

The Entrepreneur

INTRODUCTION

Faced with a white-knuckle crisis on the *Apollo 13* mission, legendary NASA flight director Gene Kranz rallied his troops with the now famous and stirring battle cry, “Failure is not an option.” Unfortunately, a few million entrepreneurs beg to differ.

SUCCESS RATES OF ENTREPRENEURS

It takes a certain amount of guts, nerve, chutzpah—whatever you want to call it—to cut the safety net and go out on your own and start a business. No one who does it, including me, has the end goal of burning through his life savings, failing miserably, and dying alone and penniless! In reality, the deck is stacked against the entrepreneur. In Appendix C you will find a ranking of the riskiest and safest small businesses as determined by the percentage of those businesses that make or lose money. The failure rate of companies, particularly start-ups, is staggering. A study by the Small Business Administration (SBA) showed the following failure rates for small businesses:

- 34 percent within two years after starting up
- 56 percent after four years¹

Another study done by Dun & Bradstreet shows that 63 percent of businesses with less than 20 employees fail within four years and a whopping 91 percent fail within ten.² Failure rates for start-up companies are also high in foreign markets. For example, in New Zealand, research shows that 53 percent of small and medium-sized businesses fail within three years.³ Statistics Canada indicated that 145,000 new businesses start up each year in Canada, and 137,000 go bankrupt there. Every year, 470,000 new businesses open in Brazil, but 43 percent of these businesses will close their doors before their third anniversary.⁴

Table 2-1 provides data on the total number of business terminations (failures) in the United States from 1990 to 2006. While the data show that the number of failed businesses declined substantially in 2006 from a peak of over 586,000 companies in 2002, this is still higher than the 534,000 firm failures per year average over the period.

TABLE 2-1

Business Failures in the United States

Year	Business Terminations	Percent Change
2006	564,900	3.90
2005	543,700	0.49
2004	541,047	0.07
2003	540,658	-7.88
2002	586,890	6.07
2001	553,291	1.93
2000	542,831	-0.30
1999	544,487	0.72
1998	540,601	2.00
1997	530,003	3.43
1996	512,402	3.05
1995	497,246	-1.25
1994	503,563	2.21
1993	492,651	-5.55
1992	521,606	-4.56
1991	546,518	2.84
1990	531,400	N/A

Source: Small Business Administration, December 2007.

Failure rates climbed significantly in 2001 and 2002, when the “dot-bomb” era claimed thousands of casualties, turned Nasdaq darlings into duds, and foreshadowed a broader economic slowdown. True entrepreneurs have remarkable resilience, however, and the statistics suggest that they need it. The average entrepreneur fails 3.8 times before succeeding.^{4a} One such entrepreneur is Steve Perlman, the cofounder of Web TV Networks, which he sold to Microsoft in 1997 for \$425 million. Before his success with Web TV, he had been involved in three start-up failures in a 10-year period.

Despite these odds, people are still pursuing the entrepreneurial dream. And this is taking place not only in the United States, but overseas as well. For example, in Taiwan, 1,373 electronics companies were started in 1997. By the end of the year, 1,147 of these companies, or 84 percent, had gone out of business.⁵ Despite this high failure rate, the entrepreneurial spirit was alive and well in Taiwan at that time, as evidenced by the fact that the venture capital industry in Taiwan, which had a compound annual growth rate (CAGR) of less than 16 percent from 1990 to 1995 and never exceeded US\$600 million in total investments during that period, grew over 67 percent from 1996 to 1997 and over 36 percent from 1997 to 1998, ending at \$2.2 billion in total investments in 1998.⁶ In 2005, the Taiwanese venture capital industry invested over \$5.7 billion.^{6a}

One of the obvious reasons for the high rate of entrepreneurial failure is that it is tough to have a successful product, let alone an entire company. A recent Nielsen BASES and Ernst & Young study found that about 95 percent of new consumer products in the United States fail.⁷ Kevin Clancy and Peter Krieg of Copernicus Marketing Consulting estimated that no more than 10 percent of all new products or services are successful.⁸ Google’s vice president for search products and user experience estimates that up to 60 to 80 percent of Google’s products may eventually crash and burn.⁹

Another reason for failure is that people are starting companies and then learning about cash flow management, marketing, human resource development, and other such areas on the job. Too many people are learning about what to do when you have cash flow problems when they actually have those problems, rather than in a classroom setting or as an intern with an entrepreneurial firm. This type of training is costly, because the mistakes that are made have an impact on the sustainability of a

company. A study of unsuccessful entrepreneurs found that most of them attributed their lack of success to inadequate training.¹⁰ The area in which they lacked the most training was cash flow management.¹¹

