency, intentionality, and integrity. To treat customers, clients, employees, and all those affected by a venture with dignity and respect is ethical. In addition, ethical business practices serve the long-term interests of businesses because customers, clients, employees, and society at large will be much more willing to patronize a business and work hard on the business's behalf if that business is perceived as caring about the community it serves. And what type of firm has long-term customers and employees? One whose track record gives evidence of honest business practices.

Research on the performance of the World's Most Ethical Companies (WMEC) indicates a positive association between ethical conduct and successful long-term financial performance. These businesses often outperform their market expectations, both in periods of market growth and decline. The WMEC list of companies shows an average annual excess return of more than 8 percent higher than expected profitability. This may be due to a variety of reasons, including what researchers term a positive effect on business culture, stakeholders, and reputation.[6] In other words, being ethical beneficially influences employees, investors, and customers.

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6   Nelson Areal and Ana Carvalho. "The World's Most Ethical Companies: Does the Fame Translate into Gain?" Presented to the European Financial Management Association (EMFA). n.d. https://efmaefm.org/0efmameetings/efma%20annual%20meetings/2012-Barcelona/papers/ EFMA2012_0401_fullpaper.pdf

ARE YOU READY?

Which Corporate Culture Do You Value?

Imagine that upon graduation, you have the good fortune to face two entrepreneurial opportunities. The first is with a startup known to value a hard-nosed, no-nonsense business culture in which keeping long hours and working intensely are highly valued. At the end of each year, the company plans to donate to numerous social and environmental causes. The second entrepreneurial opportunity is with a nonprofit recognized for a very different culture based on its compassionate approach to employee work-life balance. It also offers the chance to pursue your own professional interests or volunteerism during a portion of every workday. The earnings plan with the first opportunity pays 20 percent more per year.

- Which of these opportunities would you pursue and why?
- In what ways might company contributions to a cause carry more power to impact the cause? In what ways might individual contributions be more powerful? Think of examples for each scenario.
- How important an attribute is income, and at what point would a higher income override for you the nonmonetary benefits of the lower-compensated opportunity?

Many people confuse ethical and legal compliance. However, these concepts are not interchangeable and call for different standards of behavior. The law is needed to establish and maintain a functioning society. Without it, our society would be in chaos. Compliance with legal standards is mandatory. If we violate these standards, we are subject to punishment as established by the law. Therefore, compliance generally refers to the extent to which a company conducts its business operations in accordance with applicable regulations, statutes, and laws. Yet this represents only a baseline minimum. Ethical observance builds on this baseline and reveals the principles of an individual business leader or a specific organization. Ethical acts are generally considered voluntary and personal—often based on our individual perception of what is right and wrong.

Some professions, such as medicine and the law, have traditional and established codes of ethics. The Hippocratic Oath, for example, is embraced by most professionals in healthcare today as an appropriate standard always owed to patients by physicians, nurses, and others in the field. This obligation traces its lineage to ancient Greece and the physician Hippocrates. Businesses are different in not having a mutually shared standard of ethics. This is changing, however, as evidenced by the array of codes of conduct and mission statements many companies have adopted over the past century. These beliefs have many points in common, and their shared content may eventually produce a code universally claimed by business practitioners. What central point might constitute such a code? Essentially, a commitment to treat with honesty and integrity customers, clients, employees, and others affiliated with a business.

The law is typically indebted to tradition and precedent, and compelling reasons are needed to support any change. Ethical reasoning often is more topical and reflects the changes in consciousness that individuals and society undergo. Often, ethical thought precedes and sets the stage for changes in the law.

Behaving ethically requires that we meet the mandatory standards of the law, but that is not enough. For example, an action may be legal that we personally consider unacceptable (consider how many viewed Shkreli's legal price hike). Entrepreneurs today need to focus not only on complying with the letter of the law but also on going above and beyond that basic mandatory requirement to consider their stakeholders and do what is right.

WORK IT OUT

The Equifax Data Breach

In 2017, from mid-May to July, hackers gained unauthorized access to servers used by Equifax, a major credit reporting agency, and accessed the personal information of nearly one-half of the US population.[7] Equifax executives sold off nearly $2 million of company stock they owned after finding out about the hack in late July, weeks before it was publicly announced on September 7, 2017, in potential violation of insider trading rules. The company's shares fell nearly 14 percent after the announcement, but few expect Equifax managers to be held liable for their mistakes, face any regulatory discipline, or pay any penalties for profiting from their actions. To make amends to customers and clients in the aftermath of the hack, the company offered free credit monitoring and identity-theft protection. On September 15, 2017, the company's chief information officer and chief of security retired. On September 26, 2017, the CEO resigned, days before he was to testify before Congress about the breach. Numerous government investigations and hundreds of private lawsuits have been filed as a result of the hack. Equifax will pay at least $650 million, with the possibility of more, to resolve most claims stemming from the data breach. The settlement covers 147 million consumers, just under one-half of the population of the United States.[8]

- Which elements of this case might involve issues of legal compliance? Which elements illustrate acting legally but not ethically? What would acting ethically and with personal integrity in this situation look like?

To return to the case of Martin Shkreli, let's examine it through some foundational theoretical lenses, based on ethical theories. Normative theories of ethics are primarily concerned with establishing standards or criteria that delineate what is considered ethical behavior. Common examples of normative ethical theories are utilitarianism, duty-based ethics (also known as Kantian ethics and/or deontology), and virtue ethics. These ethical theories, discussed in the following paragraph, provide a systematic means of examining and evaluating business conduct.

From an ethical theory perspective, Kantian or duty-based ethics emphasizes the underlying intent or reason behind a decision and whether that decision is good or bad. For example, if the decision to raise the price of a lifesaving drug by 5,000 percent is moral and if it is intended to add value, then an individual is obligated to raise the price. *Utilitarian ethics* focuses on the usefulness or utility of the decision. If the decision to raise the price adds value and usefulness for shareholders, then that decision should be made. The *Protestant work ethic* looks at the decision from the viewpoint of capitalism, free markets, and a sense of duty to ensure maximum return on investment. If the decision deals with a change that is financially sound and beneficial, if there are an adequate number of customers that need and value the HIV product and are willing to pay that price, then that decision should be made. Proponents of *virtue ethics* claim that ethics consists of a series of innate but latent virtues that an individual needs to develop over time. These virtues consist of trust and derivatives of trust such as truthfulness. In this perspective, if the price hike is fair and equitable, if it is responsible to behave in this way, and if it does not cause harm to the society, then the price should be raised.

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7   Tyler Durden. "Massive Data Breach at Equifax: As Many As 143 Million Social Security Numbers Hacked." *Zero Hedge*. September 7, 2017. http://www.zerohedge.com/news/2017-09-07/massive-data-breach-equifax-many-143-million-social-security-numbers-hacked

8   Stacy Cowley. "Equifax to Pay at Least $650 Million in Largest-Ever Data Breach Settlement." *New York Times*. July 22, 2019. https://www.nytimes.com/2019/07/22/business/equifax-settlement.html

While it remains with the courts to determine the underlying intent, legal implications, and consequences of Shkreli's decision, evidence from this and other case studies shows that some corporate leaders have not developed ethical capabilities, or they have not internalized a moral compass that enables them to differentiate between right and wrong.

Developing a Moral Compass

A moral compass is a state of mind where an individual has developed the needed capabilities to differentiate between right and wrong, or between just and unjust in challenging circumstances. When individuals are able to act in an ethical manner systematically, habitually, and without struggling to decide how to act or what to do in difficult situations, they have internalized that moral compass. It can be said that these individuals possess a good character, are able to earn trust, and have qualities that are deemed necessary for leadership.

To develop and internalize a moral compass, an entrepreneur and the members of the organization need to continually exercise and develop their ethical "muscles." These ethics-based muscles include qualities such as trust, truthfulness, respect, responsibility, commitment, care, love, and justice. However, as you will learn, an entrepreneur needs to first provide the organizational framework and foundation in which individuals and business units regularly exercise these qualities. This framework and foundation include that everyone receive the right training, be given the opportunity to identify and close gaps in their behavior, receive recognition and incentives that reinforce good ethical behavior, and receive consistent, timely, and substantial consequences when they fail to act responsibly. These and other actions begin to help individuals develop and internalize an ethical compass.

LINK TO LEARNING

A white-collar criminal convicted of fraud, this interview with Mark Faris (https://openstax.org/l/52MarkFaris) shows his admission that greed, arrogance, and ambition were motivating factors in his actions. He also discusses the human ability to rationalize our behavior to justify it to ourselves. Note his proposed solutions: practicing ethical leadership and developing awareness at an individual level via corporate training.

Legal Issues in Entrepreneurship

Unlike working in a large corporate environment with an established structure, entrepreneurs often create and operate a new business venture by their own rules. The pressure to create a new venture, within constraints and limitations, inspires entrepreneurs to find innovative ways to meet potential market demands. At the same time, the challenge to meet these expectations can create temptations and ethical pressures as entrepreneurs make a variety of decisions. Common areas rife with potential legal issues include contracts, torts, employment, intellectual property, conflicts of interest, full disclosure/truthfulness in product or service claims and performance, and antitrust/competition law (Figure 3.2).

Figure 3.2 There are many legal issues facing entrepreneurs, including intellectual property, contracts, antitrust laws, fraud, employment, and torts. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Intellectual Property: Patents, Copyrights, and Trademarks

There are multiple reasons why an entrepreneur should be aware of intellectual property rights under the law. For example, if a new startup business comes up with a unique invention, it is important to protect that intellectual property. Without such protection, any competitor can legally, even if not ethically, copy the invention, put their own name or company brand on it, and sell it as if it were their own. That would severely curtail the entrepreneur's ability to make money off a product that s/he invented. Intellectual property (IP) rights are created by federal law and protect small businesses from problems such as this. IP law also helps establish brand awareness and secure secondary revenue streams.

Intellectual property (IP) is the output or result of the creative work of one or more individuals to turn a unique idea into a practical and value-added product/service; this manifestation of original ideas is legally protected. IP applies to anything that is the exclusive right of a firm, will help differentiate that organization, and will contribute to a sustained competitive advantage. This creative work can result in a product idea, a new invention, an innovative pivot, or an improvement in an existing product or service. IP can take the form of a patent, a copyright, a trademark, or a variation thereof called a trademark secret.

To develop a sustained competitive advantage, an entrepreneur is responsible to protect, provide the needed safeguards, and continually grow a firm's IP. These responsibilities include understanding, differentiating between, and dealing with the different types and technical aspects of a firm's IP. It also means that the entrepreneur should be concerned with the nontechnical aspect of IP, which is to develop a culture of

creativity that enables the organization to deliver a continuous stream of new IP.

From a technical aspect, there are two different types of patents: utility and design patents (Figure 3.3). A **utility patent** protects a brand-new product idea or invention under US law for a period of twenty years (see the discussion on patents in Entrepreneurial Journey and Pathways. A few examples of utility patents would be Nikola Tesla's electric magnetic motor, dynamo-electric machine, electrical transmission of power, and his system of electrical distribution patents. A **design patent** protects the ornamental aspects of a product idea. Examples include the design of a new font, a soft drink bottle, or the design features of Apple's iPhone. In the US, design patents are typically protected for a period of fourteen years.

(a)   (b)
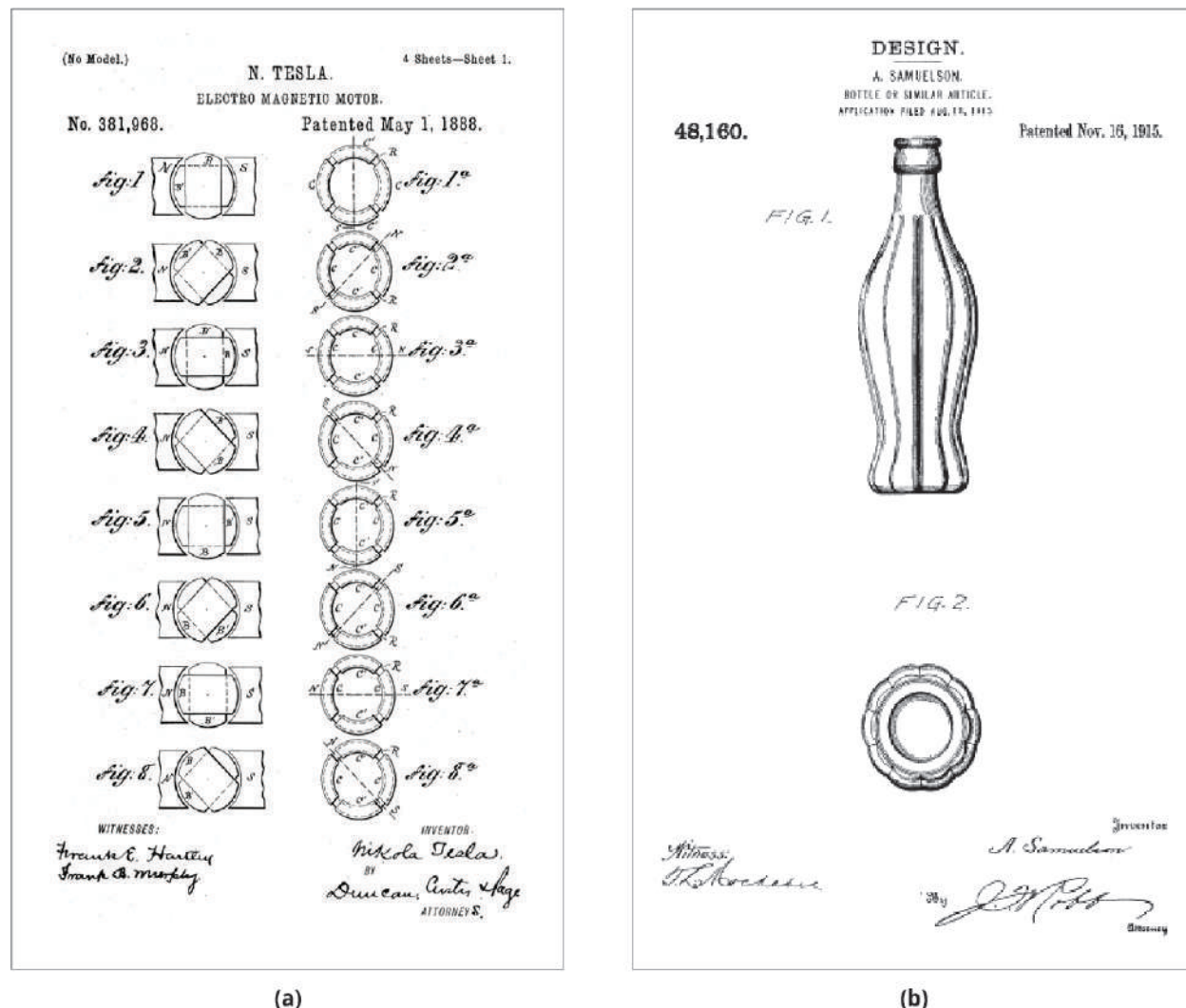
Figure 3.3   (a) This drawing of Nikola Tesla's alternating-current motor was granted U.S. Patent 381968 and represents a utility patent. (b) The design of the Coca-Cola soft drink bottle was granted a design patent. (credit (a): modification of modification of "US Patent US381968A" by Nikola Tesla/Google Patents, Public Domain; credit (b): modification of "Coke bottle patent" by Unknown/Wikimedia Commons, Public Domain)

Copyrights and trademarks are also protected IP (Figure 3.4). A **copyright** grants the creator of a work the exclusive right to reproduction of the work for a specified period of time (usually the life of the author plus seventy years). A **trademark** is a registration that provides the owner the ability to use a name, symbol, jingle,

or character in conjunction with a specific product or service, and prevents others from using those same symbols to sell their products. A trademark can be protected for an unlimited number of ten-year renewable terms as long as it is still in use. Finally, there is a special category of IP known as a **trade secret**. This concept refers to proprietary information, processes, or other internal knowledge that contribute to an organization's competitive advantage in a market. However, unlike patents, copyrights, and trademarks, a trade secret is not included as a protected category under federal IP law. A trade secret is dependent on being kept a secret by the business that owns it and is enforced through contract law.

