

introduction to entrepreneurship

There is tremendous interest in entrepreneurship around the world. Although this statement may seem bold, there is evidence supporting it, some of which is provided by the Global Entrepreneurship Monitor (GEM). GEM, which is a joint research effort by Babson College, London Business School, Universidad

del Desarrollo (Santiago, Chile), and Universiti Tun Abdul Razak (Malaysia), tracks entrepreneurship in 70 countries, including the United States. Of particular interest to GEM is early stage entrepreneurial activity, which consists of businesses that are just being started and businesses that have been in existence for less than three and a half years. A sample of the rate of early-stage

entrepreneurial activity in countries included in the GEM study is shown in Table 1.1. While the highest rates of entrepreneurial start-up activities occur in low-income countries, where good jobs are not plentiful, the rates are also impressive in high-income countries such as Germany (5.0 percent), United

Kingdom (7.1 percent), and the United States (12.7 percent). What the 12.7 percent means for the United States is that almost 1 out of every 8 American adults is actively engaged in starting a business or is the owner/manager of a business that is less than three-and-a-half-years old.²

The GEM study also identifies whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people in high-income countries are drawn to entrepreneurship to take advantage of attractive opportunities. The reverse is true of people in low-income countries, who tend to be drawn to entrepreneurship

primarily because of necessity (resulting from a lack of career prospects). One criticism of entrepreneurship, which is often repeated in the press, is that the majority of new businesses fail. It simply isn't true. The often used statistic that 9 out of 10 businesses fail in their first few years is an exaggeration. For example, evidence indicates that the three-year survival rates for entrepreneurial

ventures established in Denmark is 53.5 percent, while it is up to 66.9 percent in other parts of Europe.⁴ Historically, survival rates of entrepreneurial firms While overall these figures are heartening, the percentage of firms that do fail in Europe, the United States, and throughout the world shows that a motivation to start and run a business isn't enough; it must be coupled with a solid business

idea, good financial management, and effective execution to maximize chances for success. In this book, we'll discuss many examples of entrepreneurial firms and the factors separating successful new ventures from unsuccessful ones.

Many people see entrepreneurship as an attractive career path. Think about your friends and others you know. In all probability, you are acquainted with at least one or two people who want to become an entrepreneur—either now or at some point in the future. The number of books dealing with starting one's own business is another indication entrepreneurship is growing in popularity.

Amazon.com, for example, currently lists over 36,900 books and other items dealing with entrepreneurship and over 89,900 books concerned with small businesses. The number of books on small business is up from 62,700 just three years ago.

What is entrepreneurship and why is it important?

The word entrepreneur derives from the French words *entre*, meaning “between,” and *prendre*, meaning “to take.” The word was originally used to describe people who “take on the risk” between buyers and sellers or who “undertake” a task such as starting a new venture.⁵ Inventors and entrepreneurs differ from each other. An inventor creates something new. An entrepreneur assembles and then integrates all the resources needed—the money, the people, the business model, the strategy,

and the risk-bearing ability—to transform the invention into a viable business.

Entrepreneurship is defined as the process by which individuals pursue opportunities without regard to resources, they currently control for the purpose of exploiting future goods and services.⁷ Others, such as venture capitalist Fred Wilson, define it more simply, seeing entrepreneurship as the art of turning

an idea into a business. In essence, an entrepreneur's behavior finds him or her trying to identify opportunities and putting useful ideas into practice. The tasks called for by this behavior can be accomplished by either an individual or a group and typically require creativity, drive, and a willingness to take risks.

Zach Schau, the cofounder of Pure Fix Cycles, exemplifies all these qualities. Zach saw an opportunity to create a new type of bicycle and a new type of bicycling experience for riders, he risked his career by passing up alternatives to work on Pure Fix Cycles full time, and he's now working hard to put Pure Fix Cycles in a position to deliver a creative and useful product to its customers. In this book, we focus on entrepreneurship in the context of an entrepreneur or team of entrepreneurs launching a new business. However, ongoing firms can also behave entrepreneurially. Typically, established firms with an entrepreneurial emphasis are proactive, innovative, and risk-taking. For example, Google is widely recognized as a firm in which entrepreneurial behaviors are clearly evident. Larry Page, one of Google's cofounders, is at the heart of Google's entrepreneurial culture. With his ability to persuade and motivate others' imaginations, Page continues to inspire Google's employees as they develop innovative product after innovative product. To consider the penetration Google has with some of its innovations, think of how often you and people you know use the Google search engine, Gmail, Google Maps, or Google Earth. Google is currently working on a bevy of far-reaching

innovations, such as Google Glasses and self-driving cars. Similarly, studying Facebook or Dropbox's ability

to grow and succeed reveals a history of entrepreneurial behavior at multiple levels within the firms.⁹ In addition, many of the firms traded on the NASDAQ, such as Amgen, Intuit, Apple, and Green Mountain Coffee Roasters, are commonly thought of as entrepreneurial firms. The NASDAQ is the largest U.S.