Now let's look at Table 2-2, which shows the number of business bankruptcies from 1990 to 2006. While the data show that the number of failed businesses declined substantially in 2006, 71,000 companies per year in 1991, the data for 2006 are very likely skewed as a result of significant changes in the U.S. consumer bankruptcy laws that occurred in 2005, which also made it more difficult for some businesses to file bankruptcy. On average, more than 47,000 businesses went belly-up and filed for bankruptcy every year during this period. Again, this is often a case of an entrepreneur who lacks the expertise to manage inventory and cash flow.

TABLE 2-2

Business Bankruptcies in the United States

Year	Number of Bankruptcies	Percent Change
2006*	19,695	-49.8
2005	39,201	14.2
2004	34,317	-2.1
2003	35,037	-9.1
2002	38,540	-3.9
2001	40,099	13.0
2000	35,472	-6.4
1999	37,884	-14.6
1998	44,367	-17.9
1997	54,027	0.9
1996	53,549	3.1
1995	51,959	-0.8
1994	52,374	-15.9
1993	62,304	-11.8
1992	70,643	-1.3
1991	71,549	10.3
1990	64,853	N/A

Source: Small Business Administration, December 2007.

* There was a change in U.S. bankruptcy laws in 2005.

What we see in the tables is that the business bankruptcy trends in Table 2-2 and the trends for business starts and failures cited in Table 2-1 can be mapped to specific macroeconomic situations occurring in the country. Specifically, we see that the number of bankruptcies peaked in 1991, when the United States was mired in a recession, and the number of business failures peaked in 2002 following the dot-bomb period described previously. Thus, during tough economic times, the number of business failures will increase because owners cannot pay the bills. At the same time, the number of entrepreneurial start-ups will also generally increase during these periods because people get downsized.

There's an important lesson here. All entrepreneurs, prospective and existing, should easily and readily be able to answer the question, what happens to my business during a recession? Businesses respond to recessions differently. For example, one type of business that does well during recessions is auto parts and service because people tend to repair old cars rather than buy new ones. The alcoholic beverages industry also does well during recessions because people tend to drink more when they are depressed or unhappy. Businesses that do not fare as well include restaurants (people eat at home more), the vacation industry, and any businesses that sell luxury items, such as boats.

But just because a business does not fare well during a recession does not mean that a business should not be started at the beginning of or during a recession. It simply means that the entrepreneur should plan wisely, keeping costs under control and maintaining adequate working capital through lines of credit and fast collection of receivables. As an example, *BusinessWeek* magazine began six weeks after the onset of the Great Depression. On a personal note, about a year after I bought my first business, a lampshade-manufacturing firm, the country went into a recession. The Gulf War started, and people stopped shopping and sat home in front of their televisions watching events unfold. I needed them in department stores buying my lampshades! I remember sitting at my desk at work, holding my head in my hands, when my secretary, Angela, interrupted the silence with a gentle knock on my door. "Are you crying?" she asked. "No," I answered. "But I should be! I've had this business less than a year, I've got all this debt, and I've got to figure out how to pay it off." Prior to purchasing the

business, I had laid out a specific plan for dealing with a downturn, and we did manage to make it through. But in the spirit of candor, I have to admit that I underestimated how tight business would be. It was ugly.

Years ago, former heavyweight champion Mike Tyson was preparing to fight Michael Spinks. A reporter doing a prefight interview with Tyson told him that Spinks had a carefully laid-out plan for beating the champ. Tyson replied, "Everyone has a plan 'till they get punched in the mouth." I couldn't say it better myself. Do yourself a huge favor: be brutally honest with yourself and any investors, and paint the ugliest damn picture you can imagine. Imagine how the economy, competitors, or other conditions could "punch you in the mouth." Now, tell everyone how your business is going to survive, thrive, and live to ring the cash register another day.

Finally, before starting a business and preparing for a recession, the prospective entrepreneur should be able to answer these questions: Where is the recession? Is it yet to come, has it passed, or are we currently in one? While the 2008 economy is bad, the country is not in a recession. The official definition of a recession is "two consecutive quarters of no GDP growth." The last recession in the United States began in March 2001 and ended in November 2001. The country's economy typically goes through a recession every five to seven years. During the Reagan administration, the country went 92 consecutive months, or 7.7 years, before going through a recession. The second-longest period that the country has gone without a recession was during the Vietnam War, with 106 consecutive months (8.8 years).¹² And the entrepreneurship decade of the 1990s holds the record for the longest period that the country has not been in a recession. As of March 2001, the country had gone 133 consecutive months without a recession.