Entrepreneurs should pay especially close attention to the legal implications of how patent law can affect a business. Patent laws are strictly enforced and are intended to protect inventions. This protection is afforded because a continuous stream of innovations can be a major source of revenue for a firm as well as a vehicle for developing a sustained competitive advantage. A legal patent gives an exclusive right to its patent holder or proprietor to use the invention in any shape or form they deem necessary. It also gives the patent holder the exclusive right to block or withhold access to others, or to sell the right to use the patent. This period of protection ranges from fourteen to twenty years, and is essentially a government-granted monopoly, after which, protection usually expires and competition is opened up to anyone (e.g., generic drugs).

Regardless of its type, a firm has the exclusive rights to the ownership of its IP. To protect those rights, it is important that a firm meticulously and immediately document each IP, the process and timeline by which each IP was developed, the resources used to develop the IP, the details of who owns and has access to the IP, and how others can obtain and use the IP.
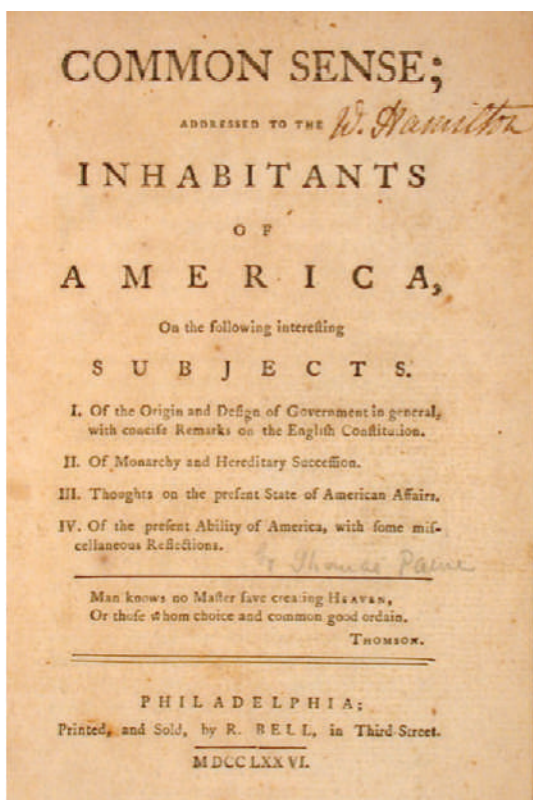
Figure 3.4   (a) Published texts and artwork are granted a copyright, which will expire over time (usually a long period), as is the case with Thomas Paine's seminal work *Common Sense*. (b) McDonald's iconic golden arches are a trademarked symbol, which usually do not expire unless abandoned. (credit (a): modification of "Commonsense" by Niki K/Wikimedia Commons, Public Domain; credit (b): modification of work by "JeepersMedia"/Flickr, CC BY 2.0)

An entrepreneur should consider these questions when growing and protecting a firm's IP.

- Is IP law relevant to my business, and if so, how can it help me?
- How do we identify what IP to protect?
- What are the steps we need to take to get protection?

Less formally, the development of a culture of creativity and innovation is one of the most important responsibilities of an entrepreneur. This responsibility will enable the entrepreneur to develop a sustained competitive advantage. This means you should not be satisfied with an occasional spark of creativity from a designated individual, department, or functional area within your organization (such as research and development). You need to nurture an environment in which every member of your organization is able to be creative, add value, and be engaged in the continuous improvement of the firm. One example of this dynamic is the culture of continuous improvement at Toyota (Kaizen) (see Launch for Growth to Success). In this culture, every member of the organization is expected to be creative and continually improve the processes they are engaged with on a daily basis.

The story of Nikola Tesla—a Serbian-American inventor, engineer, and physicist—offers a cautionary tale for why entrepreneurs need to be attuned to both the technical aspects of a venture's IP and its culture of

creativity. Having filed 300 patents, Tesla is considered by many to be one of the fathers of modern electricity. After immigrating to the United States, Tesla was employed by the Continental Edison Company and began to develop AC technology. However, Edison preferred DC technology and was not supportive of Tesla's ideas. Tesla had to quit, teaming up with Westinghouse to open the Tesla Electric Light company, bringing his valuable creativity and ideas with him to his new venture.[9] Eventually, Tesla's AC became the American standard, not Edison's DC.

Contracts and Torts

Every entrepreneur enters into contracts, usually on a regular basis, and thus should have an understanding of basic contract concepts. Likewise, most businesses are likely to have some involvement with tort law: that area of law that protects the rights of people not to be harmed physically, financially, or in any other way, such as a breach of privacy. Some areas of the business world involve a combination of tort law and contract law, such as litigation involving the wrongful termination of an employee.

Contracts can be formal or informal agreements. Ideally, you should use written contracts whenever you enter into a substantial transaction with another party. Oral agreements are enforceable in most situations; however, proving their terms can be difficult. If you are in the midst of a startup, chances are you are moving quickly. Perhaps you don't have the time, or the money, to hire a lawyer to prepare a formal written contract. In that event, you should at least follow-up with all parties via traditional mail or email to document the key terms of your agreement. That way, if a dispute arises, you'll have documentation to fall back on.

Torts are a potential area of risk for entrepreneurs. Financial liability often results from the assumption of and exposure to risk; therefore, this is an important issue for entrepreneurs to manage. This is especially true for the concept of vicarious liability, which is the area of the law that imposes responsibility upon one person for the failure of another, with whom the person has a special relationship (e.g., employer and employee) to exercise reasonable care. Most employers understand they run a risk that their employees may commit a tort, and that they are responsible when employees cause harm to others (customers or coworkers) while on duty, working on company property, and using company equipment. However, many employers are not aware that employers can actually be liable for harm caused by an employee if that employee caused harm within the scope of his or her job duties. For example, if an employer asks an employee to drop something off at FedEx or UPS after work hours, and that employee negligently causes an auto accident, even if the employee is driving their personal vehicle and not a company car, the employer could be liable for damages. It is an all-too-common situation that could have serious liability consequences for an entrepreneurial business if adequate insurance is not procured.

Antitrust

Antitrust laws (or competition laws) were developed to ensure that one competitor does not abuse its position and power in the market to exclude or limit competitor access to the market. A few examples of antitrust laws are the Sherman Act, the Clayton Act, the Federal Trade Commission Act, and the Bayh-Dole Act. These acts were created to encourage competition and provide options for consumers. In effect, these laws make it illegal for a competitor to make agreements that would limit competition in the market.

The antitrust concept is important to the entrepreneur's ability of entrepreneurs to form new startup businesses that are able to compete with larger, more established corporations (which may try to discourage competition). Table 3.1 summarizes the contributions of these acts to supporting antitrust efforts. It is

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9   Nikola Tesla. *My Inventions: The Autobiography of Nikola Tesla*. (Austin: Hart Brothers, 1982).

important to note that any deviation from these laws may result in long and costly legal problems.

Antitrust Acts

Antitrust Act	Protection
Sherman Act (1890)	Prohibits attempts to monopolize
Clayton Act (1914)	Prohibits price fixing, related practices
Federal Trade Commission Act (1914)	Prohibits unfair business practices
Bayh-Dole Act (1980)	Encourages development of inventions

Table 3.1

An example of illegal competition would be the competition and patent war between Intel Corporation and American Micro Devices (AMD). In 2009, AMD filed a suit against Intel claiming that the company had used "leveraging dominance" to exclude AMD from effectively competing in the marketplace through exclusionary pricing, discounts, and similar practices. This claim was later settled by the two firms and resulted in Intel paying AMD $1.25 billion in damages.

Conflict of Interest

A **conflict of interest** occurs when an individual (or company) has interests in multiple areas (financial investments, work obligations, personal relationships), and the interests may conflict with each other. Employees, for example, have an interest in producing expected work for their employer. A conscious or deliberate attempt to avoid, ignore, or marginalize that which is rightfully due an employer by addressing other interests would be a conflict of interest. This could be as simple as using company time or resources to work on a personal project that has not been sanctioned and will not add value to the company. It could also mean using the tangible and intellectual resources of a company on something that will benefit your private interests instead of your employer's. This action is unethical since you are not giving the employer what they are due, which are your time, talents, and services in exchange for agreed-upon compensation. Consider the example of Mike Arrington, a Silicon Valley lawyer and entrepreneur who created a blog called TechCrunch. Arrington became the go-to source for tech enthusiasts and investors. His coverage of Silicon Valley-based startup companies could help ensure the successful launch of a new business or product. However, he was criticized for routinely covering stories about the companies he invested in and consulted for. Although he provided full disclosures of his interests, rival critics challenged his conflicts of interest. How could he simultaneously be both an investor and an independent journalist blogging about the very companies in which he had a financial interest? He was in a classic conflict of interest position.[10] Similar cases involving business reporters and potential conflicts of interest include *The Wall Street Journal*, *Business Week*, *Time* magazine, and the *L.A. Herald Examiner*.

Another situation in which potential conflicts arise is in the area of professional services, which attracts many young potential business owners. Perhaps you want to start your own CPA accounting firm, or CFP financial advisory firm, or IT consulting firm. A professional must be very cautious about conflicts of interest, especially

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10   Ira Basen. "Why Transparency Is Not Enough: The Case of Mr. Mike." *Center for Journalism Ethics*. University of Wisconsin–Madison. June 21, 2011. https://ethics.journalism.wisc.edu/2011/06/21/why-transparency-is-not-enough-the-case-of-mr-mike/

in areas in which you owe a fiduciary duty to your clients. This requires a very high duty of conduct and full disclosure, one that prohibits being involved in both sides of a transaction. For example, as an IT consultant, do you recommend to a client that they buy a software product, when unknown to them, you own stock in that company? Or as a financial advisor, are you getting commissions on both ends of a transaction?

Fraud: Truthfulness and Full Disclosure

Ethical entrepreneurs consistently strive to apply ethics-based concepts in practice, including truthfulness and full disclosure. These two concepts are not only part of an ethical approach to doing business but are also underlying requirements of several areas of law including fraud. A business that makes/sells a product or service has responsibility for fully disclosing the truth about its products/services.

The underlying facts, reality, and evidence behind something are the **truthfulness** of a matter. An individual who is being truthful is exercising the capability of being factual about a subject matter, dealing with reality, and aware of evidence. Truthful individuals earn a level of credibility and reliability over time because what they say and what they do are in alignment. A corollary of truthfulness is fairness, which means to be impartial, unbiased, and in compliance with rules and standards of right and wrong behavior. **Fairness** deals with doing what is right, just, and equitable. From the standpoint of application, the quality of being truthful forms the foundation for fairness.

Disclosure describes sharing the needed facts and details about a subject in a transparent and truthful way. This information should be adequate, timely, and relevant to allow the recipient to understand the purpose and intent behind a product/service and to make a good decision about the value of that product/service. Any deliberate attempt to hide, change, or bend the truth is an unethical and irresponsible action subject to criminal investigation.

One example of a firm that has repeatedly run into several serious, embarrassing, and costly legal issues is Eli Lilly. In one instance, this company admitted in court that they had illegally marketed Zyprexa, which was primarily intended and approved by the US Food and Drug Administration office (FDA) to treat depression, to be used for off-label (not cleared by FDA to market and advertise) ailments such as sleep disorders, Alzheimer's disease, and dementia. As a result, in 2009, Eli Lilly was fined $1.4 billion by the office of criminal investigation of the US Department of Justice.[11]

3.2 Corporate Social Responsibility and Social Entrepreneurship

Learning Objectives

By the end of this section, you will be able to:

- Define and describe corporate social responsibility (CSR) and social entrepreneurship
- Identify types of social entrepreneurship ventures, and the key values accompanying them

To understand the role of a socially responsible entrepreneur, it is important to first look at the major tenets of corporate social responsibility (CSR) and the underlying reason why this concept was conceived. Few directives in business can override the core mission of maximizing shareholder wealth, and today, that particularly means increasing quarterly profits. Such an intense focus on one variable over a short time (i.e., a short-term perspective) leads to a short-sighted view of what constitutes business success.

Measuring true profitability, however, requires taking a long-term perspective. We cannot accurately measure

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11   Food and Drug Administration. Office of Criminal Investigations of the US Department of Justice. www.usdoj.gov/usao/pae

success within a quarter of a year; a longer time is often required for a product or service to find its market and gain traction against competitors, or for the effects of a new business policy to be felt. Satisfying consumers' demands, going green, being socially responsible, and acting above and beyond the basic requirements all take time and money. However, the extra cost and effort will result in profits in the long run. If we measure success from this longer perspective, we are more likely to understand the positive effect ethical behavior has on all who are associated with a business.