electronic stock market, with nearly 5,000 companies listed on the exchange. We want to note here that established firms with an orientation toward acting entrepreneurially practice corporate entrepreneurship.¹⁰ All firms fall along a conceptual continuum that ranges from highly conservative to highly entrepreneurial. The position of a firm on this continuum is referred to as its entrepreneurial intensity.¹¹ As we mentioned previously, entrepreneurial firms are typically proactive innovators and are not averse to taking calculated risks. In contrast, conservative firms take more of a "wait and see" posture, are less innovative, and are risk averse. One of the most persuasive indications of entrepreneurship's importance to an individual or to a firm is the degree of effort undertaken to behave in an entrepreneurial manner. Firms with higher entrepreneurial intensity regularly look for ways to cut bureaucracy. For example, Virgin Group, the large British conglomerate, works hard to keep its units small and instill in them an entrepreneurial spirit. Virgin is one of the most recognized brands in Britain and is involved in businesses as diverse as airlines and music. In the following quote, Sir Richard Branson, the founder and CEO of Virgin, describes how his company operates in an entrepreneurial manner:

Convention ... dictates that "big is beautiful," but every time one of our ventures gets too big we divide it up into smaller units. I go to the deputy managing director, the deputy sales director, and the deputy marketing director and say, "Congratulations. You're now MD [managing director], sales director and marketing director—of a new company." Each time we've done this, the people involved haven't had much more work to do, but necessarily they have a greater incentive to perform and a greater zeal for their work. The results for us have been terrific. By the time we sold Virgin Music, we had as many as 50 subsidiary record companies, and not one of them had more than 60 employees.

Why Do people become entrepreneurs?

The three primary reasons that people become entrepreneurs and start their own firms are to be their own boss, pursue their own ideas, and realize financial rewards.

Be their own Boss

The first of these reasons—being one's own boss—is given most commonly. This doesn't mean, however, that entrepreneurs are difficult to work with or that they have trouble accepting authority. Instead, many entrepreneurs want to be their own boss because either they have had a long-time ambition to own their own firm or because they have become frustrated working in traditional jobs. The type of frustration that some entrepreneurs feel working in conventional jobs is exemplified

by Wendy DeFeudis, the founder of VeryWendy, a company that makes customized social invitations. Commenting on how her experiences working for herself have been more satisfying than working for a large firm, DeFeudis remarked:

I always wanted to be my own boss. I felt confined by the corporate structure. I found it frustrating and a complete waste of time—a waste to have to sell my ideas to multiple people and attend all kinds of internal meetings before moving forward with a concept.

Some entrepreneurs transition from a traditional job to owning their own business more gradually, by starting their business part time to begin with.

While this approach isn't possible in all situations, by starting a business part time individuals can gain valuable experience, tuck away the money they earn, and find out if they really like the business before deciding to leave their job. In some businesses, such as catering or financial planning, it takes time to build a client list. Some entrepreneurs will time their departure from their job with the point in time where their client list is large enough and profitable enough to support a full-time business.

[pursue their own ideas](#)

The second reason people start their own firms is to pursue their own ideas.¹⁵ Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized. Corporate entrepreneurs who innovate within the context of an existing firm typically have a mechanism for their ideas to become known. Established firms, however, often resist innovation. When this happens, employees are left with good ideas that go unfulfilled.¹⁶ Because of their passion and commitment, some employees choose to leave the firm employing them in order to start their own business as the means to develop their own ideas.

This chain of events can take place in non-corporate settings, too. For example, some people, through a hobby, leisure activity, or just everyday life, recognize the need for a product or service that is not available in the marketplace. If the idea is viable enough to support a business, they commit tremendous time and energy to convert the idea into a part-time or full-time firm. In Chapters 2 and 3, we focus on how entrepreneurs spot ideas and determine if their ideas represent viable business opportunities.

