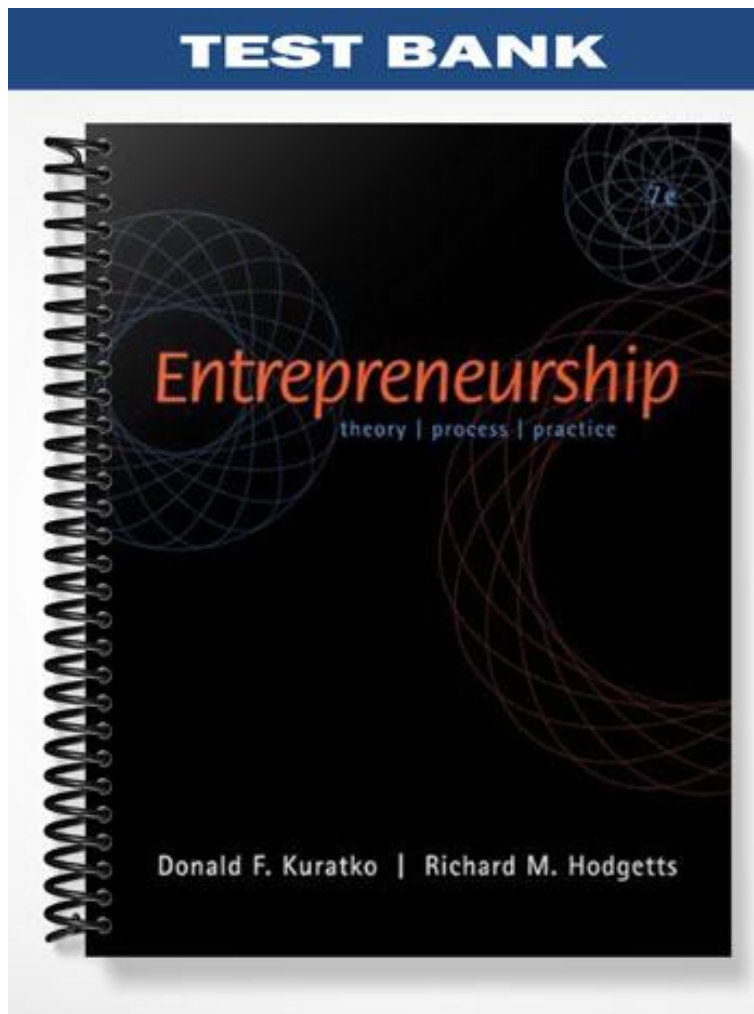


**TEST BANK**



**Entrepreneurship**  
theory | process | practice

Donald F. Kuratko | Richard M. Hodgetts

## CHAPTER 2: THE EVOLUTIONARY DEVELOPMENT OF ENTREPRENEURSHIP

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### TRUE/FALSE

1. Three characteristics of an entrepreneur are personal initiative, management skills, and a desire for autonomy.  
ANS: T
2. Large firms rather than the entrepreneur are the aggressive catalyst for change in the world of business.  
ANS: F
3. The word entrepreneur is derived from the Spanish word *emprender*, meaning “to undertake.”  
ANS: F
4. There is no single definition of an entrepreneur; however research is providing a sharper focus on the subject.  
ANS: T
5. Recognition of entrepreneurs dates back to the French economist Richard Cantillon.  
ANS: T
6. In the past century, entrepreneurship has become closely linked with socialism and regulated business.  
ANS: F
7. Entrepreneurs are the major source of innovation and job creation in the economy.  
ANS: T
8. According to Robert C. Ronstadt, entrepreneurship is the process of creating incremental wealth.  
ANS: T
9. Most entrepreneurs are inventors.  
ANS: F
10. An entrepreneur does not need a lot of money or luck.  
ANS: T
11. Prepared entrepreneurs who seize opportunities when they arise often appear to be lucky.  
ANS: T
12. Entrepreneurs are high risk takers.