Corporate Social Responsibility (CSR)

If you truly appreciate the positions of your various stakeholders, you will be well on your way to understanding the concept of **corporate social responsibility** (CSR). CSR is the practice by which a business views itself within a broader context: as a member of society with certain implicit social obligations and environmental considerations and issues. As previously stated, there is a distinct difference between legal compliance and ethical responsibility, and the law does not fully address all ethical dilemmas that businesses face. CSR ensures that a company is engaging in sound ethical practices and policies in accordance with the company's culture and mission, above and beyond any mandatory legal standards. A business that practices CSR cannot have maximizing shareholder wealth as its sole purpose, because this goal would necessarily infringe on the rights of other stakeholders in the broader society. For instance, a mining company that disregards its CSR may infringe on the right of its local community to clean air and water if it pursues only profit. In contrast, CSR places all stakeholders within a broader contextual framework.

An additional perspective of CSR is that ethical business leaders opt to do *good* at the same time that they do *well*. This is a simplistic summation, but it speaks to how CSR plays out within any corporate setting. The idea is that a corporation is entitled to make money, but it should not only make money. It should also be a good civic neighbor and commit itself to the general prospering of society as a whole. It ought to make the communities of which it is part better at the same time that it pursues legitimate profit goals. These ends are not mutually exclusive, and it is possible—indeed, praiseworthy—to strive for both. When a company approaches business in this fashion, it is engaging in a commitment to CSR.

An interesting example of an entrepreneurial company that is committed to CSR is the New Belgium Brewing Company (NBBC), maker of Fat Tire Beer, among other brands. The NBBC is 100 percent employee owned, which makes this company different from the more traditional corporation in which investors own the company rather than the employees. This type of company with employee ownership means that the workers benefit directly from the profits generated by their efforts for the company, a sort of democratized capitalism. The NBBC is focused on sustainability. It has a brewery in Fort Collins, CO, where the brewery produces almost 20 percent of its own electricity—a large percentage for a commercial factory—through solar panels and wastewater. It makes a corporate commitment to contribute to causes related to sustainability, for example, to bicycle-related organizations supplying people with green personal transportation options. According to the company's director of CSR, the NBBC considers social and environmental well-being to be a high priority of the company.[12]

From a historical perspective, the development of CSR has been somewhat like a rollercoaster ride, characterized by low points with extreme ethical failures (see Table 3.2) followed by high points in which corporate conduct improved, largely as a result of statutory laws and/or agency regulations enacted in response to failures. After such scandals, we also saw a number of voluntary ethics-based ideas begin to find their way into the corporate world, such as CSR and corporate citizenship. While these concepts have provided

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12   Clodagh O'Brien. "16 Brands Doing Corporate Social Responsibility Successfully." *Digital Marketing Institute*. 2019. https://digitalmarketinginstitute.com/en-us/blog/corporate-16-brands-doing-corporate-social-responsibility-successfully

strategies and tools to strengthen the ethical foundations of businesses, scandals do continue, and new approaches to address them emerge. Ethical failures such as the Michael Milken/Drexel Burnham Lambert scandal, the Enron collapse, and many others, including the recent 2008/2009 mortgage industry/derivatives scandal, led Congress to enact new laws. Examples of statues enacted by the federal government in response to ethical failures include laws such as the Sarbanes-Oxley Act, the Insider Trading and Securities Fraud Enforcement Act, and the Dodd-Frank Act.

In addition to the enactment of statutory reforms, various government agencies have also promulgated new regulations in an attempt to prevent companies from engaging in unethical, illegal, and otherwise damaging activities. Examples of agencies that have created new regulations in response to ethical failures in the business sector include the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the Consumer Financial Protection Bureau (CFPB), and the Financial Industry Regulatory Authority (FINRA).

The concept of doing what's right ethically, following the law, and giving back to society are closely related concepts (see Table 3.2).

Corporate Social Responsibility, Ethics, and Law

Area of Responsibility	Desired Outcome	Compliance
Legal	Comply with laws/regulations	Required by government
Financial	Profits	Required by shareholders
Ethical	Act fairly/avoid doing harm	Expected by stakeholders
Social/philanthropic	Be a good "corporate citizen"	Desired by society

Table 3.2 Notice which duties, or responsibilities, are mandatory versus discretionary.

Examples of organizations that have experienced ethical lapses causing serious and costly multi-billion-dollar problems can be seen in Table 3.3. Each has had a profound and far-reaching impact on the lives of individuals, on the communities and society in which they operate, and/or on the global environment. These problems—which have resulted in loss of lives, loss of jobs, property damage, depletion of life savings, and environmental devastation—resulted from issues of quality and ethics.

Examples of Multi-Billion Dollar Corporate Responsibility Problems

Organization	Area of Failure
Chevron Corporation	Amazonian toxic waste disposal disaster
Volkswagen Group	Diesel emissions scandal
Takata Corporation	Defective airbag problems

Table 3.3

Examples of Multi-Billion Dollar Corporate Responsibility Problems

Organization	Area of Failure
General Motors	Defective ignition switch problem
Wells Fargo Financial Services	Unethical banking practices
BP P.L.C. (British Petroleum)	Gulf of Mexico oil spill disaster
ENRON Corporation	Illegal accounting practices
Union Carbide India	Bhopal chemical disaster
Pfizer, Elli Lilly	Fraudulent marketing practices
US Corps of Engineers	Hurricane surge protection disaster
Toyota Motor Corporation	Uncontrollable vehicle acceleration
Nike Corporation	Breach of code-of-conduct/labor laws
Intel Corporation	European union antitrust case
Flint Michigan	Flint, Michigan, water disaster
Phar-Mor, Inc.	Largest accounting fraud
Bernard L. Madoff Investment Securities, LLC	Madoff Ponzi scheme

Table 3.3

One vulnerability in the corrective measures discussed to address the scandals listed in Table 3.3 is that they do not necessarily prevent the repeat of ethical deviations because they are primarily compliance and fear based. In some instances, instead of preventing unethical activity, the system has enabled unethical leadership to take minimum actions and merely pay fines rather than correct their actions or change their approach.

WORK IT OUT

General Motors' Failure to Consider Stakeholders

General Motors (GM) has struggled with its brands and its image. Over the years, it has jettisoned some of its once-popular brands, including Oldsmobile and Pontiac, sold many others, and climbed back from a 2009 bankruptcy and reorganization. The automaker was hiding an even bigger problem, however: The ignition switch in many of its cars was prone to malfunction, causing injury and even death. The faulty switches caused 124 deaths and 273 injuries, and GM was finally brought to federal court. In 2014, the

company reached a settlement for $900 million and recalled 2.6 million cars.

The case exemplifies the tension between the concept that "the only goal of business is to profit, so the only obligation that the business person has is to maximize profit for the owner or the stockholders" on one hand, and the ethical obligations a company owes to its other stakeholders on the other.[13] GM's failure to consider its stakeholders and consumers when choosing not to report the potential for malfunction of the ignition switches led to an ethical breakdown in its operations and cost the company and its customers dearly. In addition, by treating customers as only a means toward an end, the company turned its back on a generation of loyal buyers.

- What virtues and values shared by its long-time customers did GM betray by failing to disclose an inherent danger built into its cars?
- How do you think that betrayal affected the company's brand and the way car buyers felt about the firm? How might it have affected its shareholders' views of GM?

In recent years, many organizations have embraced CSR, in which the company's expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns. Many corporations work on prosocial endeavors and share that information with their customers and the communities in which they do business. CSR, when conducted in good faith, is beneficial to corporations and their stakeholders. This is especially true for stakeholders that have typically been given low priority and little voice, such as the natural environment and community members who live near corporate sites and manufacturing facilities. CSR in its ideal form focuses managers on demonstrating the social good of their new products and endeavors. It can be framed as a response to the backlash that corporations face for a long track record of harming the environment and communities in their efforts to be more efficient and profitable.

The trend to adopt CSR may represent an opportunity for greater engagement and involvement by groups mostly ignored until now by the wave of corporate economic growth reshaping the industrialized world.

Social Entrepreneurship

Social entrepreneurship describes ventures launched by entrepreneurs who are first and foremost advocates or champions for a social cause. However, they are able to leverage that cause as a platform to develop and maintain an economically viable organization. These individuals are primarily driven and motivated by a higher vision or grander purpose. This new breed of entrepreneur leverages the power of their position, their standing in the community, and the potential synergy and wealth-creation power of an enterprise as a vehicle or platform to advance their social goals and personal agenda. These social causes often include a solution for a costly and chronic social problem or pain, a social wrong or injustice that must be corrected, or a global issue that has been either overlooked or marginalized by society or organizations.

While the primary goal and end-state for a socially responsible entrepreneur is to generate wealth, the dominant goal for a social entrepreneur is to serve a specific cause as they generate wealth to support that cause. This means a social entrepreneur works to advance society instead of accumulating greater wealth for

13   Chelsea Bateman. "General Motors: A Recall Nightmare (2014)." *Business Ethics Case Analyses*. November 23, 2015. http://businessethicscases.blogspot.com/2015/11/general-motors-recall-nightmare-2014_23.html

the shareholder. Social entrepreneurs often share qualities such as a selfless attitude, a sense of obligation and responsibility towards someone or something, a strong commitment to make a change, and a resilience to withstand failure.

There are numerous examples of companies that have embraced the concept of CSR. In fact, some entrepreneurs have created startups based primarily on the idea of giving back, many of whose ventures have become well-known. The list includes, to name a few, TOMS Shoes (discussed in a feature box in this chapter), Bombas Socks, and Warby Parker Eyewear. Each of these companies follows a CSR approach and donates one product for each one purchased, (shoes, socks, glasses). Some companies go the extra mile and become officially certified as B-corporations, which is a CSR-type of designation. (See Business Structure Options: Legal, Tax, and Risk Issues for more discussion of B-corps).

Environmental Entrepreneurship

Similar to social entrepreneurship, **environmental entrepreneurship** advocates for a meaningful and beneficial social cause that is also economically viable. This environmental focus deals with such initiatives that preserve our ecosystem such as clean and renewable energy, waste management, programs to counteract climate change, improved water supplies, protection of biodiversity, and reduction of environmental degradation and deforestation.[14] These initiatives are financially sound from a business standpoint and, at the same time, don't pollute, waste, destroy, and leave a negative environmental footprint.

There are multiple ways in which an entrepreneur can demonstrate a commitment to environmental awareness. One way is to own a company that directly helps clean up the environment, such as Ocean Cleanup, the nonprofit started by a twenty-five-year-old entrepreneur to clean up the Great Pacific Garbage Patch. Another option is to own a traditional private sector company that pledges to operate in an environmentally responsible way, such as Patagonia, committed to responsible sourcing and other initiatives. A third option is to become part of an advocacy organization, an example of which is E2. E2 is "a national, nonpartisan group of business leaders, investors and others who advocate for smart policies that are good for the economy and good for the environment."[15] This group strives to influence policies at the state, regional, and federal levels dealing with energy, climate, oceans, water, transportation, and smart growth. These policies are primarily intended to improve air, water, public health, as well as job creation in these areas. One example of an initiative that has resulted from this group deals with passing the nation's first automobile emissions standards.

In recent decades, corporations have responded to stakeholder concerns about the environment and sustainability. In 1999, Dow Jones began publishing an annual list of companies for which sustainability was important. Sustainability, in this context, is the practice of preserving resources and operating in a way that is ecologically responsible in the long term.[16] The Dow Jones Sustainability Indices "serve as benchmarks for investors who integrate sustainability considerations into their portfolios."[17],[18] There is a growing awareness that human actions can, and do, harm the environment. Destruction of the environment can ultimately lead to reduction of resources, declining business opportunities, and lowered quality of life.

Enlightened entrepreneurs realize that profit is only one positive effect of business operations. Operating a

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14   Thaddeus McEwan. "Ecopreneurship as a Solution to Environmental Problems: Implications for College Level Entrepreneurship Education." *International Journal of Academic Research in Business and Social Sciences* 5, no. 3 (2013): 5. http://hrmars.com/admin/pics/1822.pdf

15   E2. www.e2.org

16   Victoria Knowles. "What's the Difference Between CSR and Sustainability?" *2degrees*. March 25, 2014.

17   "Dow Jones Sustainability Indices." *RobecoSAM*. https://www.robecosam.com/csa/indices/djsi-index-family.html

18   "Results Announced for 2017 Dow Jones Sustainability Indices Review." *Cision: PRNewswire*. September 7, 2017. https://www.prnewswire.com/news-releases/results-announced-for-2017-dow-jones-sustainability-indices-review-300515107.html

successful business creates opportunities for entrepreneurs to give back to society in responsible ways. In addition to safeguarding the environment, other ethical contributions that entrepreneurs can consider include establishing schools and health clinics in impoverished neighborhoods and endowing worthwhile philanthropies in the communities in which companies have a presence.

During the last few decades, there has been an explosion of studies on how business activities affect our planet. In one study, Tony Juniper points out that population growth, with its accompanying demand for natural resources and the impact of environmental disasters, has had a profound and lasting impact on the planet. Juniper states that we have increased our consumption of natural resources tenfold, increased grain production fourfold, increased freshwater usage fivefold, increased fish capture fourfold, doubled our consumption of earth's renewable production, and increased the concentrations of greenhouse gases in the atmosphere.[19]

In prior sections, we briefly discussed the devastating environmental impact of oil companies such as Texaco and Chevron. When you drill for oil in one of the most biodiverse corners of the world, the Ecuadorian rainforest of the Amazon, and dump 18.5 billion gallons of oil byproducts and waste into the Amazon's rainforest and streams, you are definitely leaving a negative footprint on our planet. If you meticulously study the local wildlife, vegetation, and other natural characteristic of a region before clearing a region to conduct your business (e.g., harvest the trees for lumber, plants for medication, or drill for oil) and then restore the region to its original natural form when done, you are neutralizing your footprint on the planet. However, it you enhance and strengthen the region, open up schools, provide jobs, educate the local population to preserve and strengthen their natural resources, and take other actions to improve the region, you are in fact leaving a positive footprint on the planet. Entrepreneurs should learn the impact made by all aspects of their company, weigh the choices, and consider adopting a policy that does no harm and possibly leaves a positive footprint on the planet.

LINK TO LEARNING

Elon Musk, founder of the electric car manufacturer Tesla and other companies, recently spoke at a global conference held at the Panthéon-Sorbonne University in Paris. Watch this video of Musk explaining the effects of carbon dioxide emissions on climate change (https://openstax.org/l/ 52MuskEmissions) in clear and simple terms.