But as noted earlier, failing does not exclude one from becoming an entrepreneur. There are many notable examples of entrepreneurs who have succeeded despite initial failures. For example, Fred Smith had an unsuccessful company before he succeeded with Federal Express. Berry Gordy, the founder of Motown Records, started a jazz record shop that went bankrupt. Following this bankruptcy, he went to work for Ford Motor Company on the

assembly line to get his personal finances in order, then left that job to start Motown Records. Henry Ford went bankrupt twice before Ford Motor Company succeeded. And as Henry Ford said, "Failure is the chance to begin again more intelligently. It is just a resting place."¹³

Therefore, all prospective entrepreneurs should take heed of the fact that entrepreneurial success is more the exception than the rule. In all likelihood, one will not succeed. But one must simply realize that failure is merely an entrepreneurial rite of passage. It happens to almost everyone, and financiers will typically give the entrepreneur another chance as long as the failure was not the result of lying, cheating, stealing, or laziness. They would rather invest in someone who has failed and learned from the experience than in an inexperienced person. Venture capitalists in Silicon Valley deem failure not only inevitable but also valuable. Michael Moritz, a partner at Sequoia Capital, who invested \$500,000 in Apple Computer in 1978 and turned that investment into a \$120 million investment three years later when the company went public, noted that entrepreneurs who have suffered a setback could be better bets than those who have enjoyed only success.¹⁴

Warren Packard, managing director at the Silicon Valley venture capital firm Draper Fisher Jurvetson, is quoted as saying:

Failure is just a word for learning experience. When we meet an entrepreneur who has not been successful, we ask ourselves, "Did he learn from past mistakes or is he just crazy?" As long as an entrepreneur is honest about his abilities, his past doesn't matter. He has learned some very important lessons on someone else's dollar.¹⁵

Renowned venture capitalist John Doerr of Kleiner Perkins Caufield & Byers (KPCB), the Silicon Valley fund that successfully invested in dozens of Internet-related companies, including Netscape and Amazon.com, said:

Great people are so hard to find that even if one particular start-up fails, you're not tainted for life.¹⁶

And finally, Thomas G. Stemberg, founder and CEO of Staples, Inc., noted:

How you recover is more important than the mistakes you make.¹⁷

WHY BECOME AN ENTREPRENEUR?

A Harris Interactive study found that 47 percent of Americans who do not currently own their own business have dreamed of starting their own business.¹⁸ Now, why do people want to become entrepreneurs? Why has entrepreneurship become so popular? Everyone has a different reason for wanting to start a business.

Inc. magazine surveyed the owners listed in the *Inc.* magazine 500 and found that the number one reason these entrepreneurs gave for starting their own company was to gain the independence to be able to control their schedule and workload. In fact, 40 percent of the respondents indicated that they started their own companies to “be my own boss.”¹⁹

Many people become entrepreneurs because they loathe working for others. As one person said, he became an entrepreneur because having a job was worse than being in prison:

- | | |
|-------------------|--|
| <i>In prison:</i> | You spend the majority of your time in an 8 × 10 cell. |
| <i>At work:</i> | You spend most of your time in a 6 × 8 cubicle. |
| <i>In prison:</i> | You get three free meals a day. |
| <i>At work:</i> | You only get a break for one meal and you have to pay for it. |
| <i>In prison:</i> | You can watch TV and play games. |
| <i>At work:</i> | You get fired for watching TV and playing games. |
| <i>In prison:</i> | You get your own toilet. |
| <i>At work:</i> | You have to share. |
| <i>In prison:</i> | You spend most of your life looking through bars from the inside wanting to get out. |
| <i>At work:</i> | You spend most of your time wanting to get out and go inside bars! |
| <i>In prison:</i> | There are wardens who are often sadistic. |
| <i>At work:</i> | They are called MANAGERS! ²⁰ |

The second most cited reason for becoming an entrepreneur is the sense of accomplishment people achieve when they prove that they can start or own a successful company. Seth Godin, who founded Yoyodyne, an interactive direct-marketing company bought by Yahoo! in late 1998, and is currently CEO of an online

venture called Squidoo, a tool that lets users build Web pages, explains the desire: "Most people can't understand why someone who made \$10 million would do it again. That's because most people don't like working, and they think it's irrational to keep working."²¹ Joseph Schumpeter, the originator of the famous "creative destruction" moniker for capitalism, described it well. "Entrepreneurs, he insisted . . . feel the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not fruits of success, but of success itself. . . . There is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity."²²