ANS: F

13. Entrepreneurs always start their business at a young age.

ANS: F

14. Characteristics of entrepreneurs cannot be taught or learned.

ANS: F

15. Entrepreneurs are born not made.

ANS: F

16. Entrepreneurs are doers not thinkers.

ANS: F

17. Entrepreneurs must fit the “profile.”

ANS: F

18. Entrepreneurs are often very methodical people who plan their moves very carefully.

ANS: T

19. The “corridor principle” states that entrepreneurs often get stuck on one idea.

ANS: F

20. Entrepreneurs are often known as calculated risk takers, as opposed to “gamblers.”

ANS: T

21. The macro view includes external processes that are sometimes beyond the control of the entrepreneur.

ANS: T

22. The displacement school of thought focuses on group phenomena.

ANS: T

23. The strategic formulation school of thought emphasizes the planning process in successful venture development.

ANS: T

24. In the environmental school of thought, legal issues surrounding the natural environment are primary.

ANS: F

25. Venture capital availability is a part of the environment in the multidimensional approach.

ANS: T

26. The financial/capital entrepreneurial school of thought focuses on the potential profit of the business idea.

ANS: F

27. Political, cultural, and economic displacement are all part of the displacement school of entrepreneurial thought.

ANS: T

28. “Great chef” strategies focus on unique markets.

ANS: F

29. Entrepreneurship involves an interdisciplinary approach.

ANS: T

30. The entrepreneurial events approach focuses on such factors as initiative, organization, autonomy, and risk taking.

ANS: T

31. The entrepreneur is a catalyst for economic change who uses purposeful searching, careful planning, and sound judgment in carrying out the entrepreneurial process.

ANS: T

32. The four major dimensions considered in the multidimensional approach are the individual, the environment, the organization, and the process.

ANS: T

33. Intrapreneurship is the same as entrepreneurship.

ANS: F

34. Intrapreneurship is entrepreneurship within an existing firm.

Answer: T

## **MULTIPLE CHOICE**

1. The word entrepreneur is derived from the French *entreprendre*, which is translated as
- to apprehend.
  - to undertake.
  - to compete.
  - to enter and dare.

ANS: C

2. The entrepreneur is one who
  - a. dreams all day.
  - b. manages.
  - c. oversees manufacturing.
  - d. invents new products.

ANS: B

3. Which of the following characteristics is most important to an entrepreneur?
  - a. management skills
  - b. neatness
  - c. friendliness
  - d. having a nice office.

ANS: A

4. The study of entrepreneurship is
  - a. based on the field of management
  - b. based on the field of accounting
  - c. based on the field of sociology
  - d. interdisciplinary

ANS: D

5. Today, an entrepreneur is which of the following?
  - a. an innovator
  - b. an inventor
  - c. a dreamer
  - d. a workaholic

ANS: A

6. Which economist associated the “risk bearing” activity in the economy with the entrepreneur?
  - a. Richard Cantillon
  - b. Robert C. Ronstadt
  - c. Peter F. Drucker
  - d. Jean Baptiste Say

ANS: A

7. Which is *not* one of the chief characteristics of an entrepreneur?
  - a. personal initiative
  - b. ability to consolidate resources
  - c. risk taking
  - d. desire for control of people

ANS: D

8. Which is a key factor in successful entrepreneurship?
  - a. identifying the strengths of a venture
  - b. setting up clear timetables
  - c. minimizing problems through careful strategy formulation
  - d. the product itself

ANS: C

9. Entrepreneurial traits include which of the following?
- salesmanship
  - initiative
  - wealth
  - edginess

ANS: B

10. Robert C. Ronstadt put together a summary definition of entrepreneur that included which of the following key phrases?
- the acceptance of risk of failure
  - the dynamic process of creating incremental wealth
  - take advantage of economic endowments
  - a phenomenon that comes under the wider aspect of leadership

ANS: B

11. In the present century, which of the following is entrepreneurship considered synonymous with:
- free enterprise.
  - socialism.
  - multimillion dollar enterprises.
  - partnership.

ANS: A

12. Which is a true statement about entrepreneurs?
- Entrepreneurs are doers and thinkers.
  - All you need is money to be an entrepreneur.
  - Ignorance is bliss for an entrepreneur.
  - Inheriting a business is the best way to become an entrepreneur.

ANS: A

13. Throughout the years, many myths have arisen about entrepreneurship as a result of?
- a lack of research about entrepreneurship
  - a lack of interest in the field
  - a total disregard for the truth
  - a destructive attitude by government

ANS: A

14. The “corridor principle” is best described by which of the following statements?
- If at first you don’t succeed, try, try, again.
  - The right place at the right time.
  - With every new venture launched, new and unintended opportunities arise.
  - Luck happens when preparation meets opportunity.