Sustainability

Sustainability deals with actions and a way of life that considers the continuity of future generations. It is deeply rooted in doing what is moral/ethical. For example, it is unjust to take actions that benefit the current generation at the detriment of future generations. What this means is that a sustainable entrepreneur is also driven by and is an advocate for a socially responsible approach to owing and running a business, leveraging the economic potential of renewable and readily available resources to add value to the world in which it operates. However, sustainability means more than just environmental awareness. A simple definition of **sustainability** is the ability to be maintained at a certain rate or level. This means not only the environment,

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19   Tony Juniper. *What's Really Happening to Our Planet?: The Facts Simply Explained*. (London: DK/Penguin Random House, 2016).

but also natural resources, human resources, product supply chains, and multiple related concepts. Thus, as an entrepreneur aware of issues related to sustainability, one would want to consider a wide range of issues. Examples might include the responsible use of electricity or water, or participating in supplier diversity/ responsible sourcing programs, or funding worker wellness initiatives. The idea of sustainability, at its root, is to think long term as opposed to short term.

Given the prominence of the sustainable environment movement worldwide, no well-managed business today should be conducted without an awareness of the tenuous balance between the health of the environment and corporate profits. It is quite simply good business practice for executives to be aware that their enterprise's long-term sustainability, and indeed its profitability, depend greatly on their safeguarding the natural environment. Ignoring this interrelationship between business and the environment not only elicits public condemnation and the attention of lawmakers who listen to their constituents, but it also risks destroying the viability of the companies themselves. Virtually all businesses depend on natural resources in one way or another.

Responsible Entrepreneurs and Social Entrepreneurship Opportunities

The ability to establish a new venture is an exciting opportunity and privilege. To intentionally plan and establish a new venture in a responsible manner promotes the continuation of a better world. Development of a new venture that supports an awareness and sensitivity to immediate and long-term impacts reflects upon the entrepreneur's personal and organizational values and goals.

Some entrepreneurs start businesses with a community project in mind. A community project venture leverages the available power, synergy, talents, capabilities, and resources of the community to add value and change the world in a positive way. This approach uses the creativity, viewpoints, and feelings of community members to innovate and add value to the local area. An example is that of an entrepreneur who started a company with the idea of giving back to the community.

ENTREPRENEUR IN ACTION

The Story of the TOMS Shoes Entrepreneur in His Own Words by Blake Mycoskie

Read Blake Mycoskie's own telling of how he founded TOMS Shoes:

> "In 2006 I took some time off from work to travel to Argentina. I was twenty-nine years old and running my fourth entrepreneurial startup: an online driver's education program for teens. Argentina was one of the countries my sister, Paige, and I had sprinted through in 2002 while we were competing on the CBS reality program The Amazing Race.

> I met a woman volunteering on a shoe drive who explained that many kids lacked shoes, even in relatively well-developed countries like Argentina, an absence that didn't just complicate every aspect of their lives—including essentials like attending school and getting water from the local well—but also exposed them to a wide range of diseases. Her organization collected shoes from donors and gave them to kids in need. Their complete dependence on donations meant that they had little control over their supply of shoes.

> My first thought was to start my own shoe-based charity, but instead of soliciting shoe

donations, I would ask friends and family to donate money to buy the right type of shoes for these children on a regular basis. I have a large family and lots of friends, but it wasn't hard to see that my personal contacts could dry up sooner or later. And then what? These kids needed more than occasional shoe donations from strangers.

Then I began to look for solutions in the world I already knew: business and entrepreneurship. An idea hit me: Why not create a for-profit business to help provide shoes for these children? Why not come up with a solution that guaranteed a constant flow of shoes, not just whenever kind people were able to make a donation?

And for every pair I sell, I'm going to give a pair of new shoes to a child in need. There will be no percentages and no formulas. It was a simple concept: Sell a pair of shoes today, give a pair of shoes tomorrow.

Something about the idea felt so right, even though I had no experience, or even connections, in the shoe business. I did have one thing that came to me almost immediately: a name for my new company. I called it TOMS. I'd been playing around with the phrase "Shoes for a Better Tomorrow," which eventually became "Tomorrow's Shoes," then TOMS. (Now you know why my name is Blake but my shoes are TOMS. It's not about a person. It's about a promise—a better tomorrow.)

I got a break with an article about my new startup, TOMS, in the *LA Times*, it was a headline story. By the end of that day, we'd received 2,200 orders. That was the good news. The bad news was that we had only about 160 pairs of shoes left sitting in my apartment. On the website we had promised everyone four-day delivery. What could we do?

Craigslist to the rescue. I quickly posted an ad for interns and soon I had selected three excellent candidates, who began working with me immediately. We ended up selling 10,000 pairs of shoes that first summer—all out of my Venice apartment."

Blake Mycoskie. "How I Did It: The TOMS Story." *Entrepreneur*. 2011. https://www.entrepreneur.com/article/220350

(This excerpt from *Entrepreneur* magazine was written by Blake Mycoskie in his own words.)

There are multiple types of business entities that function with a social purpose in mind. *Nonprofit* organization entrepreneurs (as well as those starting for-profit companies such as the TOMS story) have the potential to look beyond their own financial gains. These organizations typically partner with federal, state, or local government organizations, public and private institutions, foundations, or individuals with financial means and community standing to serve the greater public. One example of a nonprofit initiative is the National Kidney Foundation of Arizona.[20] This organization seeks solutions for kidney and urinary diseases through education, prevention, and treatment.

A *cooperative venture* leverages the talents, finances, and intellectual resources of the members of an organization to operate and deliver value to the members of the organization. One difference between a cooperative and a nonprofit corporation is how money flows back into the community. In a nonprofit organization, the managers cannot distribute profits to members or investors; the remaining money stays in the nonprofit. In contrast, a cooperative generally can distribute profits to members based on member participation/temporary ownership. One example of a cooperative would be the Unity One Credit Union, which is a member-owned, not-for-profit cooperative, working for its members' benefit.

Two other types of entities that are essentially the same are known as *social enterprises* or *social purpose*

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businesses. These entities are primarily driven by a meaningful social cause. Social entrepreneurs are able to meet their strategic organizational goals and objectives by delivering a value-added product/service that closes a gap, addresses a problem or pain, or corrects a social injustice. A social enterprise is typically designed to be financially self-sufficient. One example of a social entrepreneur and a social enterprise is the Grameen Bank founded by Muhammed Yunus, a Nobel Peace Prize laureate who defined the term micro-lending and micro-finance. Grameen Bank thrives on giving small loans to those individuals who have very little to no collateral and wish to start a business to support their family.[21]

A social purpose business is often referred to as a B- or benefit Corporation (also discussed in Business Structure Options: Legal, Tax, and Risk Issues). The process of becoming a certified B-corporation is a formal process that involves compliance with various standards and an audit of this compliance (managed by the B-Corp organization).[22] The essence of these new B-corporations is that "they recognize the imperative to do no harm and create positive impact throughout the value chain."[23] According to the B-Corp organization, these certified businesses are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment. As of 2019, there are approximately 3,000 certified B-corps in 65 countries, covering 150 different industries.[24]

One example of a certified B- (or benefit) corporation is Kickstarter, the crowdfunding website. Kickstarter is one of the world's largest funding communities for creative projects—everything from films, games, restaurants, and music to art, design, and technology—and offers entrepreneurs a way to raise funds when they cannot borrow from a bank.

A *hybrid venture* uses a combined business strategy to enable the organization to deliver profitable and socially valued products and services. The hybrid business model attracts different investors and capitalizes on a variety of investment opportunities, while supporting a mission centered on a socially meaningful cause and grander purpose. One example is Embrace Innovations, a manufacturer of incubators for infants born prematurely, originally established as a nonprofit entity. Embrace, an example of a relationship between academic and business, was started as part of a special course at Stanford University. The Stanford Design for Extreme Affordability Program consists of a course for student teams seeking further support (the Social Entrepreneurship Lab and the Design Lab). This project was launched in 2007, the company was formed in 2008, and the first version of the product launched in 2011. The product is currently being distributed to clinics in India, where dozens of babies have already benefited. Partnerships have been formed with several multinational organizations to distribute the product.[25]

LINK TO LEARNING

Female entrepreneur Stacey Edgar started Global Girlfriend (https://openstax.org/l/52GlobalGirl) on a very small budget and a larger social cause. Through hard work by a team of people, she built a business organization founded on the premise of wanting to have a social impact. The company eventually

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21   Muhammad Yunus. *Banker to the Poor: Micro-Lending and the Battle against World Poverty*. New York: PublicAffairs, 2008.

22   Certified B-Corporations. https://bcorporation.net/

23   Network for Business Innovation and Sustainability. "B Corporations, Benefit Corporations, and Social Purpose Corporations: Launching a New Era of Impact-Driven Companies." October 2012. http://nbis.org/wp-content/uploads/2012/10/ImpactDrivenCompanies_NBIS_Whitepaper_Oct2012.pdf

24   Certified B-Corporations. https://bcorporation.net/

25   Design for Extreme Affordability. "Embrace." https://extreme.stanford.edu/projects/embrace/

supported up to 100 different women-led organizations in over thirty countries. Her goal was for the company not only to touch the lives of end customers, but also change the supply chain of retail apparel distribution. It is an example of a successful entrepreneurial startup spreading the message of women's empowerment.

When launching a social enterprise, you need to consider both the technical aspects of launching an enterprise as well as the underlying cause or purpose that has driven you to launch a social enterprise. As you develop your business model, marketing strategy, and other elements to support your venture, it is crucial to ensure your grander purpose remains the foundation of your business planning and decisions.

Identifying Your Values and Mission

The values we choose to honor are the essence of ourselves, and we carry them with us wherever we live, work, and play. As we noted, the entrepreneurial path you choose should reflect your values, whether you create a for-profit or nonprofit organization. It also is possible that you might establish a for-profit company and volunteer extensively on your own or on behalf of your firm in the nonprofit sector. Whatever your entrepreneurial path, it remains important not to let your well-considered values be diminished by others who do not prize loyalty or industriousness, for instance. Entrepreneurship is not a contest in which the person who finishes with the biggest portfolio or fastest jet skis wins anything other than an empty prize. It is far better to treat others with integrity and respect, and be surrounded by the true emblems of a successful career—family, friends, and colleagues who will attest to the dignity with which you have worked. In the final analysis, if you achieve a life of honor, then you have succeeded.

How do you keep personal values like integrity, fairness, and respect close at hand? The best way is by writing them down, prioritizing them, and fashioning them into a personal mission statement. Most companies have mission statements, and people can have them, too. Yours will guide you on your path, clear away distractions on the road, and help you correct any missteps. It should be flexible, too, to account for changes in yourself and your goals. Your mission statement is not a global positioning system so much as a compass that guides you toward discovering who you are and what drives you (Figure 3.5).

Figure 3.5   Entrepreneurs should develop a personal mission statement to avoid straying from the path they have set for themselves. A personal mission statement can serve as an ethical/moral compass, guiding an individual through his or her professional and personal life. (credit: modification of "Adventure Compass Hand Macro" by "Pexels"/Pixabay, CC0)

Let us write your mission statement. Because it will reflect your values, start by identifying a handful of values that matter most to you. You can do this by answering the questions in Table 3.4; you may also find it beneficial to keep a journal and update your answers to these questions regularly. Additionally, the US Department of Labor has a free online self-assessment called the Interest Profiler. The Interest Profiler can help you find out what your interests are and how they relate to the world of work. The Interest Profiler can help you focus on avenues of interest that you might want to explore as an entrepreneur.

LINK TO LEARNING

Click on the O*Net Profiler link (https://openstax.org/l/52ONetProfiler) and take the self-assessment. It's quick, fun, and easy.

Identifying Your Values

1. Of all the values that matter to you (e.g., honesty, integrity, loyalty, fairness, honor, hope), list the five most important.
2. Next, write down where you believe you learned each value (e.g., family, school, sports team, belief community, work).
3. Write a real or potential challenge you may face in living each value. Be as specific as possible.
4. Commit to an action in support of each value. Again, be specific.

Table 3.4

Now you can incorporate these values into your business mission statement, which can take the form of a narrative or action. There are many formats you can follow, but the basic idea is to unite your values with the goals you have set for your life and career. You can, for instance, link the benefit you want to create, the market or audience for which you want to create it, and the outcome you hope to achieve.[26] Keep your statement brief. Richard Branson, founder of the Virgin Group, wants "to have fun in [my] journey through life and learn from [my] mistakes." Denise Morrison, CEO of Campbell Soup, aims "to serve as a leader, live a balanced life, and apply ethical principles to make a significant difference."[27] Your own statement can be as simple as, for instance, "to listen to and inspire others," or "to have a positive influence on everyone I meet."

LINK TO LEARNING

Read this blog, "The Ultimate Guide to Writing Your Own Mission Statement," by Andy Andrews (https://openstax.org/l/52BlogAndrews) for more information about creating a personal mission

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26   Jessica Stillman. "Here Are the Personal Mission Statements of Musk, Branson, and Oprah (Plus 7 Questions to Write Your Own)." *Inc*., May 29, 2018. https://www.inc.com/jessica-stillman/how-to-write-your-own-personal-mission-statement-7-questions.html
27   Drew Hendricks. "Personal Mission Statement of 13 CEOs and Lessons You Need to Learn." *Forbes*. November 10, 2014.

statement.

Watch the [TEDx talk "How to Know Your Life Purpose in Five Minutes" about the self and identifying values (https://openstax.org/l/52TEDpurpose)](https://openstax.org/l/52TEDpurpose) to learn more.

Putting Your Values and Mission Statement to the Test

There may be no better place to put your personal values and mission to the test than in an entrepreneurial role. Startups cannot be run on concepts alone. More than almost any other kind of venture, they demand practical solutions and efficient methods. Entrepreneurs usually begin by identifying a product or service that is hard to come by in a particular market or that might be abundantly available but is overpriced or unreliable. The overall guiding force that inspires the startup then is the execution of the company's mission, which dictates much of the primary direction for the firm, including the identification of underserved customers, the geographic site for operations, and the partners, suppliers, employees, and financing that help the company get off the ground and then expand. In a brand-new organization, though, where does that mission come from?

The founder or founders of a firm develop the company's mission directly from their own personal beliefs, values, and experience; this is particularly true for nonprofits. Sometimes the inspiration is as simple as the recognition of an unmet need, such as the rising global demand for food. Bertha Jimenez, an immigrant from Ecuador who was studying engineering at New York University, could not help but be concerned that while craft breweries were riding a wave of popularity in her adopted city, they were also throwing away a lot of barley grain that still had nutritional value but that no one could figure out how to reuse it. After a few attempts, Jimenez and two friends, also immigrants, finally hit on the idea of making flour out of this barley grain, and thus was born the Queens, New York–based startup Rise Products, whose website proclaims that "Upcycling is the future of food."