An example of a person who left a job to pursue an idea is Melissa

Pickering, the founder of Increate to Educate, a company that is developing software apps that allow students to build, express, and share their creativity through animated videos. Pickering started her career as a mechanical engineer at Walt Disney Corp., a role that she said is more commonly referred to as an imaginer or a roller coaster engineer. She was struck by the fact that even at Disney, a place that some may refer to as the ultimate creative group, there weren't many people who were female or close to her own age, and young engineers didn't seem to be seeking out a Disney career. Her attention shifted to creativity and kids. Commenting on what happened next, she said: My hunch was kids are not getting enough hands-on opportunities in the classroom

to express and engage their creativity and problem-solving skills. At that point I sought to launch an education technology business that would provide kids with the tools to create and explore, fostering the natural innovator within. Create to Educate is currently building a portfolio of products, which includes both an iPhone and an iPad app. All of the firm's products are centered on helping kids better develop and express their creativity

Characteristics of successful entrepreneurs

Although many behaviors have been ascribed to entrepreneurs, several are common to those who are successful. Those in new ventures and those who are already part of an entrepreneurial firm share these qualities, which are shown in Figure 1.1 and described in the following section.

passion for the Business

The number-one characteristic shared by successful entrepreneurs is a **passion for their business**, whether it is in the context of a new firm or an existing business. This passion typically stems from the entrepreneur's belief that the business will positively influence people's lives. Making a difference in people's lives is also the primary motivator behind many social enterprises, which are often started by people who set aside promising careers to pursue a social goal. This was the case with John Wood, who founded Room to Read and is the author of the book *Leaving Microsoft to Change the World*. Wood's deep passion to help children in the developing world caused him to start cashing in small amounts of Microsoft stock to buy books and build schools, even before he left the company. In excerpts from an interview published by *Forbes* magazine, Wood said:

During my travels, I met so many children in the poorest parts of the world, lacking access to school, books, and libraries, that I began cashing in small amounts of stocks to help them. Two hundred shares of Microsoft stock was enough to build an entire school in rural Nepal.²⁰

Wood eventually left Microsoft to work on Room to Read full time. Since its inception in 2000, Room to Read has built 1,450 schools, established 12,522 libraries, distributed over 10 million children's books, and funded 13,662 longterm girls' scholarships in developing parts of the world.²¹

Passion is particularly important for both for-profit and not-for-profit entrepreneurial organizations because although rewarding, the process of starting a firm or building a social enterprise is demanding. There are five primary reasons passion is important, as reflected in Table 1.2. Each of these reasons reflects a personal attribute that passion engenders. Removing just one of these qualities would make it much more difficult to launch and sustain a successful entrepreneurial organization.

A note of caution is in order here: While entrepreneurs should have passion, they should not wear rose-colored glasses. It would be a mistake to believe that all one needs is passion and anything is possible. It is important to

be enthusiastic about a business idea, but it is also important to understand its potential flaws and risks. In addition, entrepreneurs should understand that the most effective business ideas take hold when their passion is consistent with their skills and is in an area that represents a legitimate business opportunity.

To illustrate the importance of passion, as well as other factors that are critical in determining a firm's success or failure, we include a boxed feature titled "What Went Wrong?" in each chapter. The feature for this chapter shows how Prim, a laundry and pick-up and delivery service, ultimately failed in part because its founders were not able to remain passionate about their business idea.

Five primary reasons passion is important for the Launch of a successful entrepreneurial Organization

reason passion is important explanation

1. The ability to learn and iterate

Founders don't have all the answers. It takes passion and drive to solicit feedback, make necessary changes and move forward. The changes won't always be obvious. Passion makes the search for the right answers invigorating and fun.

2. A willingness to work hard for an extended period of time

Commonly, entrepreneurs work longer hours than people with traditional jobs. You can only do that, on a sustained basis, if you're passionate about what you're doing.

3. Ability to overcome setbacks and "no's"

It's rare that an entrepreneur doesn't experience setbacks and hear many "no's" From potential customers, investors, and others while building an entrepreneurial business

or social enterprise. The energy to continue comes from passion for an idea.

4. The ability to listen to feedback on the limitations of your organization and yourself

You'll meet plenty of people along the way—some with good intentions and some without—who will tell you how to improve your organization and how to improve yourself. You have to be willing to listen to the people with good intentions and make changes if it helps. You have to be able to brush aside feedback from people with bad intentions without letting them get you down.

5. Perseverance and persistence when the going gets tough

Perseverance and persistence come from passion. As an entrepreneur, you'll have

down days. Building an entrepreneurial organization is fraught with challenges. Passion is what provides an entrepreneur the motivation to get through tough times.

DECISIon To BECoME An EnTREPREnEUR

product/customer focus

A second defining characteristic of successful entrepreneurs is a **product/customer focus**. This quality is exemplified by Steven Jobs, the late co-founder of Apple Inc., who wrote, "The computer is the most remarkable tool we've ever built ... but the most important thing is to get them in the hands of as many people as possible."²² This sentiment underscores an understanding of the two most important elements in any business—products and customers. While it's important to think about management, marketing, finance, and the like, none of those functions makes any difference if a firm does not have good products with the capability to satisfy customers.