ANS: A

15. Which of the following is a common cause of failure of a small business?
- lousy product
  - poor planning
  - lack of marketing
  - poor luck

ANS: B

16. Most new ventures fail because of
- lack of planning and money
  - insufficient advertising
  - poor product line
  - a lack of timing and luck

ANS: A

17. Which of the following traits is *not* that of an entrepreneur?
- drive
  - shyness
  - willingness to take risks
  - human relations skills

ANS: B

18. Money is necessary but not sufficient for entrepreneurs to survive because
- Lack of preparation and planning can be a main source of failure.
  - The ups and downs of the economy determine the entrepreneur's success.
  - The idea is the source of success.
  - Money and being in the right place at the right time spells success.

ANS: A

19. Which of the following is *not* a common myth about entrepreneurs?
- Entrepreneurs are academic and social misfits.
  - Entrepreneurs are doers, not thinkers.
  - Entrepreneurs today are considered heroes.
  - All you need is money to be an entrepreneur.

ANS: C

20. Which statement is *not* true?
- Luck happens when preparation meets opportunity.
  - Entrepreneurs do not hold up in today's competitive market.
  - Failure due to lack of proper financing often is an indicator of other problems.
  - It takes more than just money to be a successful entrepreneur.

ANS: B

21. Most entrepreneurs should be categorized as
- inventors.
  - innovators.
  - lucky.
  - wealthy.

ANS: B

22. Which of the following statements is true?
- Entrepreneurship is the ability to create and build a vision from practically nothing
  - Entrepreneurship is pure luck
  - Entrepreneurship is simply obtaining financing and starting a business
  - Entrepreneurship has nothing to do with creating incremental wealth

ANS: A

23. Which of the following economists wrote about entrepreneurship and its impact on economic development?
- Richard Dailey
  - Joseph Schumpeter
  - Paul Samuelson
  - Robert McConnell

ANS: B

24. In our present century, entrepreneurship has become synonymous or closely linked with:
- failure
  - socialism and monopolies
  - multimillion dollar enterprises
  - free enterprise and capitalism

ANS: D

25. Michael Gerber has written a book titled, "The E-Myth," where he contends:
- the entire field of study in entrepreneurship is a myth
  - there is no such thing as entrepreneurship
  - today's business owners are not true entrepreneurs
  - everybody in business is an entrepreneur

ANS: C

26. Michael Gerber's book "The E-Myth" explains the failure of most small businesses is due to:
- owners being more technicians rather than entrepreneurs
  - owners being more managerial rather than technical
  - owners being more entrepreneurial rather than managerial
  - owners being more customers rather than business people

ANS: A

27. Entrepreneurs always
- start their business at a young age
  - quit school and devote themselves to being an entrepreneur
  - use credit cards to start their own businesses
  - generate ideas and plan for their implementation

ANS: D

28. When referring to "luck" and an entrepreneur, which of the following statements is an appropriate adage?
- always wait for luck to happen
  - luck happens when preparation meets opportunity
  - luck happens to everyone
  - luck is the key to entrepreneurship

ANS: B

29. The statement, "with every new venture launched, new and unintended opportunities often arise," would be associated with:
- the entrepreneurial principle
  - the opportunity principle
  - the corridor principle



d. the dilbert principle

ANS: C

30. Entrepreneurs themselves perceive the concept of risk in which of the following ways:
- calculated risk taking
  - gambling risk
  - distorted risk taking
  - social risk

ANS: A

31. In the study of contemporary entrepreneurship, one concept reoccurs:
- no one understands the field
  - folklore dominates the studies
  - there is no theoretical base
  - entrepreneurship is interdisciplinary

ANS: D

32. The macro view of entrepreneurship presents factors exhibiting a strong \_\_\_\_\_.
- internal locus of control
  - external locus of control
  - environmental locus of control
  - contemporary locus of control

ANS: B

33. Entrepreneurs are more accurately depicted by which of the following:
- entrepreneurs are gamblers
  - entrepreneurs are extreme risk takers
  - entrepreneurs are calculated risk takers
  - entrepreneurs often don't want to know how much risk is involved

ANS: C

34. 3M's Post-it note is an example of the \_\_\_\_\_.
- theory of declining return
  - corridor principle
  - theory of increasing return
  - risk versus reward principle