Rise Products supplies local bakers and pasta makers with its protein- and fiber-packed "super" barley flour for use in products from pizza dough to brownies. It has also sent product samples on request to Kellogg, Whole Foods, and Nestlé, as well as to a top chef in Italy. Jimenez and her fellow cofounders say, "In the long term, we can bring this to countries like ours. We want to look at technologies that won't be prohibitive for other people to have."[28]

If we were to diagram the relationship between founders' values and the entrepreneurial mission, it would look something like this:

personal values → personal mission statement → entrepreneurial mission statement

Just as a personal mission statement can change over time, so can the company mission be adapted to fit changing circumstances, industry developments, and client needs. TOMS Shoes, profiled earlier, is an example of a business that has expanded its mission to also offer eyeglasses and improved access to clean water to people in developing countries, in addition to its original mission of shoes for the needy. It calls itself the "One for One" company, promoting founder Blake Mycoskie's promise that "With every product you purchase, TOMS will help a person in need."[29]

The point is, if you have clarified your personal values and mission statement, there is almost no limit to the

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28   Larissa Zimberoff. "From Brewery to Bakery: A Flour That Fights Waste." *New York Times*. June 25, 2018. https://www.nytimes.com/2018/06/25/dining/brewery-grain-flour-recycling.html; Rise Products. http://www.riseproducts.co/

29   TOMS. https://www.toms.com/

number of ways you can apply them to your business goals and decisions to "do good and do well" in your entrepreneurial career. The purpose of business is relationships, and the quality of relationships depends on our acceptance of self and concern for others. These are developed through the virtues of humility on one hand and courage on the other. The demanding but essential task of life is to practice both. In that way—perhaps *only* in that way—can we be truly human and successful business professionals.

3.3 Developing a Workplace Culture of Ethical Excellence and Accountability

Learning Objectives

By the end of this section, you will be able to:

- Describe workplace challenges in an entrepreneurial culture
- Distinguish between reactive and proactive approaches to managing ethics
- Describe the foundations and framework of an organizational culture of ethical excellence
- Define the components of an ethical workplace

Successful entrepreneurs understand that the workplace of 2020 is quite different from that of 2000, just twenty years ago. As the heading to this section suggests, progressive entrepreneurs want to create a workplace culture of ethical excellence. However, doing that means understanding a changing workforce, both in terms of demographics and values. Millennials, born between 1983 and 1995, now outnumber baby boomers in the workforce, and by 2025, will compose three-quarters of all workers on a global basis.[30] Entrepreneurs and managers who are in a position to hire and supervise millennial workers must adjust to the differing expectations and demands of a mid-twenty-first century workplace. This is especially true with regard to CSR/ethics. What matters most to millennials, according to a recent *New York Times* article, is that work aligns with their values.[31]

Approximately 60 percent of millennial workers would agree to work for 15 percent less money just for the chance to work for a company whose business values parallel their personal values.[32] It turns out that millennials don't just want a job, they want a job that matters—one in which they can do rewarding work that achieves a worthwhile outcome. In other words, they want the work they do to mean something. Furthermore, according to an article in the *Texas Bar Journal* by career coach and consultant Martha Newman, millennial workers place a high value on workplace policies that promote open communication, collaboration, and participation in short- and long-term decision making with their employer.[33] Newman also says that millennials expect a degree of work-life balance; career isn't all that matters in their life.

What this means for entrepreneurs who manage employees is that they must adjust. For example, an owner can create a workplace in which there is a culture ensuring that people matter as much as money, where there is work-life balance with things like flexible scheduling, and where good work is recognized and rewarded. There's an adage that says, "People don't quit their job, they quit their bosses." If you don't want a very high turnover rate among your workforce, be the kind of boss that millennials want to work for and with.

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30   Deloitte Reports. 2019. https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html
31   Elizabeth Olsen. "Graying Firms Wrestle with Making Room for Younger Lawyers." *New York Times*. November 4, 2015. https://www.nytimes.com/2015/11/05/business/dealbook/graying-firms-wrestle-with-making-room-for-younger-lawyers.html
32   Elizabeth Olsen. "Graying Firms Wrestle with Making Room for Younger Lawyers." *New York Times*. November 4, 2015. https://www.nytimes.com/2015/11/05/business/dealbook/graying-firms-wrestle-with-making-room-for-younger-lawyers.html
33   M. Newman, "Decoding Millennial Lawyers," *Texas Bar Journal* 82, no. 8 (2019): 639.

Entrepreneurial Culture

A fairly common characteristic of successful startups is charismatic, driven founders with competitive mentalities. After all, it takes a thick skin and powerful ego to get through the inevitable disappointments that confront a startup leader. Often, however, companies discover that a different leadership ethos is necessary as they grow. Could entrepreneurs still succeed if they also embraced a humanistic leadership style at the outset, or would this invariably undermine the already low initial odds of success? It is a difficult problem with which many firms wrestle. Dedicated employees may be put off by demanding leaders who are harsh, giving little back to loyal workers even after achieving success. New employees may decide the working climate is less congenial than they anticipated and simply leave.

One question an ethical entrepreneur should ask is this: Do my employees feel like they can speak freely? In reality, at many companies, according to SHRM (Society for Human Resource Management), human resources departments often find it difficult to get employees to complete employee workplace climate (satisfaction) surveys.[34] Workers often believe that if management really wants to find out who said what, they easily could, although the surveys are supposed to be anonymous. The difference between ethical and unethical entrepreneurial management is whether they want to find out. Whether it involves small, mid-size, or large companies, management should encourage employees to speak out, whether as an anonymous whistleblower or in person to their supervisor. Absence of this type of encouragement often allows unethical business practices to flourish, such as was seen in the Wells Fargo case example.

LINK TO LEARNING

Although no single set of traits identifies the ideal startup leader, a demanding, driven nature is a fairly common characteristic. Consider these brief profiles of entrepreneurs: first, a profile on Walt Disney (https://openstax.org/l/52WaltDisney) and then video showing a contrasting view from Kerrie Laird (https://openstax.org/l/52KerrieLaird) at Vodafone.

After watching the videos, consider this thought experiment: Suppose the cult of the charismatic—but dogmatic—entrepreneurial leader such as Walt Disney or Steve Jobs were replaced by one steeped in a commitment to employee empowerment that Kerrie Laird claims for Vodafone? Could this change the culture at startups? If it could, do you believe that change would be for the better or worse?

These observations identify what may be unique to entrepreneurial culture. This is a combination of personality and management style often identified with those business leaders who strike out on their own, bring a startup to life, and shape its initial business practices and culture on the job. If the enterprise is successful, the principles and philosophy of the founder become enshrined in the lore of the company, so that long after his or her departure, succeeding leaders find themselves beholden to the management philosophy exemplified from the early days of the firm.[35] As *you* seek the right leadership style to implement in your

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34   Dana Wilkie. "Employee Engagement Surveys: Why Do Workers Distrust Them?" Society for Human Resource Management. January 5, 2018. https://www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/employee-engagement-surveys.aspx

35   Steven Byars. Personal statement. Dr. Byars worked for many years in the 1980s in human resources at the Walt Disney Company at its corporate site in Burbank, California. A popular training course offered in-house to employees new to professional or managerial roles was "Disney Way," in which the leadership culture of the company was traced back to its founding in 1926 and how that culture had remained greatly intact over the intervening years.

entrepreneurial plans, begin by asking precisely what kind of leader you would prefer to work for if you were not the boss. The answer you provide may very well be the best model to follow as you develop your own leadership personality.

The first employees of a startup realize what is at stake as the company tiptoes into new entrepreneurial waters. The founder may be the boss, but those associated with him or her sense a collaborative spirit that directly joins them to the founder as well as to each other. There can be a genuine fraternity among those who have been with the firm since day one or shortly thereafter. Founding members of an entrepreneurial business are also often willing to undergo the strains and rigors attached to a startup in return for an ownership stake in the company that allows them to profit handsomely from its later growth and success.

Newer staff, however, may not share this mindset. They may simply be seeking a secure position with a growing business rather than a chance to get in on the ground floor of a risky startup. They will not necessarily have the tolerance for the demanding hours, chaos, and abrasive personalities that can characterize the early days of an enterprise. Can entrepreneurial founders shape a company's culture so that it can accommodate talented employees who are looking for a corporate culture that supports some work-life balance?

Consider also the ethical practices of an entrepreneur and the ethical expectations of employees. Suppose that one of the distinguishing features woven into the fabric of the startup is the respect extended to customers or clients. An entrepreneur typically promises always to hold customers in the highest regard, never lie to them, and serve them well. Furthermore, suppose this entrepreneur successfully instills this same ethos among all employees from the outset. Respect for customers is intended to become a distinguishing feature of the business; even if it causes monetary loss to the company, this entrepreneur will neither cheat a client nor misrepresent the company's services. Finally, presume that this ethos is embedded into the culture of the company while it is still in startup mode.

Now suppose the company becomes successful. This may signal the hardest time of all for the entrepreneur. Growth often accompanies success, and growth means, among other things, more employees. Not all these new hires will be as committed to the same degree of responsibility for customers. They will not necessarily set out to cheat clients, but they might lack the founder's enthusiasm for the most honorable treatment of customers. How can an entrepreneur ensure that the initial commitment carries over to the second generation of leadership? He or she cannot simply order it to happen—human nature usually does not respond so easily. So entrepreneurs must do their best to ensure that their version of customer service, one that prioritizes respect for clients, is passed along to new employees. It may be ingrained in the longest-serving employees, but it must be nurtured to the point where it has the same significance for the newest hires.

As a leader, you need to plan and follow-up to ensure your organization follows the values and ethical principles you uphold. This planning process goes beyond taking a few simple actions such as hiring the right people, providing consequences, or setting expectations. It goes beyond communicating a few niceties and encouraging sound bites such as establishing trust and working with uncompromising integrity. It needs more than the application of a few popular concepts and slogans such as CSR, conscious capitalism, or servant leadership. It also needs more than the effective communication of a few success criteria and expectations.

There are effective techniques that can support the infusion of ethical principle into the daily work life of employees. Sometimes known as **anchoring strategies**, ethical values can become part of the business culture through the implementation of employee training, and reward/recognition programs. The Society for Human Resource Management (SHRM) website has a toolkit for entrepreneurs and managers that provides useful ideas on infusion and anchoring strategies.

While the use of popular management approaches can be successful, they can be inadequate to stop unethical behavior. Instead, you need a plan to nurture and develop a culture where ethical qualities and capabilities such as truthfulness, justice, responsibility, and compassion are developed and internalized as a moral compass. It also demands that these qualities and capabilities are infused into the fabric of organization, adhered to habitually, and are integrated into the organization's daily operations.

Proactive versus Reactive Approaches

Creation of an ethical workplace environment has both reactive and proactive components. The reactive side enables an entrepreneur to identify and address reckless behavior, irresponsible actions, and ethical deviations as they occur. However, there may be times that a reactive approach, which can be heavy-handed, may not be the best approach for addressing ethical deviations.

In contrast, a proactive approach to developing an ethical workplace strives to prevent reckless behavior, irresponsible actions, and ethical deviations by establishing and nurturing a culture of ethics, responsibility, and compliance. It also demands that you establish a workplace environment of ethics where every member of the organization is able to proactively develop, internalize, and apply a moral compass. This approach serves to operationalize popular—but often silent or nebulous—concepts such as truthfulness, fairness, trust, integrity, commitment, innovation, and excellence, leading to a sustained competitive advantage.

Developing the Foundation and Framework of an Ethically Responsible Organization

An entrepreneur must build a foundation for developing an organization grounded in ethics and responsibility. Foundational building blocks enable an entrepreneur to systematically add the greatest value to society, and to do so responsibly. Additionally, for entrepreneurs modifying their businesses or taking over new ventures, building a foundation of ethical conduct should neither disrupt normal business operations nor add significant overhead, since the main concepts are infused into the fabric of the organization.

To develop an organization's foundation for ethics and a framework for management, an entrepreneur needs to incorporate three essential ethical qualities—trust, fairness, and excellence—into the organization's core values (see Figure 3.6). Additional ethical qualities, dependent on the enterprise's specific goals, might include responsibility, commitment, compassion, and so on. The entrepreneur should infuse these qualities into all aspects of organizational governance and daily operations, and track these values to ensure they are being integrated into planning, and are met and enforced by all business units.[36],[37],[38] The application and implementation of these three core qualities will begin to shape the framework and establish a foundation of

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36 Mehran Ferdowsian. "Total Business Excellence—A New Management Model for Operationalizing Excellence," *International Journal of Quality & Reliability Management* 33, no. 7 (2016): 942–984. https://doi.org/10.1108/IJQRM-08-2014-0109

37 Thomas A. Hemphill and Waheeda Lillevik. "The Global Economic Ethics Manifesto: Implementing a Moral Values Foundation in the Multinational Enterprise." *Journal of Business Ethics* 101, no. 2 (2011): 213–230. doi: 10.1007/s10551-010-0718-4.

ethics and responsibility.

Figure 3.6 illustrates and approach to building a foundation for ethics-based behaviors, principles, and effective collaboration.

Excellence
- Have a grander purpose
- Create a culture that eliminates internal competition
- Focus on excellence

Fairness
- Foster openness
- Demonstrate impartiality
- Consider ideas and feelings
- Protect the welfare of all stakeholders
- Maintain a system of accountability

Trust
- Provide and expect feedback
- Base decisions on truth and consensus
- Clash different ideas, not different individuals
- Listen with patience and respect
- Separate yourself from your thoughts and views

Figure 3.6   Ethical entrepreneurs/managers have these foundational qualities. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Second, the organization should consider what ethical principles it wants to prioritize. Examples of ethical principles might include:

- Service and advancement of society
- Collaborative excellence
- Gender equity
- Elimination of prejudices

Once the framework and foundation for an ethical and high-performing organization has been established, other qualities and principles can easily be integrated as needed to further strengthen this framework, differentiate the organization, and develop a sustained competitive advantage. It also enables leadership to align other aspects of organizational governance with ethics and responsibility. For example, if leadership wants to leverage the power of diversity to develop a sustained competitive advantage, they would adopt the principles of equality of sexes, the elimination of prejudices, and the principle of oneness of humanity. If leadership wants to develop and use teamwork and collaboration as a strategic competitive advantage, they would integrate the behaviors and principles for collaborative excellence and working cohesively as one.