Interestingly, most people, young or old, do not become entrepreneurs to become rich. This was the case with the 2005 *Inc.* Entrepreneur of the Year, Ping Fu. Ms. Fu was deported in 1981 by the Chinese government after releasing a research report on infanticide. She came to America and, after she learned English, became adept at computer programming. The owner of her company offered her 5 percent equity in the business where she worked and an opportunity to become a millionaire. Fu turned him down. Why? Because for her it was about creating something of value, not getting rich. She is now CEO of Geomagic, a digital shape sampling and processing company with \$30 million per year in revenue.²³ In another example, in a survey of high school teens undertaken by the Gallup Organization, 71 percent of the respondents said that they were interested in starting their own businesses. However, only 26 percent cited earning a lot of money as their primary motivation for starting a business.²⁴ In the *Inc.* magazine survey mentioned earlier, "making a lot of money" was only the third most popular reason why entrepreneurs started their own companies. Finally, a 2006 survey conducted by the University of Nebraska indicated that only 6 percent of business owners believe that the major reason to start a business is to "earn lots of money."²⁵

What is evident is that for most people, making a lot of money is not necessarily the driving force for becoming an entrepreneur. However, despite this fact, the majority of wealthy people in the United States became rich as a result of being an entrepreneur. The by-product of entrepreneurship is wealth creation. In the United

States, there are approximately 371 billionaires, 1 million decamillionaires, and over 9 million millionaires.²⁶ In *The Millionaire Next Door*, the authors found that 80 percent of these people gained their wealth by becoming entrepreneurs or as a result of being part of an entrepreneurial venture. For example, one of the country's wealthiest people, Bill Gates, achieved his wealth by founding Microsoft. Besides Gates, Microsoft has produced an additional 10,000 millionaires.²⁷ Many of these wealthy people are young men and women who were very ambitious, smart, and talented.

To further support the wealth creation–entrepreneurship relationship, *Forbes* reported that three out of five of the *Forbes* 400 richest Americans were first-generation entrepreneurs.²⁸ But this wealth creation–entrepreneurship relationship is not new. John D. Rockefeller cofounded Standard Oil, the first major U.S. multinational corporation, in 1870. In 1913, his personal net worth was \$900 million, which was equivalent to more than 2 percent of the country's gross national product. Today, 2 percent of the country's gross national product would be approximately \$273 billion, more than five times Bill Gates's net worth.

As mentioned earlier, for some people, becoming an entrepreneur was not a choice; rather, they took this route when they were laid off from their jobs. Others started companies with the objective of creating jobs for others. One entrepreneur who has been selected by *Inc.* magazine as one of the company builders who is “changing the face of American businesses” is quoted as saying, “I have a business that has the highest integrity in town. . . . People respect me and I support 72 families.”²⁹ For some entrepreneurs, their business is an outlet for their creative talent. Others feel the need to leave behind a legacy that embodies their values. Still others have community or societal concerns that they feel can best be addressed through their company.³⁰

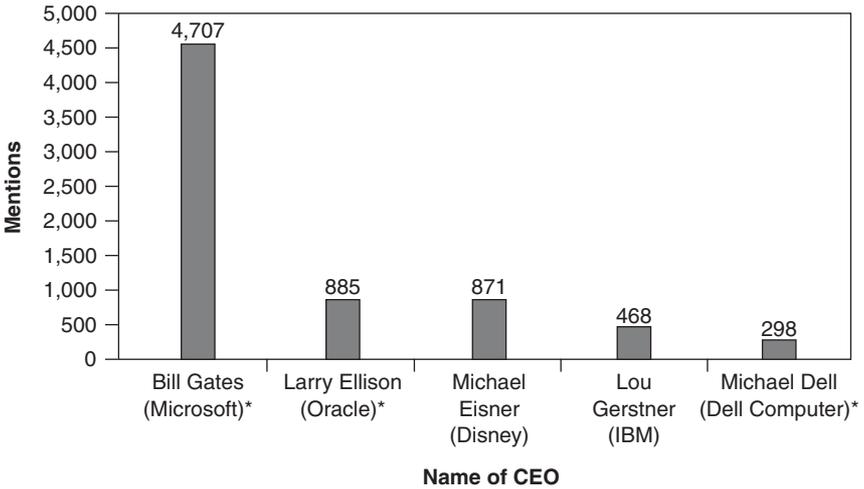
For some people, becoming an entrepreneur is the natural thing to do. They either are the offspring of an entrepreneur or have developed an interest in being an entrepreneur because they were exposed to the business world at an early age. Successful high-growth entrepreneurs who were offspring of entrepreneurs include Berry Gordy of Motown Records; Wayne Huizenga of Waste Management, Blockbuster Video, and AutoNation;