ANS: B

35. Which of the following schools of thought is *not* a micro view school of thought?
- the entrepreneurial trait school of thought
  - the venture opportunity school of thought
  - the displacement school of thought
  - the inherited business school of thought

ANS: C

36. Which of the following are characteristic elements in the strategic formulation school of thought?
- unique markets and unique ideas
  - unique angles and unique elements
  - opportunities and traits

d. luck

ANS: A

37. The macro view can be broken down into which three areas?
- the environmental, financial, and displacement
  - the financial/capital, strategic, and opportunity
  - the displacement, trait, and financial
  - the entrepreneurial trait, opportunity, and strategic

ANS: A

38. The displacement school of thought can be divided into which three groups?
- political, cultural, environmental
  - cultural, environmental, and financial
  - environmental, financial, and economic
  - economic, cultural, and political

ANS: D

39. The micro view is divided into which three theories?
- the entrepreneurial, financial, displacement
  - the venture opportunity theory, entrepreneurial, strategic
  - the strategic, environmental, and opportunity
  - the environmental, financial, and displacement

ANS: B

40. Which of the following is not a form of displacement in the displacement school of thought?
- political
  - racial
  - economical
  - cultural

ANS: B

41. Creativity and market awareness are viewed as essential elements for which of the following?
- strategic formulation school of thought
  - displacement school of thought
  - venture opportunity school of thought
  - financial school of thought

ANS: C

42. Which of the following does not apply to the strategic formulation school of thought?
- unique people
  - unique places
  - unique markets
  - unique products

ANS: B

43. Water well strategies refer to:
- unique resources
  - unique products
  - unique markets

d. unique products

ANS: A

44. Mountain gap strategies refer to:
- a. unique resources
  - b. unique locations
  - c. unique resources
  - d. unique markets

ANS: D

45. The Entrepreneurial Assessment Approach stressed that assessments must be made \_\_\_\_\_ in regard to the entrepreneur, the venture, and the environment.
- a. qualitatively and quantitatively
  - b. strategically and ethically
  - c. a and b
  - d. financially

ANS: C

46. Which of the following is a process of innovation and new venture creation through four major dimensions: individual, organization, environment, and process?
- a. entrepreneur process
  - b. entrepreneurial management
  - c. entrepreneurship
  - d. invention

ANS: C

47. The entrepreneurial events approach is a process by which individuals \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ their entrepreneurial activities.
- a. plan, implement, control
  - b. plan, implement, divide
  - c. plan, organize, control
  - d. research, implement, control

ANS: A

48. The multidimensional approach has four specific factors which are \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
- a. initiative, organization, risk taking, planning
  - b. individual, environment, organization, process
  - c. plan, implement, control, divide
  - d. plan, organize, control, research

ANS: B

49. In the multidimensional approach, the environment deals with \_\_\_\_\_.
- a. the need for achievement
  - b. venture capital availability
  - c. job satisfaction
  - d. type of firm

ANS: B

50. The *need for achievement* would be under which dimension of the multidimensional approach?

- a. environment
- b. individual
- c. organization
- d. process

ANS: B

51. How many major dimensions are in the multidimensional approach?
- a. 6
  - b. 4
  - c. 10
  - d. 3

ANS: B

52. Entrepreneurship is a process of innovation and new venture creation that includes which of the following dimensions?
- a. individual, environment, and organization
  - b. government, organization, and individual
  - c. environment, process, and groups
  - d. individual, groups, and government

ANS: A

53. Intrapreneurship is a popular concept that refers to
- a. corporate accountants.
  - b. entrepreneurs within a corporate setting.
  - c. uniquely optimistic executives.
  - d. planners in a government position.