The framework and foundation of ethics and responsibility will enable the entrepreneur to consistently

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38   Hans Küng. "The Global Economic Crisis Requires a Global Ethic: The Manifesto for a Global Ethics." Symposium on the Global Economic Ethics, United Nations Headquarters, New York, NY. October 6, 2009. https://www.bbvaopenmind.com/en/articles/the-global-economic-crisis-requires-a-global-ethic/

manage the needed qualities and principles for success in all aspects of daily operations. These aspects include research and development, engineering, manufacturing, sales, marketing, planning, decision-making, problem solving, conflict management, and other aspects of organizational governance. To demonstrate what this means in practice, the leadership of each of functional area could serve as role models, raise awareness, and encourage individuals to internalize a line of ethical reasoning, asking questions such as, "Is my decision right or wrong (good or bad)?" "Am I dealing with factual information or is conjecture?" "What is the consequence of my action?" "Is my decision fair and equitable?" "Did I give the individual what they are due?" "Would I want to be treated this way?" "Will this action help me achieve the best results for the collective?" This mindset, line of reasoning, and congruence between individual and organizational ethics is often lacking, which leads to ethical deviations.[39],[40],[41],[42],[43],[44] Establishing the foundation outlined here enables each member of the organization to exercise sound moral judgment, develop ethical capabilities, and internalize a moral compass. It also allows employees to be aligned with the company's grander purpose, vision, mission, and values that then translates into actions.

Develop a Grander Purpose

Once the entrepreneur has designed and configured the organization to develop a sustained competitive advantage in a responsible manner, he/she needs to develop a higher vision or a grander purpose for the organization. This grander purpose is not the same as a mission or vision (although they may overlap). It is not financially motivated, it is not product/service centric, and it is not shareholder driven. Instead, the grander purpose defines and highlights the reasoning for a firm's long-term existence and success; it provides guidance and direction during decision-making, problem solving, and conflict resolution; it provides the motivation for individuals to achieve excellence and the sense of urgency for social change; and it enables individuals to be part of a larger cause. For example, the integration of the right grander purpose into the operations of an organization could have prevented the manufacturing of toys made with lead-based paint or the poisoning of the Flint, Michigan, water supply. The grander purpose provides a mechanism to help individuals calibrate their day-to-day activities against a more meaningful and stable target.[45]

Develop a Culture of Collaborative Excellence

The establishment of a framework and foundation for ethical behavior opens up the organization for effective and meaningful teamwork and collaboration. Many existing approaches to collaboration, while demonstrating successes and benefits, also are sometimes inadequate in addressing complex group interactions dealing with mistrust, competition, politics, and ideological differences. A successful culture of collaboration should

39   Mehran Ferdowsian. "Total Business Excellence—A New Management Model for Operationalizing Excellence." *International Journal of Quality & Reliability Management* 33, no. 7 (2016): 942–984. https://doi.org/10.1108/IJQRM-08-2014-0109

40   Shannon Bowen. "Organizational Factors Encouraging Ethical Decision-Making: An Exploration into the Case of an Exemplar." *Journal of Business Ethics* 52, no. 4 (2004): 311–324.

41   Muel Kaptein. "Developing and Testing a Measure for the Ethical Culture of Organizations: The Corporate Ethical Virtues Model." *Journal of Organizational Behavior* 29 (2008): 923–947. Muel Kaptein. "The Ethics of Organizations: A Longitudinal Study of the US Working Population." *Journal of Business Ethics* 92, no. 4 (2009): 601–618. Muel Kaptein and F. Bons. "The Business Codes of the Fortune Global 200—What the Largest Companies in the Work Say and Do." Findings of a whitepaper from a study conducted by KPMG in conjunction with the RSM Erasmus University. 2014.

42   B. Elango, Karen Paul, and Shishir K. Paudel. "Organizational Ethics, Individual Ethics, and Ethical Intentions in International Decision-Making." *Journal of Business Ethics* 97, no. 4 (2010): 543–561.

43   Ding-Yu Jiang, Yi-Chen Lin, and Lin-Chin Lin. "Business Moral Values of Supervisors and Subordinates and Their Effect on Employee Effectiveness." *Journal of Business Ethics* 100, no. 2 (2010): 239–252.

44   Robert J. Sternberg. "Ethics from Thought to Action." *Educational Leadership* 68, no. 6 (2011): 34–39.

45   Mehran Ferdowsian. "Total Business Excellence—A New Management Model for Operationalizing Excellence." *International Journal of Quality & Reliability Management* 33, no. 7 (2016): 942–984. https://doi.org/10.1108/IJQRM-08-2014-0109

convince individuals to find the best ideas, leverage diversity, grow new solutions, gain wholehearted support, develop champions of change, nurture a safe environment, and encourage people to express all ideas.

An effective process for encouraging collaboration takes time to build; however, it's worth it because it will provide the inspiration and motivation needed to accomplish tasks and exceed expectations. The organization should also have consequences in place for ineffective collaboration, which may be evidenced in gossip, backstabbing, self-centered behavior, and biases or prejudices. Such consequences could include probation plans and one-on-one meetings that work to determine the root cause and identify steps forward.

Creativity is also key for a team to think differently. There must be freedom in the workplace for creativity to blossom. When developing a culture of creativity, entrepreneurs should consider these issue and challenges:

- How can we creative a culture of creativity and innovation?
- How can we encourage the members of the organization to collaborate and leverage each other's creativity?
- How can we reward and recognize people for their creativity?

Human Resources Development

A human resources development plan enables a company to continually grow its intellectual resources, enables individuals to develop ethical capabilities, strengthens individual creativity and organizational innovation, provides a steady stream of capable human resources for its leadership pipelines, and enables the firm to leverage and harvest those human resources to advance society in a responsible manner. This is achieved by providing a new employee assessment process where every member of the organization is given the needed opportunities and is expected to collaborate with their superior(s) to own and manage their lifelong development plan (LDP). At a minimum, an LDP should:

- Include short-term and long-term career goals and objectives
- Help identify, continually develop, and leverage individual strengths
- Enable individuals to identify and measurably close gaps in deliverables, behavior, and professional improvement
- Clarify major deliverables and success indicators

In sum, an LDP becomes the primary instrument to assist individuals to achieve excellence by raising performance, closing gaps in assessment, and aligning the individual with the grander purpose, vision, mission, goals, needs, and objectives.

WORK IT OUT

Growing Collaboration and Creativity

Entrepreneurs are entrusted with the growth and development of their people. This growth and development should not be stopped, delayed, or marginalized in any shape or form. Instead, an entrepreneur needs to learn how to use the available resources to systematically train, develop, and deliver a steady stream of responsible individuals who are able to grow within the company as well as grow the company. List three strategies an entrepreneur could use to achieve the following major objectives:

1. Develop the best, the brightest, and most creative and motivated people who have a strong sense of right and wrong
2. Develop individuals who have a strong sense of ownership, responsibility, and commitment to achieve and sustain a competitive edge
3. Leverage these intellectual forces and the synergy within the organization to generate the greatest value and wealth for all stakeholders.

Develop Ethical and Responsible Leadership/Management

Significant research shows that the culture of the organization is mostly shaped by its leadership values—by how leaders develop the bonds of trust, by how they motivate their people, by their responsible decisions and actions, and by how they empower, delegate, and monitor tasks. A recent *Harvard Business Review* article, by a group of professors and entrepreneurs, synthesized the research of experts including Edgar Schein, Shalom Schwartz, Geert Hofstede, and other leading scholars on this topic.[46] The article indicates that the attributes of a business's leaders define that organization's culture. A business's culture is essentially defined as the social order within an organization that helps shape attitudes and behaviors—delineating what type of behavior is encouraged and/or discouraged.

While it is possible for a company to hire individuals who possess these attributes, the organization should have a plan in place to systematically train and develop responsible leaders. At minimum, this should include the development and management of a leadership pipeline, the nurturing of ethical and intellectual capabilities, and rewards and consequences that enable a leader to develop and internalize a moral compass.

WHAT CAN YOU DO?

Entrepreneurs Must Not Just Talk the Talk but Walk the Walk

As both a leader and an entrepreneur, you need to have a good understanding of ethics and responsibility, and be able to apply the major tenets of concepts such as CSR. To build and maintain trust, it is important that these concepts not start and end with mere empty words and gestures. Rather, entrepreneurs need to exemplify and model these concepts, and apply them through meaningful, consistent, and timely actions. In sum, an entrepreneur needs to live the values they wish to see in others. They need to become the embodiments of trust, respect, responsibility, commitment, and other key qualities. These core values need to be infused into the fabric of the organization.

Entrepreneurs have been placed in a position of power and responsibility. They need to use their position, power, social standing, and the synergy of the vast financial and intellectual resources at their disposal to move and shake the world in a meaningful way. For example, imagine for a moment using the resources of companies such as Apple, Google, Microsoft, Amazon, and Facebook, whose combined worth is estimated to be close to $2.2 trillion, to address complex and difficult global issues dealing with education, poverty, hunger, and other chronic problems.

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46   Boris Groysberg, Jeremiah Lee, Jesse Price, and J. Yo-Jud Cheng. "The Leader's Guide to Corporate Culture." January/February 2018. *Harvard Business Review*. https://hbr.org/2018/01/the-culture-factor

Develop Internal/External Organizational Alignment and Cohesion

Key to ethical organizational success is the alignment and cohesion between individuals, groups, and the enterprise as a whole. This alignment starts with the development of a grander purpose that enables the entrepreneur and the organization to serve, add value, and advance the society in which it operates. It ensures individuals and units within the company understand the grander purpose, mission, vision, and the goals and objectives of the company, and it provides each member or the organization the opportunity to serve and fit into that grander purpose, mission, and vision. It is further strengthened by asking individuals to achieve excellence in their own right instead of competing with each other. It sets clear expectations about how people are to treat and deal with each other to deliver results. It deals with the alignment of corporate values with the espoused values, and the alignment between what leadership says and does. When combined, these and other alignments can enable individuals and groups to stay on track and reach the company's goals efficiently.

ENTREPRENEUR IN ACTION

Unilever "Enhancing Livelihoods" through Project Shakti

According to management guru Peter Drucker, whose ideas significantly contributed to the foundations of thought about the workings of the modern business corporation, workers "need to know the organization's mission and to believe in it." How do organizations ensure this commitment? By satisfying workers' values.[47] A program undertaken by Unilever, the Dutch-British multinational company co-headquartered in Rotterdam and London, illustrates the kind of values-oriented corporate endeavor Drucker describes. Project Shakti is a Unilever CSR initiative in India that links CSR with financial opportunities for local women.[48] It is considered a leading example of micro-entrepreneurship, and it expands the concept of sustainability to include not only environmental issues but also economic opportunities and financial networking in underdeveloped areas.

The goal, according to Unilever, is to give rural Shakti women the ability to earn money for themselves and their families as micro-entrepreneurs. Unilever's subsidiary in India, Hindustan Lever, has started training programs for thousands of women in small towns and villages across India to help them understand how to run their own small sole proprietorships as distributors of the company's products. With support from a team of rural sales managers, women who had been unable to support themselves are now becoming empowered by learning how a supply chain works, what products Hindustan Lever produces, and how to distribute them. The sales managers also act in a consulting capacity to help with business basics, money management, negotiations, and related skills that help the women run their businesses effectively.

Project Shakti has enlisted more than 100,000 rural participants, which includes about 75,000 women. The project has changed their lives in ways that are profound, and not only because of the income earned. The women now have increased self-esteem based on a sense of empowerment, and they finally feel they have a place in Indian society. According to the Unilever Sustainable Living Plan, Project Shakti is one of the best and most sustainable ways the company can address women's social concerns. It allows Unilever to conduct business in a socially responsible manner, helping women help themselves while extending the reach of its products.

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47   Rick Wartzman. "What Peter Drucker Knew About 2020." *The Harvard Business Review*. October 16, 2014. https://hbr.org/2014/10/what-peter-drucker-knew-about-2020

- Do you believe Unilever sponsors the Shakti program to help women, boost its own profits, or both? Explain your answer.
- How is this program an example of both corporate and personal sustainability?

Develop a Culture of Creativity and Innovation

The next building block is developing a culture of creativity and innovation. This means going beyond a spark of creativity from select individuals or business units, and instead nurturing a culture where every member of the organization is continually creative and the organization is innovative. This also means providing the means and opportunities for individuals to be engaged, creative, and contributing members on a full-time basis. What makes this possible results from the prior building blocks. Innovation requires good leadership and management; a meaningful and effective process for teamwork and collaboration; a culture of learning and improvement; a consistent and measurable process to encourage, recognize, compensate, and track innovation; and company-wide focus on the training and development of the sense of creativity.[49]

Develop a Culture of Delivering Responsible Results

Measurable results compose the final building block of a framework for ethics and responsibility. This involves developing systems and indicators that will demonstrate how your business is achieving ethical standards and progressively improving as it adds value to society. While the details of which indicators to select is left up to the discretion of the entrepreneur, this building block defines success in terms of ten dimensions of business excellence, shown in Figure 3.7.

48   Unilever. https://www.unilever.com/sustainable-living/values-and-values/

49   Mehran Ferdowsian. "Total Business Excellence—A New Management Model for Operationalizing Excellence." *International Journal of Quality & Reliability Management* 33, no. 7 (2016): 942–984. https://doi.org/10.1108/IJQRM-08-2014-0109

Figure 3.7   Delivering responsible results involves multiple considerations. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Figure 3.7 serves as an easy-to-understand guide for entrepreneurs seeking to create a culture of excellence. Focusing on these ten dimensions can help a business achieve excellence, from which a company may derive multiple benefits. Examples of reasons why a company strives to achieve excellence include strengthening alignment between company values and those of stakeholders, balancing goals versus measures of success, clarifying strategic focus versus operational concerns, selecting areas within the company wherein improvement is needed, and shifting from a preoccupation with daily activities and processes to focus on outcomes. Companies seek excellence with regard to internal and external outcomes, both of which are important. Thus, whether examining internal aspects such as finance and operations, or external aspects such as product quality and customer service, each of these ten areas is an ingredient of company excellence.

Creating an Ethical and Responsible Workplace Environment

A safe, healthy, and productive workplace is an environment in which an individual has a high level of trust and confidence that if they give their best, they will see a number of results and be afforded a number of things in exchange for their hard work. This concept resembles an employer-employee contract. This contract includes the following employee expectations:

1. They are treated with the respect, dignity, and courtesy they deserve as a human being.
2. They are given the needed support, equal opportunities, and resources to excel.

3. They are given what they deserve and what they are due in a fair and equitable way.
4. They are provided a safe, secure, and prejudice-free work environment.
5. They are not pushed, pressured, or expected to behave irresponsibly.

This type of workplace environment enables individuals to continually grow and develop to their full potential and then leverage that potential to add value to their own lives, careers, and society. This type of environment is one in which individuals are not afraid to speak their mind; they feel safe to discuss problems and concerns, and feel free to question and reject that which is wrong.