This philosophy is affirmed by Alex Algard, the founder of WhitePages.com. WhitePages.com started in 1997 to provide consumers a free, accurate, and fast online alternative to telephone directory assistance. It is one of the most trusted and comprehensive sources for consumers to quickly find relevant, accurate contact information in North America. When asked how he was able to grow WhitePages.com from a one person operation in 1997 to the multimilliondollar company it is today, Algard's reply reflected not only his feelings about the importance of providing value to both users and customers but also how a company measures if the value is being successfully delivered:

The philosophy that we as a company have always stuck to is that everything we build has to provide real value to both our users and customers. The best measurement of whether or not we are successful at delivering something valuable is if our customers, advertisers in our case, are willing to pay.²³

A product/customer focus also involves the diligence to spot product opportunities and to see them through to completion. The idea for the Apple Macintosh, for example, originated in the early 1980s when Steven Jobs and several other Apple employees took a tour of a Xerox research facility. They were astounded to see computers that displayed graphical icons and pulldown menus. The computers also allowed users to navigate desktops using a small, wheeled device called a mouse. Jobs decided to use these innovations to create the Macintosh, the first user-friendly computer. Throughout the two and a half years the Macintosh team developed this new product, it maintained an intense product/customer focus, creating a high-quality computer that is easy to learn, fun to use, and meets the needs of a wide audience of potential users.

tenacity despite failure

Because entrepreneurs are typically trying something new, the possibility of failure exists. In addition, the process of developing a new business is somewhat

similar to what a scientist experiences in the laboratory. A chemist, for example, typically has to try multiple combinations of chemicals before finding an optimal combination that can accomplish a certain objective. In a similar fashion, developing a new business idea may require a certain degree of experimentation before a success is attained. Setbacks and failures inevitably occur during this process. The litmus test for entrepreneurs is their ability to persevere through setbacks and failures.

An example of the degree of tenacity it sometimes takes to launch a successful firm is provided by Jerry Stoppelman and Russel Simmons, the founders of Yelp, the popular online review site. The original idea for Yelp, which was founded in 2004, is that when people are looking for a new restaurant, dentist, or plumber they normally ask their friends for recommendations. Yelp was launched to give people the ability to e-mail a list of their friends and ask for a recommendation. The message included a link that allowed the friend

to easily respond. The business plan didn't work. People started complaining that they were getting too many e-mail messages from friends who often didn't have a recommendation to provide. Yelp could have died at this point. Instead, Stoppelman and Simmons demonstrated the tenacity it often takes to keep a business alive. Curiously, the one aspect of Yelp's business plan that did work was the ability to write your own review—a feature that had been included by Stoppelman and Simmons almost as an afterthought. Rather than responding to a friend's request for a recommendation, people seemed to enjoy sharing information about their favorite restaurant or hair salon without being asked. In 2005, Yelp pivoted and revised its business plan. The new plan dropped the "email your friend idea" and focused on providing a platform for people to proactively write reviews of local businesses. Today, Yelp is one of the most popular review sites on the Internet.

An additional example of tenacity, which involved all the employees of Pandora,²⁵ is provided in the boxed feature titled "Savvy Entrepreneurial Firm." In each chapter, this feature will provide an illustration of the exemplary behavior of one or more entrepreneurial firms or will provide an example of a tool or technique that well-managed entrepreneurial firms use to improve their performance.

execution intelligence

The ability to fashion a solid idea into a viable business is a key characteristic of successful entrepreneurs. Commonly, this ability is thought of as **execution intelligence**.²⁶ In many cases, execution intelligence is the factor that determines whether a start-up is successful or fails. An ancient Chinese saying warns, "To open a business is very easy; to keep it open is very difficult."

The ability to effectively execute a business idea means developing a business model, putting together a new venture team, raising money, establishing partnerships, managing finances, leading and motivating employees, and so on. It also demands the ability to translate thought, creativity, and imagination into action and measurable results. As Jeff Bezos, the founder

of Amazon.com, once said, “Ideas are easy. It’s execution that’s hard.”²⁷ For many entrepreneurs, the hardest time is shortly after they launch their firm. This reality was expressed by Jodi Gallaer, the founder of a lingerie company, who said, “The most challenging part of my job is doing everything for the first time.”²⁸

To illustrate solid execution, let’s look at Starbucks. The business idea of Howard Schultz, the entrepreneur behind the success of Starbucks, was his recognition of the fact that most Americans didn’t have a place to enjoy coffee in a comfortable, quiet setting. Seeing a great opportunity to satisfy customers’ needs, Schultz attacked the marketplace aggressively to make Starbucks the industry leader and to establish a national brand. First, he hired a seasoned management team, constructed a world-class roasting facility to supply his outlets with premium coffee beans, and focused on building an effective organizational infrastructure. Then Schultz recruited a management information systems expert from McDonald’s to design a point-of-sale system capable of tracking consumer purchases across 300 outlets. This decision was crucial to the firm’s ability to sustain rapid growth over the next several years. Starbucks succeeded because Howard Schultz knew how to execute a business idea.²⁹ He built a seasoned management team, implemented an effective strategy, and used information technology wisely to make his business thrive.³⁰ These fundamental aspects of execution excellence should serve Schultz and Starbucks when it comes to dealing with the competitive challenges facing the firm in 2014 and beyond. In mid-2014, over 21,000 Starbucks’ locations had been established in 65 countries.