ANS: B

54. The process approach to entrepreneurship seeks to
- a. explain the process of obtaining patents
  - b. model the various factors that characterize the entrepreneurial process
  - c. explain intrapreneurship.
  - d. explain the process of obtaining venture capital

ANS: B

55. The process of the entrepreneurial assessment approach deals with:
- a. making assessments with regard to the entrepreneur, venture, and environment
  - b. assessing the entrepreneur's threshold for risk.
  - c. the entrepreneurial perspective
  - d. Both A & C

ANS: D

## SHORT ANSWER

1. Name and describe four of the ten major myths of management.

ANS:

One of the myths of management says that entrepreneurs are born, not made. This myth implies that entrepreneurs cannot be taught how to be successful. It says that they must be born with certain traits, such as aggressiveness, initiative, drive, and skill in human relations. However, recent recognition of entrepreneurship as a discipline is helping to dispel this myth. Another myth is the “all you need is money” myth, which says businesses fail because of inadequate financing. Actually, poor financing usually indicates other problems such as managerial incompetence, poor investments, and poor planning. A third myth says that entrepreneurs are either inventors or innovators. While many inventors and innovators are entrepreneurs, many entrepreneurs excel at other profit-seeking activities. A final myth is that all you need is luck. “Luck happens when preparation meets opportunity” means that being prepared for situations can lead to success when the time is right.

2. List and categorize the schools of entrepreneurial thought.

ANS:

The schools of entrepreneurial thought can be grouped into two major headings, macro and micro. The macro view of entrepreneurship presents a broad array of factors. These include external factors, which sometimes cannot be controlled. In the macro view, the environmental school of thought deals with external factors that affect the possible lifestyle of the entrepreneur. Also under macro, the financial/capital school looks for seed and growth capital to develop the entrepreneur. The displacement school is the final macro view. It holds that the group affects or eliminates certain factors that project the individual into an entrepreneurial venture. The micro view examines factors specific to entrepreneurship and part of the “internal” locus of control. The entrepreneurial trait school says that successful entrepreneurs *usually* exhibit similar characteristics. The venture opportunity school focuses on opportunities in directions other than where the entrepreneur is presently headed. The final school, the strategic formulation school, emphasizes the planning process in successful venture development.

3. Describe the three process approaches that also examine the activities involved in entrepreneurship.

ANS:

The first process approach is the entrepreneurial events approach. This approach combines the activities and undertakings of entrepreneurship. It focuses on the process of entrepreneurial activities from someone taking the initiative to begin, to organizing the resources, to managing and administering, to disposing and distributing resources, to sharing in the risks of success or failure. The second approach is the entrepreneurial assessment approach. It stresses that assessments must be made qualitatively, quantitatively, strategically, and ethically, in regard to the entrepreneur, the venture, and the environment. This approach, when compared to the stage of an entrepreneur’s career, develops the “entrepreneurial perspective.” The third approach is the multidimensional approach. It is a more complex and detailed approach that emphasizes the individual, the environment, the organization, and the venture process. Some of the individual factors related to this approach include a need for achievement, locus of control, age, education, job satisfaction, and experience. The environmental factors surrounding it include venture capital availability, accessibility of suppliers, governmental influences, and living conditions. The organizational factors related to this approach include the type of firm, strategic variables, and competitive entry wedges. The venture process deals with location, resources, marketing products, producing the product, building the organization, and responding to government and society. All of these factors overlap to some degree and relate to each other to combine all aspects into entrepreneurship.

4. Trace the evolution of entrepreneurship, list the men who wrote about it, and describe its impact on economic development.

ANS:

Entrepreneurship was first recognized by Richard Cantillon in eighteenth-century France. He described an entrepreneur as someone who bears the risks of business. During the same time period, the Industrial Revolution was taking form in England, and the entrepreneur was seen taking risks and transforming resources into products. Entrepreneurship has long been associated with economic development. Many definitions of entrepreneurship prior to 1950 came from economists such as Cantillon, Jean Baptiste Say (1803), and Joseph Schumpeter (1934). In the twentieth century, entrepreneurship has been associated with free enterprise and capitalism. Entrepreneurs generally are seen as people who provide creative and innovative ideas for businesses and help them grow and become profitable. Now, entrepreneurship is regarded as “pioneer ship” on the frontier of business.

5. Provide a comprehensive definition of entrepreneurship.

ANS:

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

OR

Entrepreneurship is ability to create and build a vision from practically nothing: fundamentally it is a human, creative act. It is the application of energy to initiating and building an enterprise or organization, rather than just watching or analyzing. This vision requires a willingness to take calculated risks—both personal and financial—and then to do everything possible to reduce the chances of failure. Entrepreneurship also includes the ability to build an entrepreneurial or venture team to complement your own skills and talents. It is the knack for sensing an opportunity where others see chaos, contradiction, and confusion. It is possessing the know-how to find, marshal, and control resources (often owned by others).