Prejudice

Prejudice is often thought of as a negative attitude and/or feeling toward an individual based solely on one's membership in a particular group. Prejudice is common against people who are members of unfamiliar cultural groups. In employment, it can be the root cause of unfair discrimination.[50] One factor essential to the development of a safe and healthy work environment is that it strives to be a place free of prejudice. This is an environment where everyone is treated with the respect and dignity they deserve and are afforded equal opportunities for growth, development, and advancement both within and outside of the organization. For example, it is important to look at the merit or value of the work done by an individual and the manner by which those results have been delivered. It is unethical to treat people differently based on their race, gender, age, nationality, and other differentiating factors. To develop trust and respect, everyone needs to be afforded the same opportunities.

Competition and Collaboration

Effectively managing a workforce includes a systematic approach to appraisal of employee performance. A manager/entrepreneur must decide how to do this within their company. A forced ranking system is one in which scoring employee performance is competitive and can pit employees against each other instead of fostering a collaborative work environment. Some employers have switched to a system that does not require forced rankings and attempts to downplay the competitive nature of assessment, focusing instead on individual continuous improvement. There is a legitimate difference of opinion on this issue. According to a *Wall Street Journal* article by the accounting and consulting firm Deloitte,[51] executives are split on whether it is an effective practice. Jack Welch, former CEO at General Electric, was a proponent of it, whereas others see it as counterproductive. Companies that have discontinued the process include Microsoft and GE.

In an environment of collaborative excellence, individuals are encouraged to express their ideas and viewpoints in an unfettered and respectful way, where the merit of each idea is weighed against the merit of other ideas. In this environment, individuals are not reprimanded for being creative, taking calculated and reasonable risks, or challenging management or leadership.

50   Paul C. Holinger. "Understanding Bias, Prejudice, and Violence." *Psychology Today*. June 6, 2017. https://www.psychologytoday.com/us/blog/great-kids-great-parents/201706/understanding-bias-prejudice-and-violence
51   Deloitte CIO Journal. "It's Official: Forced Ranking Is Dead." *Wall Street Journal*. 2014. https://deloitte.wsj.com/cio/2014/06/10/its-official-forced-ranking-is-dead/

WORK IT OUT

Anonymous Whistleblower Hotlines

Most large companies now have anonymous hotlines that employees may call to report ethical violations. What are some other concrete and actionable ways you can develop a safe environment where every member of your organization is able to question authority, point out a wrong, and stop an unethical decision/action?

One example of a problem that can arise in an overly competitive environment or culture created by an organization would be the faulty ignition switch scandal at GM. According to Valdes-Depena, and Yellin,[52] GM knew about this problem in 2001. However, it took the company over twelve years, more than 100 deaths, and 30 million vehicles being recalled to finally admit that there was a problem. In 2014, GM admitted that a faculty ignition switch may result in the engine of a vehicle being shut down while in drive, resulting in accidents, severe injuries, or death.[53] If GM had developed an effective environment of collaboration, individuals from leadership, management, sales, marketing, engineering, manufacturing, and human resources, as well as major stakeholders, might have collaborated and prevented the ignition switch problem.

Diversity

Entrepreneurs need to appreciate, respect, and learn to effectively leverage the unique and diverse qualities that each individual brings to the table. These qualities can be used to innovate, make better decisions, solve complex problems/conflicts, move an organization cohesively in a single direction, or rapidly change direction when needed. If used correctly, these differences enable an entrepreneur to develop a sustained competitive advantage by looking at the different thoughts, ideas, and viewpoints to make better and more informed decisions.

Diversity, in terms of a legal concept, deals with innate characteristics such as an individual's sex, color, race, national origin, religion, and age. It might also include educational background, cultural background, socioeconomic background, and potentially even political affiliations. However, diversity in terms of an ethical concept rather than purely a legal one also deals with a number of not-so-obvious characteristics such as the diversity of behavior, thought-process, comprehension, attitudes, temperaments, and learning styles. Combined, these differences can be beneficial to a business organization and result in high-level performance by the workforce as a whole.

Diversity may be an actual legal requirement depending upon what type of business an entrepreneur enters. For example, if you plan on doing any government contracting work, whether local, state, or federal, the chances are that your business will have to meet a diversity standard. Many private companies also have diversity clauses in the supply chain contracts related to supplier diversity initiatives.

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52   Peter Valdes-Dapena and Tal Yellin. "GM: Steps to a Recall Nightmare." *CNN Money*. March 19, 2014. http://money.cnn.com/infographic/pf/autos/gm-recall-timeline/
53   Arthur W. Page Society. "General Motors' Corporate Culture Crisis: An Assessment of the Ignition Switch Recall." 2015 Case Study Completion. January 16, 2016. https://page.org/attachments/1edd5184509636aabbdc07ef0c3546e0facf5c0c/store/00f8d9b37cec4d725c881b7235467635aeab21b4d2333398c819839d426b/General-Motors-Case-Study-2015.pdf

> ## WORK IT OUT
>
> ### Building Diversity
>
> For each of the following, identify two examples of a concrete action or activity an entrepreneur could implement to achieve the stated goal.
>
> 1. Introduce the concept of diversity and highlight the significance, the value, and the benefits of a diverse work environment.
> 2. Set clear expectations for individuals to value diversity, the concept of unity in diversity, and show how others can leverage the power of diversity to innovate.
> 3. Exemplify, role model, and live good ethical behavior that strengthens diversity such as the elimination of prejudice of all kinds and expect others to do the same around you.
> 4. Ensure that you design the hiring process, including job descriptions, recruiting, interview questions, and other related steps, with diversity in mind.
> 5. Provide training to educate people on the concept of prejudice, the different forms of prejudices, and the negative aspects of prejudices.
> 6. Provide opportunities for building ethical capacities such as becoming truthful, trustworthiness, and a just individual.
> 7. Provide consistent, meaningful, substantial, and timely consequences for prejudicial behavior in organizations.

Gender Equality

As an entrepreneur, you need to recognize the significance, value, and impact of the principle of equality of men and women on developing a sustained competitive advantage. Then you need to incorporate this principle into the fabric of your organization. Aside from being the right thing to do, one reason why this principle is so important is that close to one-half of the planet is female (and has traditionally been marginalized in the business world).[54],[55] If you overlook this fact, you will also be potentially overlooking one-half of the talent that can help you excel and develop a sustained competitive advantage. In turn, this will result in a loss of trust and confidence. A second and more important reason would be that any deviation from this principle goes against the whole concept of ethics and responsibility. Moreover, this principle will help your organization attract the best and brightest employees.

The principle of gender equality does not deny differences between men and women. This principle primarily asks that we give each member of society fair and equal opportunities for growth, development, and advancement. It also recognizes that women have been historically marginalized or excluded from the business world. This claim holds true today and is applicable to even to the most advanced countries in the world (e.g., the discrepancy of pay between women and men in Western societies). Therefore, women need to be afforded the same opportunities for education, rewards, recognitions, and promotions as men.

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54   R. A. Fisher. *The Genetical Theory of Natural Selection*. (Clarendon, Oxford, 1930).
55   W. D. Hamilton, "Extraordinary Sex Ratios," *Science* 156 (1967): 477–488.

Trust and Ethical Accountability

Finally, the development of safe environments also deals with an environment where individuals are able to develop unbreakable bonds of trust, where they don't feel they have to constantly watch their backs, where individuals are free to point out misconduct without being reprimanded, and where individuals feel they will be given what they are due or deserve. This dimension of the development of a safe work environment deals with making sure individuals feel they are being treated in a fair and equitable manner and that their need for the development of an ethical and moral work environment is being met.

WORK IT OUT

Sherron Watkins and Enron

Enron is one of the most infamous examples of corporate fraud in US history. The scandal that destroyed the company resulted in approximately $60 billion in lost shareholder value. Sherron Watkins, an officer of the company, discovered the fraud and first went to her boss and mentor, founder and chairperson Ken Lay, to report the suspected accounting and financial irregularities. She was ignored more than once and eventually went to the press with her story. Because she did not go directly to the SEC, Watkins received no whistleblower protection. (The Sarbanes-Oxley Act was not passed until after the Enron scandal. In fact, it was Watkins's circumstance and Enron's misdeeds that helped convince Congress to pass the law.[56])

Now a respected national speaker on the topic of ethics and employees' responsibility, Watkins talks about how an employee should handle such situations. "When you're faced with something that really matters, if you're silent, you're starting on the wrong path...go against the crowd if need be," she said in a speech to the National Character and Leadership Symposium (a seminar to instill leadership and moral qualities in young men and women).

Watkins talks openly about the risk of being an honest employee, something employees should consider when evaluating what they owe their company, the public, and themselves. "I will never have a job in corporate America again. The minute you speak truth to power and you're not heard, your career is never the same again."

Enron's corporate leaders dealt with the looming crisis by a combination of blaming others and leaving their employees to fend for themselves. According to Watkins, "Within two weeks of me finding this fraud, [Enron president] Jeff Skilling quit. We did feel like we were on a battleship, and things were not going well, and the captain had just taken a helicopter home. The fall of 2001 was just the bleakest time in my life, because everything I thought was secure was no longer secure."

- Did Watkins owe an ethical duty to Enron, to its shareholders, or to the investing public to go public with her suspicions? Explain your answer.
- How big a price is it fair to ask a whistleblowing employee to pay?

Ideally, it is best that entrepreneurs exemplify good ethical behavior, expect their people to do the same, and help the members of the organization develop a moral compass. However, it is equally as important that

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56   Shaheen Pasha. "Enron's Whistle Blower Details Sinking Ship." *CNN Money*. March 16, 2006. http://money.cnn.com/2006/03/15/news/newsmakers/enron/

business owners take action and put in place the right checks and balances that verify that the organization's people are complying with its policies and principles of ethical behavior.

Organizations should set up systems that monitor compliance. In addition, you should develop a leadership pipeline that ensures that individuals would be placed in the pipelines only if they exhibit good ethical behavior, working with each business unit manager to ensure this is happening. Individual assessments should clearly assess ethical behavior and provide rewards, recognitions, and promotions for good ethical behavior, and consequences and training/solutions for actions that do not meet company standards. You should provide meaningful, substantial, and timely consequences for lack of acceptable behavior, such as removing an executive from a leadership pipeline when it has been established that they will not govern responsibly.

Importantly, members of the organization should not be intimidated to blindly follow or accept the existing monitoring system without question. An entrepreneur needs to cultivate an environment where they expect, support, and encourage every member of their organization to be inquisitive, be creative, question authority, and search for the underlying truth in all matters. It must be noted that questioning authority does not mean anything goes; it simply means that employees are expected to think on their own. Accountability should be encouraged; it is both an ethical and legal issue.

An example of a system of accountability that is appropriate for entrepreneurs is one proposed by an article in the *Harvard Business Review*.[57] A sound approach to accountability requires a multistep process that includes establishing expectations, ensuring employees have the capability to do it, measurement of results, feedback, and consequences for unethical behavior. In addition to an ethical approach, remember that there are federal laws mandating accountability. The most well-known of these is the Sarbanes-Oxley Act,[58] discussed elsewhere in this chapter, and other chapters in this text. Also called the Corporate and Auditing Accountability, Responsibility, and Transparency Act, the Sarbanes-Oxley Act requires publicly traded companies to have an internal system of control that emphasizes transparency and accountability.

If You Make a Mistake

If you or your organization makes a mistake or misstep, you must decide how to address it. In general, you are faced with the choice of paying now or paying a hundredfold later. A closer look at the largest, most expensive, and most devastating corporate failures of our times shows that these failures have resulted in the loss of life, property, and/or monumental environmental disasters. For the most part, these corporate failures have been caused by one or more ethical deviations on behalf of leadership. To combat these problems, entrepreneurs need to start by first being responsible, accepting their failures, and admitting when they have made mistakes. This admittance needs to be genuine, transparent, prompt, truthful, and authentic if they wish stakeholders to accept and believe their remorse. Once that first step is taken, they need to take immediate steps to proactively address the problems they have caused. Many leaders or entrepreneurs have learned the hard way that they need to be open and transparent with their stakeholders at the outset. Failure to rapidly admit mistakes can and has resulted in paying a very steep price when exposed. The actions that an entrepreneur needs to take include:

1. Admitting their mistakes, failures, and shortcomings to all stakeholders
2. Effectively communicating the nature of the problem to major stakeholders
3. Informing the stakeholders of the impact, side effect, and causes of the problem

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57   Peter Bregman. "The Right Way to Hold People Accountable." *Harvard Business Review*. January 11, 2016. https://hbr.org/2016/01/the-right-way-to-hold-people-accountable

58   Pub.L. 107–204. https://legcounsel.house.gov/Comps/Sarbanes-oxley%20Act%20Of%202002.pdf

4. Taking necessary and immediate steps to address the issue and stop the bleeding
5. Conducting a thorough and unbiased root-cause analysis to identify the underlying cause
6. Addressing any people and systemic gaps that caused the problem in the first place
7. Putting in place measures that will prevent the repeat of the same mistakes

To summarize, the best approach is that you admit your mistakes and shortcomings, pay the price, fix and uproot the problem, and systematically prevent the repeat of the same mistakes. A few examples of corporate mistakes and shortcomings that were quickly addressed before turning into severe problems would be the Tylenol poisoning and the customer accounts stolen at Target. A few examples of a problem that were not handled correctly and resulted in multi-billion-dollar problems are GM's faulty ignition switch problem, Volkswagen's emission control fraud, and Wells Fargo's account fraud.

ENTREPRENEUR IN ACTION

Taking the Ethical High Road

To go beyond a glowing commitment report, a shining website, or a few meaningless words in a code-of-conduct on corporate responsibility, an entrepreneur needs to follow the rule of law, the spirit of the law, and do the right thing at all times and under all circumstances. To achieve this, entrepreneurs need to develop and internalize a moral compass that prevents them from doing the wrong and unethical thing despite the consequences.

One classic example of doing the right thing which has been studied as a case study in business schools is attributed to Johnson & Johnson (J&J). In 1982, J&J found out that someone had tampered with and laced their Tylenol capsules with potassium cyanide.[59] To address this problem, safeguard their brand name, and prevent negative press, J&J removed all of their Tylenol products from the shelves.