Common Myths about entrepreneurs

There are many misconceptions about who entrepreneurs are and what motivates them to launch firms to develop their ideas. Some misconceptions are because of the media covering atypical entrepreneurs, such as a couple of college students who obtain venture capital to fund a small business that they grow into a multimillion-dollar company. Such articles rarely state that these

entrepreneurs are the exception rather than the norm and that their success is a result of carefully executing an appropriate plan to commercialize what inherently is a solid business idea. Indeed, the success of many of the entrepreneurs we study in each chapter’s Opening Profile is a result of carefully executing the different aspects of the entrepreneurial process. Let’s look at the most common myths and the realities about entrepreneurs.

myth 1: entrepreneurs are Born, not made

This myth is based on the mistaken belief that some people are genetically predisposed to be entrepreneurs. The consensus of many hundreds of studies on the psychological and sociological makeup of entrepreneurs is that entrepreneurs are not genetically different from other people. This evidence can be interpreted as meaning that no one is “born” to be an entrepreneur

and that everyone has the potential to become one. Whether someone does or doesn't is a function of environment, life experiences, and personal choices.³¹ However, there are personality traits and characteristics commonly associated with entrepreneurs; these are listed in Table 1.3. These traits are developed over time and evolve from an individual's social context. For example, studies show that people with parents who were self-employed are more likely to become entrepreneurs.³² After witnessing a father's or mother's independence in the workplace, an individual is more likely to find independence appealing.³³ Similarly, people who personally know an entrepreneur are more than twice as likely to be involved in starting a new firm as those with no entrepreneur acquaintances or role models.³⁴ The positive impact of knowing an entrepreneur is explained by the fact that direct observation of other entrepreneurs reduces the ambiguity and uncertainty associated with the entrepreneurial process.

myth 2: entrepreneurs are gamblers

A second myth about entrepreneurs is that they are gamblers and take big risks. The truth is, entrepreneurs are usually **moderate risk takers**, as are

most people.³⁵ This finding is affirmed by The Hartford's 2013 Small Business Success Study. The study conducted a survey of 2,600 business owners. A total of 79 percent of the participants rated themselves as conservative rather than risky.³⁶ The idea that entrepreneurs are gamblers originates from two sources. First, entrepreneurs typically have jobs that are less structured, and so they face a more uncertain set of possibilities than managers or rank-and-file employees.³⁷ For example, an entrepreneur who starts a social network consulting service has a less stable job than one working for a state governmental agency. Second, many entrepreneurs have a strong need to achieve and often set challenging goals, a behavior that is sometimes equated with risk taking.

myth 3: entrepreneurs are motivated primarily by money

It is naïve to think that entrepreneurs don't seek financial rewards. As discussed previously, however, money is rarely the primary reason entrepreneurs start new firms and persevere. The importance and role of money in a start-up is put in perspective by Colin Angle, the founder and CEO of iRobot, the maker of the popular Roomba robotic vacuum cleaner. Commenting on his company's mission statement, Angle said:

Our, "Build Cool Stuff, Deliver Great Products, Have Fun, Make Money, Change the World" (mission statement) kept us (in the early days of the Company) unified with a common purpose while gut-wrenching change surrounded us. It reminded us that our goal was to have fun and make money. Most importantly, it reminded us that our mission was not only to make money, but to change the world in the process.³⁸ Some entrepreneurs warn that the pursuit of money can be distracting.

Media mogul Ted Turner said, "If you think money is a real big deal ... you'll be too scared of losing it to get it."³⁹ Similarly, Sam Walton, commenting on all the media attention that surrounded him after he was named the richest man in America by *Forbes* magazine in 1985, said:

Here's the thing: money never has meant that much to me, not even in the sense

of keeping score.... We're not ashamed of having money, but I just don't believe a big showy lifestyle is appropriate for anywhere, least of all here in Bentonville

where folks work hard for their money. We all know that everyone puts on their trousers one leg at a time.... I still can't believe it was news that I get my hair cut at the barbershop. Where else would I get it cut? Why do I drive a pickup truck? What am I supposed to haul my dogs around in, a Rolls-Royce?⁴⁰

myth 4: entrepreneurs Should Be young and energetic

Entrepreneurial activity is fairly evenly spread out over age ranges. The age distribution of business owners, determined by the Kauffman Foundation and LegalZoom 2012 Startup Environment Index, is shown in Table 1.4. As shown, the majority of individuals who start companies are in their thirties and forties. Not surprisingly, given this age distribution, the majority of business owners have work experience prior to launching a new venture.⁴¹ Although it is important to be energetic, investors often cite the strength of the entrepreneur (or team of entrepreneurs) as their most important criterion in the decision to fund new ventures.⁴² In fact, a sentiment that venture capitalists often express is that they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea and a mediocre entrepreneur. What makes an entrepreneur "strong" in the eyes of an investor is experience in the area of the proposed business, skills and abilities that will help the business, a solid reputation, a track record of success, and passion about the business idea. The first four of these five qualities favor older rather than younger entrepreneurs.

myth 5: entrepreneurs love the Spotlight

Indeed, some entrepreneurs are flamboyant; however, the vast majority of them do not attract public attention. In fact, many entrepreneurs, because they are working on proprietary products or services, avoid public notice. Consider that entrepreneurs are the source of the launch of many of the 5,000 companies listed on the NASDAQ, and many of these entrepreneurs are still actively involved with their firms. But how many of these entrepreneurs can you name? Perhaps three or four? Most of us could come up with Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and maybe Larry Page and Sergey Brin of Google or Larry Ellison of Oracle. Whether or not they sought attention, these are the entrepreneurs who are often in the news. But few of us could name the founders of Netflix, Twitter, or DIRECTV, even though we

frequently use these firms' services. These entrepreneurs, like most, have either avoided attention or been passed over by the popular press. They defy the myth that entrepreneurs, more so than other groups in our society, love the spotlight.

types of start-Up Firms

As shown in Figure 1.2, there are three types of start-up firms: salary-substitute firms, lifestyle firms, and entrepreneurial firms.

Salary-substitute firms are small firms that yield a level of income for their owner or owners that is similar to what they would earn when working for an employer. Dry cleaners, convenience stores, restaurants, accounting firms, retail stores, and hairstyling salons are examples of salary-substitute firms. The vast majority of small businesses fit into this category. Salary-substitute firms offer common, easily available and not particularly innovative products or services to customers.

Lifestyle firms provide their owner or owners the opportunity to pursue a particular lifestyle and earn a living while doing so. Lifestyle firms include personal trainers, golf and tennis pros, the owners of bed & breakfasts, and tour guides. These firms are not innovative, nor do they grow quickly. Commonly, lifestyle companies promote a particular sport, hobby, or pastime and may employ only the owner or just a handful of people.

Entrepreneurial firms bring new products and services to market. As we noted earlier in this chapter, the essence of entrepreneurship is creating value and then disseminating that value to customers. In this context, **value** refers to worth, importance, or utility. Entrepreneurial firms bring new products and services to market by creating and then seizing opportunities. Dropbox, Facebook, and LinkedIn are well-known, highly successful examples of entrepreneurial firms. Having recognized an opportunity, the entrepreneurs leading companies of this type create products and services that have worth, are important to their customers, and provide a measure of usefulness to their customers that they wouldn't have otherwise.

One characteristic of entrepreneurial firms, which will be explored throughout this book, is that they partner with other firms and organizations, often to obtain the boost they need to realize their full potential. In each chapter, look for the boxed feature titled "Partnering for Success," which illustrates how entrepreneurial firms used partnerships to increase their chances for success. This feature in this chapter discusses how entrepreneurs and their firms are engaging business incubators and accelerators to gain access to mentors, partners, investors, and other critical start-up resources.

Next, we describe the newly emerging characteristics of today's entrepreneurs. You may be surprised to learn about the types of individuals who are choosing to become entrepreneurs! While reading these characteristics, think about people you know who are accurately described by these characteristics. Do you think any of these people will choose to become entrepreneurs?

Changing Demographics of entrepreneurs

Over the past 10 years, the demographic makeup of entrepreneurial firms has changed in the United States and around the world. Of the 23 million businesses in the United States, 43 women, minorities, seniors, and young people own an increasingly larger number of them. This is an exciting development for the entrepreneurial sector of the U.S. economy.