Josephine Esther Mentzer of Estée Lauder; Ted Turner of TBS and CNN television stations; and Akio Morita, who left the sake business that his family owned for 14 generations to start Sony. Donald Trump is also included in this group; ironically, in contrast to Donald and his high-income real estate clients, his father owned real estate that he rented to low-income and working-class families in New York.

Another high-growth entrepreneur who belongs in this category is John Rogers, Jr., the founder of Ariel Capital—a financial management firm that manages billions of dollars. Financial management is in Rogers's blood. To encourage his son's interest in business, every birthday and Christmas, John's father gave his young son stocks as gifts. John's parents, grandparents, and great-grandparents have always owned their own businesses. In fact, his great-grandfather, C. J. Stafford, was an attorney by training but also owned a hotel in Florida. It burned down in the early 1900s when he was falsely accused of starting a race riot. Instead of giving up, Stafford fled Florida and came to Chicago, where he started his own law firm.

Other entrepreneurs start companies to develop a new idea or invention. For example, as discussed earlier, Steve Wozniak, the cofounder of Apple Computer, became an entrepreneur by default. If Hewlett-Packard had not rejected his idea for a user-friendly small personal computer, he probably would not have resigned from the company to start his own business and launch a dramatic change in the computer hardware industry.

Another reason why people want to become entrepreneurs is because of the emergence of role models. Fifteen years ago, the main business role models were corporate executives such as Robert Goizueta, the legendary CEO of the Coca-Cola Corporation who died of cancer in 1997, and Jack Welch of General Electric. In the entrepreneurship decade of the 1990s, entrepreneurs became primary business role models, the people that everyone wanted to emulate. For example, Christian and Timbers, a consulting firm, identified the top CEOs who were mentioned the most often in major business publications in 1997. As Figure 2-1 shows, three of the CEOs who received the most mentions were founders of their companies [those names with an asterisk (*)].³¹

FIGURE 2-1**The Most Mentioned CEOs**

In a speech titled, “Entrepreneurship, American Style,” the American ambassador to Denmark highlighted the reverence that Americans have for entrepreneurs. He notes, “In America, Bill Gates of Microsoft, Steve Jobs of Apple, Fred Smith of Federal Express, and the self-made millionaire down the street, are all considered heroes. In just about every community there are entrepreneurs ‘down the street’ who have succeeded. In fact, it’s the ‘ordinary’ millionaire down the street who is often the most celebrated, because people think ‘hey, he’s not half as smart as I am. If he can do it, then so can I.’” The ambassador continued with an anecdote from Kjeld Kirk Kristiansen, the legendary Danish entrepreneur and former CEO of the Lego Group, demonstrating his point: “He said that over the years fans and customers of Lego’s products have created product conferences and tradeshowes where adults, using Lego bricks, showcase their latest impressive creations. He described two recent such events. One in Berlin, and one in Washington, DC. In Berlin, he said, when he arrived at the conference [he was] treated as just another guest in the room. Nothing special, nothing unique. He contrasted that with the experience in Washington, where, upon his arrival, the 2000 adult customers

who were gathered there treated him as a rock star, as a celebrity, as a hero; gathering around, taking photographs, seeking autographs. He says when he gets to go to America for a show like this, he knows how Elvis Presley must have felt."³²

In 1997, *Inc.* magazine conducted a study aimed at assessing the impact of entrepreneurs and their companies on American businesses. A total of 500 entrepreneurs who had founded their companies between 1982 and 1996 and 200 upper- and middle-level Fortune 500 executives (vice presidents, directors, and managers) were surveyed and asked the same questions. When asked whether they agreed with the statement, "Entrepreneurs are the heroes of American business," 95 percent of the entrepreneurs and 68 percent of the corporate executives agreed. These results were starkly different from the responses given by these two groups 10 years earlier, when 74 percent of entrepreneurs and 49 percent of executives had agreed with this statement. Interestingly, 37 percent of the corporate executives noted that if they could live their lives over, they would choose to run their own companies.³³