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59   Dan Fletcher. "A Brief History of the Tylenol Poisoning." *Time*. February 9, 2009. http://content.time.com/time/nation/article/0,8599,1878063,00.html

🔑 Key Terms

anchoring strategies in the ethical context, the process of making ethics a foundation (anchor) of your business so that decision makers act keeping in mind key ethical considerations

antitrust laws prevent companies from abusing position or power in the market through exclusion or limitation of competitor access to the market

business ethics conduct by which companies and their agents abide by the law and respect the rights of their stakeholders, particularly their customers, clients, employees, and the surrounding community and environment

conflict of interest when an individual or organization has interests in multiple areas that come into conflict with each other

copyright grants the creator of a work the exclusive right to reproduce the work, typically for a specified period of time

corporate social responsibility (CSR) practice in which a business views itself within a broader context, as a member of society with certain implicit social obligations and responsibility for its own effects on environmental and social well-being

design patent protects product design

disclosure sharing the needed facts and details about a subject in a transparent and truthful way

diversity inclusion of many types of employees, regardless of differences (race, religion, gender, disability, LGTBQ, socioeconomic, cultural)

environmental entrepreneurship entrepreneurial ventures focused on identifying an environmental problem and creating a product or process to solve that problem

ethics standards of behavior to which we hold ourselves in our personal and professional lives

fairness impartial, unbiased compliance with rules and standards of what is right, just, and equitable

integrity adherence to a code of moral values implying trustworthiness and incorruptibility because there is unity between what we say and what we do

intellectual property legally protected result of creative work to turn a unique idea into a product or service

prejudice way of thinking about or treating employees in a manner that favors or hinders one person or group over another, usually in a way considered to be unfair

social entrepreneurship entrepreneurial ventures focused on identifying a societal problem and creating a product or process to solve that problem

sustainability practice of preserving resources and operating in a way that is ecologically responsible in the long term

trade secret proprietary information, processes, or other internal knowledge that contribute to an organization's competitive edge in a market

trademark registration that provides the owner the ability to use a name, symbol, jingle, or character in conjunction with a specific product or service, and prevents others from using those same symbols to sell their products

truthfulness underlying facts, reality, and evidence on a matter

utility patent protects product ideas

📄 Summary

3.1 Ethical and Legal Issues in Entrepreneurship

The first section of this chapter explores the relationship between entrepreneurship, ethics, social

responsibility, and the law. At times, ethical conduct and legal conduct may seem intertwined; in other circumstances, they are quite different. This section discusses how ethical considerations can provide a moral compass for entrepreneurs seeking to find a balance between making money and doing the right thing. Keep in mind, however, that unlike legal mandates, following ethical business practices is more often a voluntary matter for business owners and operators. On the other hand, laws are important to follow, or you and your business might well be held legally liable (civilly or criminally). Sometimes, making a mistake is only an ethical lapse; other times, the mistake also constitutes a violation of the law (e.g., the Equifax case discussed).

3.2 Corporate Social Responsibility and Social Entrepreneurship

This section explored examples of entrepreneurship in which social responsibility plays a key role in the organization. Causes such as sustainability/environmental awareness are often important to an entrepreneur and his/her workforce. Most startup businesses want to make money, and in fact, as this section demonstrates, it's quite possible to make money and carry out a social responsibility goal simultaneously. Some social entrepreneurship companies go the extra mile and become certified B-corporations, as opposed to C-corps or S-corps, which are tax distinctions. If an entrepreneur elects to become a B-corporation, it means that it has satisfied an outside organization's audit, proving that he/she truly acts in a socially responsible manner.

3.3 Developing a Workplace Culture of Ethical Excellence and Accountability

This section of the chapter covers the area of employment. We explored how entrepreneurs can make their company one for which people want to work: where being ethical is a highly regarded trait. This type of approach to employment includes both ethical and legal considerations, such as no discrimination, fair pay, encouraging/rewarding ethical behavior, and creating an atmosphere of collegial teamwork. This approach to creating a socially responsible workplace requires a long-term commitment to being an ethical employer, which is not always easy. For example, it may mean, even though you are the boss or owner, admitting you made a mistake, accepting responsibility for it, and correcting it. You do not want to be the type of boss who can never say I got that wrong, and I'll do better next time.

📑 Review Questions

1. Full and truthful disclosure _____.
   a. is often required under tort law
   b. is a matter of ethics, not a legal requirement
   c. is a risky business practice because it helps the competition
   d. is a strictly personal choice

2. Common IP law-mandated periods of protection are _____.
   a. copyrights are protected for twenty years
   b. patents are protected for fifty years
   c. trademarks are protected for renewable ten-year periods
   d. trade secrets are protected for fifteen years

3. Acting ethically includes acting with which of the following?

    a.   integrity

    b.   disclosure

    c.   transparency

    d.   All of these options are correct.

4. Antitrust law:

    a.   may help small entrepreneurs by ensuring big companies do not have monopolies

    b.   may hurt small entrepreneur by requiring them to disclose trade secrets

    c.   only applies to businesses with over 500 employees

    d.   None of these options are correct.

5. Patents _____.

    a.   are similar to trade secrets under IP law

    b.   allow a temporary monopoly for an invention

    c.   are protected under IP law for a period of ninety-nine years

    d.   None of these options are correct.

6. An example of a company(s) that have been fined millions of dollars for legal/ethical violations includes _____.

    a.   Enron

    b.   TOMS

    c.   British Petroleum

    d.   a and c

7. The B-corporation moniker _____.

    a.   requires government certification

    b.   requires no certification

    c.   can only be used after an audit and certification by the B-corp organization

    d.   is a social media concept used primarily for marketing purposes

8. What differentiates a social entrepreneurial enterprise from a traditional entrepreneur?

    a.   commitment to reduce pollution

    b.   pledge to undertake sustainable supply chain sourcing

    c.   effort to recycle water, waste, and other byproducts

    d.   All of these options are correct.

9. Core qualities for building a foundation of ethics-based behaviors include _____.

    a.   trust

    b.   fairness

    c.   excellence

    d.   All of these options are correct.

10. Millennial workers _____.

    a.   often do not place salary as their first priority

    b.   want work-life balance

    c.   usually expect their employer to have an ethical value system

    d.   All of these options are correct.

11. A diverse workforce _____.
   a. is always optional
   b. is usually required for government contracting
   c. is always required under Title VII
   d. is never required

Discussion Questions

1. How can ethics-based concepts such as truthfulness and fairness be integrated into the fabric of the organization?

2. How can we nurture an environment where each member of the organization develops and internalizes a moral compass?

3. Evaluate how an entrepreneurial business startup might benefit from the enforcement of antitrust laws against a large competitor.

4. Discuss ways in which intellectual property, such as trademarks, can add value to a small business. How would you protect your ability to monetize intellectual property?

5. In this section of the chapter, there is an example of a customer data breach via computer hacking. Discuss the biggest risks of storing customer or company information online. What are some of the steps you would take to prevent a data breach?

6. Can a social enterprise work on a social issue and at the same time be profitable?

7. How will you ensure that your organization learns to develop and deliver products and services that reduces your carbon footprint?

8. Referring to Table 3.3 listing cases of corporate fraud, which company example do you think is one of the worst examples of unethical conduct? Is this because it involved the most money stolen, the most people cheated, or the most devious methods?

9. If an entrepreneur values sustainability and environmental awareness, does that mean the bottom line will suffer? Alternatively, is there a way to protect the environment and still make a profit?

10. You have learned about B-corporations. If you started a new business, would you commit to the rather stringent audit process necessary to become a B-corporation? Why or why not?

11. How can an entrepreneur maximize the benefits of a diverse workforce to develop a competitive advantage?

12. How can you combat the negative impact of biases and prejudices in your organization?

13. What would you do, as an entrepreneur, to make your employees feel you value their input and that they are free to speak honestly?

14. Explain why diversity is something that should matter to an owner. What would you do to try to achieve it?

15. Some small entrepreneurs do not have the budget for a full-fledged human resources department; however, that makes compliance with employment laws challenging. What steps would you take to comply with federal and state employment law if you do not have a full-time attorney or human resources specialist on staff?

🗐 Case Questions

1. In 2017, it became apparent that Wells Fargo had created over 2 million falsified customer accounts without the customers' consent, approval, or knowledge. John Stumpf, Wells Fargo CEO, who resigned amid this scandal, denied any leadership involvement and wrongdoing. He blamed his employees and fired over 5,300 employees over this scandal. Research this case and answer the following questions.
    A.   What organizational and company-culture factors convinced employees to create false accounts?
    B.   Why did the employees not question leadership?

2. In 2017, the US Environmental Protection Agency found that Volkswagen had installed a "defeat device"—software in the vehicle that detects that an emissions test is in progress, controls the engine, reduces emissions, and enables the vehicle to pass the test for US emissions standards. Martin Winterkorn, CEO of Volkswagen, denied any wrongdoing, was later forced to resign, and admitted they had cheated. Research this case and answer the following questions.
    A.   What organizational and cultural factors convinced Volkswagen employees to cheat?
    B.   Why did the workforce not question leadership?

3. If you were to create a top-ten list of the world's greatest corruption scandals, the problems of Petrobras (*Petróleo Brasileiro*) in Brazil surely would make the list. The majority state-owned petroleum conglomerate was a party to a multibillion-dollar scandal in which company executives received bribes and kickbacks from contractors in exchange for lucrative construction and drilling contracts. The contractors paid Petrobras executives upward of 5 percent of the contract amount, which was funneled back into slush funds. The slush funds, in turn, paid for the election campaigns of certain members of the ruling political party, *Partido dos Trabalhadores*, or the Workers Party, as well as for luxury items like race cars, jewelry, Rolex watches, yachts, wine, and art.[60] The original investigation into these practices was known as Operation Car Wash (*Lava Jato*) and began in 2014 at a gas station and car wash in Brasília, where money was being laundered. It has since expanded to include scrutiny of senators, government officials, and the former president of the republic, Luiz Inácio Lula da Silva. The probe also contributed to the impeachment and removal of Lula's successor, Dilma Rousseff. Lula and Rousseff are members of the Workers Party. The case is complex, revealing Chinese suppliers, Swiss bank accounts where money was hidden from Brazilian authorities, and wire transfers that went through New York City and caught the eye of the US Department of Justice. In early 2017, the Brazilian Supreme Court justice in charge of the investigation and prosecution was mysteriously killed in a plane crash. It is hard to imagine a more tragic example of systemic breakdown and individual vice. The loss of trust in government and the economy still affects ordinary Brazilians. Meanwhile, the investigation continues.
    A.   Is this Brazilian company scandal unique to that culture?

60   Jonathan Watts. "The Long Read Operation Car Wash: Is This the Biggest Corruption Scandal in History?" *The Guardian*. June 1, 2017.

4. In the fall of 2016, Samsung Electronics experienced a massive public relations disaster when its Galaxy Note 7 smartphones started exploding due to faulty batteries and casings. Initially, the company denied there were any technical problems. Then, when it became obvious the exploding phones posed a safety and health threat (they were banned from airplanes), Samsung accused its suppliers of creating the problem. In reality, the rush to beat Apple's iPhone 7 release date was the most likely reason corners were cut in production. Samsung finally owned up to the problem, recalled more than two million phones worldwide, and replaced them with new, improved Galaxy Note 7s. The company's response and its replacement of the phones went a long way toward defusing the disaster and even boosting the company's share price. Samsung focused on the customer (i.e., customer safety and satisfaction) with the motive of doing the ethically responsible thing.

A. Although some might argue the company could have done far more and much more quickly, perhaps it still acted reasonably. What do you think?

5. Sometimes engaged employees go above and beyond in the interest of customer service, even if they have no "customers" to speak of. Kathy Fryman is one such employee. Fryman was a custodian for three decades at a 100-year-old school in the Augusta (KY) Independent School District. She was not just taking care of the school building, she was also taking care of the people inside.[61] Fryman fixed doors that would not close, phones that would not ring, and alarms that did not sound when they should. She kept track of keys and swept up dirty floors before parents' night. That was all part of the job of custodian, but she did much more. Fryman would often ask the nurse how an ill student was doing. She would check with a teacher about a kid who was going through tough times at home. If a teacher mentioned needing something, the next day it would show up on his or her desk. A student who needed something for class would suddenly find it in his or her backpack. Speaking of Fryman, district superintendent Lisa McCrane said, "She just has a unique way of making others feel nurtured, comforted, and cared for." According to Fryman, "...I need to be doing something for somebody." Fryman's customers were not there to buy a product on which she would make a commission. Her customers were students and teachers, parents and taxpayers. Yet she provided the kind of service that all employers would be proud of, the kind that makes a difference to people every day.

A. Is there a way for a manager to find, develop, and encourage the next Fryman, or is the desire to "do something good for somebody" an inherent trait in some employees that is missing in others?

B. Employees who display Fryman's zeal often do so for their own internal rewards. Others may simply want to be recognized and appreciated for their effort. If you were the superintendent in her district, how would you recognize Fryman? Could she, for example, be invited to speak to new hires about opportunities to render exceptional service?

6. Please view the video ABC Nightline-IDEO Shopping Cart (https://openstax.org/l/52IDEOShopCart) on YouTube. This video demonstrates how an entrepreneurial mindset combined along with a collaborative process can be used to deliver the most innovative products.

A. After watching the IDEO YouTube video, list the different factors that has enabled IDEO to become an industry example for corporate innovation.

B. What top principles and behaviors that has contributed to the development of a culture of collaborative excellence?

Suggested Resources

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61   Brenna Kelly. "Augusta Schools Custodian Kathy Fryman Takes Care of Building and the People Inside; Gets Fred Award." *Northern Kentucky Tribune*. September 23, 2017. http://www.nkytribune.com/2017/09/augusta-schools-custodian-kathy-fryman-takes-care-of-building-and-the-people-inside-gets-fred-award/

3.1 Ethical and Legal Issues in Entrepreneurship

SBREFA Small Business Resource Center. This is a great site for help with understanding legal requirements and regulatory compliance.

https://www.dol.gov/agencies/oasam/business-operations-center/osdbu/compliance-assistance

US Department of Labor, Office of the Assistant Secretary for Administration & Management.

3.2 Corporate Social Responsibility and Social Entrepreneurship

List of Social Enterprise Business Models or Frameworks: http://www.thesedge.org/socent-spotlights/22-awesome-social-enterprise-business-ideas

TedTalk video: Carol Sanford at TEDxBerkeley 2014. "The Responsible Entrepreneur: Four Game Changing Archetypes": https://www.youtube.com/watch?v=Dqza5Uo1cFE

Global Entrepreneurship Monitor (GEM): www.gemconsortium.org

Social Enterprise and Entrepreneurship (SEE) the Change: https://seethechange.ca

3.3 Developing a Workplace Culture of Ethical Excellence and Accountability

Society for Human Resource Management: https://www.shrm.org