Women entrepreneurs

While men are still more likely to start businesses than women, the number of women-owned businesses is increasing. According to a study commissioned by American Express OPEN, there were 8.6 million women-owned businesses in the United States in 2013, generating over \$1.3 trillion in revenues and employing nearly 7.8 million people. In addition, between 1997 and 2013, the number of women who owned businesses increased at a rate of one-and-a-half times the national average. Particularly impressive is the growth in the number of firms owned by women who are minorities. A total of 33 percent of women-owned firms are now owned by minorities, up from 17 percent 16 years ago.⁴⁴

Additional data is available from the 2007 U.S. Census Bureau's report on Women Owned Business (the most recent year the data was collected). According to the report, in some industries, women control a significant share of the business. For example, women-owned businesses accounted for 52 percent of all businesses in the health care and social assistance sector. The three states with the highest number of women-owned businesses in 2007 were California, Texas, and New York. There were 141,893 women-owned businesses earning more than \$1 million in 2007.⁴⁵

The number of groups that support and advocate for women-owned businesses continues to increase. An example of these groups is Count Me In (www.countmein.org), which is the leading national not-for-profit provider of resources, business education, and community support for women entrepreneurs.

minority entrepreneurs

There has been a substantial increase in minority entrepreneurs in the United States. The most comprehensive statistics are reported by the Minority Business Development Agency (www.mbda.gov). According to the MBDA, between 2002 and 2007 (the most recent years the data was collected), minority-owned firms outpaced the growth of non-minority firms in gross receipts, employment, and number of firms. In 2007, there were 5.8 million minority-owned firms. Minorities represented 36 percent of the U.S. population in 2010, and will become the majority of the population by 2042.⁴⁷

In 2007, there were about 1.9 million African American-owned firms in the United States. The African American firms with employees had average receipts of over \$911,000 and average employment of 9 workers. Similarly, in 2007 there were 1.5 million Asian American-owned firms. The Asian American firms with

employees had average receipts of more than \$1.1 million and 7 employees. Finally, in 2007, there were about 2.3 million Hispanic-owned firms in the United States. The Hispanic firms with employees had average receipts of \$1.1 million and 8 workers.⁴⁸

Similar to women entrepreneurs, an important factor facilitating the growth of minority entrepreneurs is the number of organizations that promote and provide assistance. Examples include the Latin Business Association, Black Business Association, National Indian Business Association, The National Council of Asian American Business Associations, and the Minority Business Development Agency, which is part of the United States Department of Commerce.

Senior entrepreneurs

The number of seniors (those 50 years of age and older) starting businesses is substantial and growing. According to the Kauffman Foundation and LegalZoom study cited earlier in the chapter, in 2012, 20 percent of new businesses were started by people between 50 and 59 years old while another 12.5 percent were founded by individuals 60 years old and older.⁴⁹ This increase is attributed to a number of factors, including corporate downsizing, an increasing desire among older workers for more personal fulfillment in their lives, and growing worries among seniors that they need to earn additional income to pay for future health care services and other expenses. Many people in the 50 and older age range have substantial business experience, financial resources that they can draw upon, and excellent vigor and health, which make them ideal candidates to start businesses in many industries. In addition, the steady increase in life expectancy means that Americans are not only living longer, but are living healthier longer, and are likely to remain engaged in either a job or an entrepreneurial venture longer in their lives than earlier generations.

Young entrepreneurs

A desire to pursue an entrepreneurial career is high among young people. According to a recent Gallop survey, about 4 in 10 kids in grades 5–12 say they plan to start their own business. Interestingly, the percentage is higher among girls (46 percent) than boys (40 percent). About 59 percent of students in grades 5–12 say their school offers classes in how to start a business. This percentage represents a 9 percent jump from 2011 to 2012. About one-third (32 percent) of young people say their parents or guardians have started a business, which provides them a firsthand look at the entrepreneurial lifestyle.⁵⁰

A number of organizations are involved in spurring interest in entrepreneurship among young people. The Network for Teaching Entrepreneurship (NFTE), for example, provides entrepreneurship education programs to young people

sponsored in part by Google, is a 14-step process that walks young people from a business concept to a business plan and beyond. The idea is to expose young people to entrepreneurial concepts by helping them start and operate their own business—a lemonade stand. Launched in 2007, Lemonade Day has grown from 2,700 kids in Houston, Texas, to more than 200,000 kids in cities across the United States. The organization's goal is to eventually provide this experience to 1 million kids in 100 cities each year.⁵¹