While annual corporate venture capital investments of \$1.3 billion in 2005 are down from the stratospheric \$17 billion invested in 2000, many of America's most profitable companies continue to devote resources to spurring entrepreneurial activity.³⁴ Several companies have, in fact, demonstrated this support by creating programs that encourage and assist employees who want to become entrepreneurs. Boeing's Chairman's Innovation Initiative, a \$200 million in-house venture capital fund, provides employees the opportunities to develop new business ideas from company-developed ideas. Procter & Gamble pushes "open innovation," encouraging managers to seek new business ideas outside as well as inside the company.³⁵ Other firms, such as Intel, have internal venture capital arms that search for the next breakthrough technologies. Intel has invested more than \$4 billion in about 1,000 companies since the early 1990s, maintaining a consistent investment pace through two major recessions. Adobe functions as a sole limited partner in a venture capital fund that it outsources to Granite Ventures in an effort to maintain relationships with the start-up community.³⁶

Finally, as shown in Figure 2-2, a Coca-Cola Company announcement to all the company's employees provides an example of corporations supporting entrepreneurship.

FIGURE 2-2**Coca-Cola Corporation's Fizzion Announcement**

To: All Employees Worldwide

Subject: Fizzion, L.L.C.

We recently renewed our company's commitment to benefit and refresh everyone who is touched by our business. Today, I am proud to announce a new endeavor to help The Coca-Cola Company gain access to innovations that will spur our growth as we press forward into a new century. Reflecting the creative energy that it will generate, this new initiative is called "Fizzion," a wholly owned subsidiary of The Coca-Cola Company where new ideas and technologies can grow into successful businesses. Located across the street from our main complex in The Learning Center, Fizzion will provide a host of powerful benefits to entrepreneurs from around the world. Entrepreneurs who become a member and reside at Fizzion will have access to world-class sales and marketing expertise, business management experience, office space and other basic infrastructure. In return, Fizzion member companies will be chosen based on their ability to positively impact the company's volume, revenues or profits when their applications are used in our business.

Fizzion is just one of the projects we are implementing to spur innovation in our business. Fizzion will augment our other partnerships with Ideas.com, Ideashare, and our new Think Tank, which are already underway. In making services available to Fizzion entrepreneurs, opportunities will be created for employees to work with startups in various functional areas. I encourage you to avail yourself of these opportunities as they present themselves in the future.

Source: Coca-Cola Corporation.

Corporate Downsizing

While the 1990s will be known as the entrepreneurship decade, the past 15 years will also be noted for corporate America's continuous downsizing. This corporate downsizing was so pervasive that it became an intrinsic part of the story line for Bill Cosby's television sitcom *Cosby*, which debuted in 1996. In the show, Hilton Lucas, played by Cosby, deals with the travails of being laid off from his job at a major airline. It accurately characterizes the plight of many who have lost their jobs. When he was laid off, Lucas had hoped to be called back, but three years later he was still waiting to hear from his former company.³⁷ Ironically, CBS eventually downsized the show itself—canceling it.

From January 1995 to October 2001, over 68 percent of all insurance companies, 66 percent of manufacturing companies, and 69 percent of banking and financial institutions laid off employees.

Layoffs have become a fact of life for American workers, and in 2001, the corporate carnage set new records. The numbers were so significant that *Forbes* magazine began to post a daily body count on its Web site. Major corporations trimming their ranks included Lucent (40,000 workers), Ford (5,000 white-collar workers), Agilent (4,000 workers), and Gateway (5,000 workers). By September 2001, more than 1.1 million employees had gotten the ax—an 83 percent jump from the previous year's tally and far above any annual total in the last 12 years.³⁸ The terrorist attack on the World Trade Center in September 2001 added even more casualties, with virtually all of the nation's airlines announcing major layoffs, more than 100,000 workers, in the weeks that followed. Others in the travel industry followed suit, with Starwood Hotels and Resorts laying off 10,000 workers. American workers have plenty of company overseas: more than 2 million workers in Japan and Southeast Asia lost their jobs in 2001.³⁹

In 2008, the pace of corporate layoffs has started to increase again. The U.S. Department of Labor reports that from January 2008 to May 2008, there were 7,615 different layoff events of at least 50 people in the United States, resulting in almost 784,000 new claims for unemployment benefits. This is up substantially from the 6,325 events and 650,000 new claimants of just one year earlier.⁴⁰ Some of the business layoffs announced during that period included AOL (2,000), Morgan Stanley (5,000), Merrill Lynch (4,000), and Yahoo! (2,000).⁴¹

While many furloughed workers will eventually return to other corporate jobs, it's likely that others will follow in the footsteps of previous pink-slip recipients. Many workers who lost their jobs during the corporate cutbacks of the 1980s and 1990s either chose or were forced to pursue the entrepreneurial route rather than employment in the corporate arena. A survey of the founders of the 1996 *Inc.* 500—a list of the 500 fastest-growing small companies—found that 40 percent of these founders started their businesses after a company reshuffling.⁴²

The Council on Competitiveness, an organization devoted to driving U.S. competitiveness in world markets, explains, "Economic growth is not an orderly process of incremental improvements—it happens because new firms are created and older firms are destroyed. . . . And entrepreneurs are the moving force behind this

churn that underpins the dynamism of the U.S. economy.” Economist Joseph Schumpeter refers to this process as “creative destruction.” A result of this creative destruction is that employees are laid off as firms downsize or go out of business. This unemployment generates new entrepreneurial ventures.⁴³

An example of an entrepreneur who chose to start his own business after being downsized is Patrick Kelly, who started a company called Physicians Sales and Services, which now has over \$1.6 billion in revenue and is the nation’s largest supplier of medical supplies to physicians’ offices. When asked why he became an entrepreneur, he said, “I didn’t choose to become an entrepreneur. I got fired and started a company in order to earn a living. I had to learn to be a CEO. I’ll tell you right now, I stole every idea I have. There is not an original thought in my head. I stole everything and you should too.” Another happy story regarding a downsized employee is the story of Bill Rasmussen, who was laid off from his public relations job in 1979. He went on to start the Entertainment Sports Programming Network (ESPN) in Connecticut, which is now jointly owned by Disney and the Hearst family and has over \$4 billion in annual revenues through four domestic cable networks, the nation’s largest sports radio network, and the most visited sports Web site on the Internet.⁴⁴

Academic Training

In 1970, only 16 American universities provided training in entrepreneurship. Today, more than 2,000 universities throughout the country (roughly two-thirds of all institutions) have at least one class, and many more classes are being taught in universities all over the world. In 1980, there were 18 entrepreneurship endowed chairs at business schools; today, there are more than 270.^{45,46} In fact, entrepreneurship has become an academic discipline in virtually all of the top business schools across the country. Another indicator of academia’s commitment to this field is the fact that business schools offer not only classes, but also minors and majors in the field of entrepreneurship. The number of entrepreneurship majors in undergraduate and MBA programs has risen from as few as 175 in 1990 to more than 500 today.⁴⁷ A major contributor to the growth of entrepreneurship on campus is the Kauffman Campus

Initiative, which is directing \$100 million to the creation of entrepreneurial education programs.

Does entrepreneurial training work? While concrete research is difficult to gather and entrepreneurs such as Steve Jobs of Apple and Bill Gates of Microsoft have certainly succeeded without such education, a 2002 study by the University of Arizona showed that five years after graduation, the average annual income for entrepreneurship majors and MBAs who concentrated in entrepreneurship at school was 27 percent higher than that for students with other business majors and students with standard MBA's.⁴⁸ In addition, according to a study by the Kauffman Foundation, 32 percent of successful entrepreneurs had taken at least five business classes, while only 18 percent of unsuccessful entrepreneurs had taken these kinds of courses.

Anecdotal evidence is plentiful. Mark Cuban, who sold his start-up, Broadcast.com, to Yahoo! for \$6 billion in 1999 and is the current owner of the Dallas Mavericks and HDNet, swears by his entrepreneurship training. He notes, "One of the best classes I ever took was entrepreneurship in my freshman year at Indiana University. It really motivated me. There is so much more to starting a business than just understanding finance, accounting, and marketing. Teaching kids what has worked with startup companies and learning about experiences that others have had could really make a difference. I know it did for me."⁴⁹

Tatiana Saribekian, a Russian immigrant, believes that San Diego State University's MBA program helped her master the art of the deal. After failing with her first U.S.-based lumber venture, she decided to get an MBA, and concentrated in entrepreneurship. She has recently started over as a builder and reflects on her MBA in entrepreneurship: "My classes opened my eyes to how business works here in America. It is completely different from Russia. I think this time I will have a better chance at success."⁵⁰

Finally, the growth in entrepreneurship will be forever linked with America's technological revolution, which began in the early 1980s. Companies such as Microsoft, Apple, Lotus, and Dell, to name a few, gave birth to the present \$600 billion technology industry. Advances in technology have led to the proliferation of new products and services fostering the creation of companies in new areas, such as Internet-based businesses. For example, in 1999,

a new computer product was developed every 7 seconds, and a new Internet-related company was established every 48 hours.⁵¹ The years 1995 and 1996 were heady times for Internet pioneers. Table 2-3 shows the growth of Internet services companies during the 1990s as the new sector's growth began to explode.