In addition to organizations targeting elementary and middle-aged school kids, a growing number of colleges and universities are offering entrepreneurship-focused programs for high school students. Babson College, for example, offers a five-week summer program for high school juniors and seniors. The program, called the Babson Entrepreneurial Development Experience, allows students to work together on new business ideas. The students can earn college credit and learn from top-ranked faculty in a challenging college atmosphere.⁵² On university and college campuses, interest in entrepreneurship education is at an all-time high. More than 2,300 colleges and universities in the United States offer at least one course in entrepreneurship at the undergraduate or graduate level.⁵³ Although the bulk of entrepreneurship education takes place within business schools, many other colleges and departments are offering entrepreneurship courses as well—including engineering, agriculture, law, hospitality management, and nursing. A growing number of organizations are popping up that focus on helping college student entrepreneurs. These organizations range from the Dorm Room Fund, which is a student-run venture fund that invests in student-initiated start-ups, to Startup Weekend, which helps students organize teams and launch start-ups in 54 hours. A sample of these organizations is shown in

the positive effects of entrepreneurship and entrepreneurial Firms

Entrepreneurship's importance to an economy and the society in which it resides was expertly articulated in 1934 by Joseph Schumpeter, an Austrian economist who did the majority of his work at Harvard University. In his book *The Theory of Economic Development*, Schumpeter argued that entrepreneurs develop new products and technologies that over time make current products and technologies obsolete. Schumpeter called this process **creative destruction**. Because new products and technologies are typically better than those they replace and the availability of improved products and technologies increases consumer demand, creative destruction stimulates economic activity. The new products and technologies may also increase the productivity of all elements of a society.⁵⁴ The creative destruction process is initiated most effectively by start-up ventures that improve on what is currently available. Small firms that practice this art are often called “innovators” or “agents of change.” The process of creative destruction is not limited to new products and technologies; it can include new pricing strategies (e.g., Netflix in DVDs), new distribution channels (such as e-books for books), or new retail formats (such as IKEA in furniture and Whole Foods Market in groceries).

Now let's look more closely at entrepreneurship's importance.

economic impact of entrepreneurial firms

For two reasons, entrepreneurial behavior has a strong impact on an economy's strength and stability.

innovation is the process of creating something new, which is central to the entrepreneurial process.⁵⁵ According to the Small Business Administration (SBA) Office of Advocacy, small innovative firms are 16 times more productive than large innovative firms in terms of patents per employee. Small firms tend to be particularly innovative in certain industries, as measured by patent activity. For example, small firms account for more than 32 percent of patents in both smart grids and solar energy and 15 percent of patents in batteries and fuel cells.⁵⁶

Job Creation According to the SBA, small businesses create a substantial number of net new jobs in the United States. Firms with 500 or fewer employees create 65 percent of new jobs on an annual basis, while firms with 50 or fewer employees create 32 percent of new jobs. The only downside of small business jobs is that employee pay tends to be less than is the case in larger companies. According to the SBA, weekly wages averaged \$679 at businesses with 5 to 9 employees, \$815 at businesses with 50 to 99 employees, and \$1,000 for firms with over 250 employees.⁵⁷ Still, small businesses are held in high regard in terms of job creation.

entrepreneurial firms' impact on Society

Entrepreneurial firms' innovations have a dramatic impact on a society. Think of all the new products and services that make our lives easier, enhance our productivity at work, improve our health, and entertain us. For example, Amgen, an entrepreneurial firm that helped pioneer the biotechnology industry, has produced a number of drugs that have dramatically improved people's lives. An example is NEUPOGEN, a drug that decreases the incidence of infection in cancer patients who are undergoing chemotherapy treatment. In addition to improved health care, consider smartphones, social networks, Internet shopping, overnight package delivery, and digital photography. All these products are new to this generation, yet it's hard to imagine our world without them. However, innovations do create moral and ethical issues with which societies are forced to grapple. For example, bar-code scanner technology and the Internet have made it easier for companies to track the purchasing behavior of their customers, a fact that raises privacy concerns. Similarly, bioengineering has made it easier to extend the shelf life of many food products, but some researchers and consumers question the long-term health implications of bioengineered foods.

entrepreneurial firms' impact on larger firms

In addition to the impact that entrepreneurial firms have on economies and societies, they also positively impact the effectiveness of larger firms. For example, some entrepreneurial firms are original equipment manufacturers, producing parts that go into products that larger firms manufacture and sell. Thus, many exciting new products, such as smartphones, digital cameras, and improved prescription drugs, are not solely the result of the efforts of larger companies with

strong brand names, such as Samsung, Apple, and Johnson & Johnson. They were produced with the cutting-edge component parts or research-and-development efforts provided by entrepreneurial firms.

The evidence shows that many entrepreneurial firms have built their entire business models around producing products and services that increase the efficiency or effectiveness of larger firms. For example, an increasing number of U.S. firms are competing in foreign markets. These initiatives often require firms to employ translators to help them communicate with their foreign counterparts. SpeakLike, a 2008 start-up, has created an online service that provides real-time translation services for two or more people who speak different

languages. This cost of this service is considerably below what it costs to employ human translators. A large percentage of SpeakLike's customers are large firms. Similarly, Box is an entrepreneurial start-up that allows clients to store data files in the cloud. The majority of *Fortune* 500 companies are now Box subscribers.