TABLE 2-3**Fastest-Growing Businesses, 1995–1996**

Business	Number of Firms in 1995	Number of Firms in 1996	Growth
Internet services	24	2,298	9,475%
PC networking services	4,539	6,573	45%
Pager services	1,636	2,148	31%
Bagel shops	2,522	3,291	31%
Cellular phone services	4,037	5,253	30%
Tattoo parlors	2,156	2,569	19%

Source: *USA Today*, March 26, 1997.

This spur in entrepreneurial activity resulted in unprecedented job and wealth creation. In 1997, for example, in Silicon Valley (which is 50 miles long, crossing 30 different city lines), 11 new companies were created each week, resulting in the creation of 62 new millionaires every day.⁵² This Internet bubble peaked on March 19, 2000, when the Nasdaq Composite reached 5,048, or twice its value just a year earlier. Of course, many of those millionaires saw their “paper fortunes” disappear in the coming years. More than seven years later, in the summer of 2007, the Nasdaq index was still 40 percent below its March 2000 peak. While much has been made of the losses stemming from the dot-bomb era, technology entrepreneurship has come roaring back. Venture capital funding has risen from \$3.8 billion in 2002 to over \$27 and \$30 billion in 2005 and 2006, respectively. In 2005, the software and telecommunications industry accounted for over \$14 billion in revenues.⁵³

One of the most prominent entrepreneurial technology firms of the 1990s was Yahoo!. It was started in 1995 and went public in 1996 at an astonishing valuation of \$850 million, despite the fact

that its profits in 1996 were only \$81,000 on revenues of \$400,000. In 2001, the company lost 90 percent of its market capitalization, forced out its CEO, announced not one but two series of layoffs, and was struggling to regain its footing. Like the technology industry itself, however, Yahoo! has rebounded. Between April 2, 2001, and April 2, 2007, Yahoo!'s share price has risen from \$7 per share to over \$31 per share. This is a return of more than 440 percent.

Technology still remains a huge driver of entrepreneurship today. In fact, around 2005, Internet start-ups began to see a resurgence, due in part to the development of the next wave of Internet applications, commonly dubbed "Web 2.0" and most popularly characterized by Facebook.com. While this Web 2.0 period has seen an increase in the number of firms getting funded, an increase in valuations, and an increase in prominent acquisitions, fortunately, it appears that some of the craziness seen in the 1990s has been tempered. Bill Burnham, a former partner at Mobius Venture Capital, describes this new mentality well: "The bubble generation is much more attuned to the fact that things can get really out of hand. There's a level of caution that has been ingrained."⁵⁴

TRAITS OF AN ENTREPRENEUR

Building a successful, sustainable business requires courage, patience, and resilience. It demands a level of commitment that few people are capable of making. Membership in the "entrepreneurs club," while not exclusive, does seem to attract a certain type of individual. What, if any, are the common attributes of successful high-growth entrepreneurs?

While it is impossible to identify all the traits that are common to all entrepreneurs, it is possible to describe certain characteristics that are exhibited by most successful entrepreneurs. A survey of 400 entrepreneurs undertaken by an executive development consultant, Richard Hagberg, identified the top 10 characteristics that define entrepreneurs. These characteristics are

- Focused, steadfast, and undeviating
- Positive outlook
- Opinionated and judges quickly
- Impatient

- Prefers simple solutions
- Autonomous and independent
- Aggressive
- Risk taker
- Acts without deliberation and reactive
- Emotionally aloof⁵⁵

While this list is thorough, the addition of a few more traits would make it more complete:

- Opportunist
- Sacrificer
- Visionary
- Problem solver
- Comfortable with ambiguity or uncertainty

Some of these traits are worth discussing in more detail.

Focused, Steadfast, and Undeviating

Successful entrepreneurs are focused on their mission and committed to getting it accomplished despite the enormous odds against them. They are tenacious in nature—they persevere. They are not quitters. If you want to join the club of entrepreneurship and you have never done anything to its completion in your life, this may not be the club for you, because it is one where you will be required to hang tough even when times get rough. And in all likelihood, especially in the first three to five years of a new business, there will be more bad times than good, no matter how successful the venture is.

An example of an entrepreneur who was focused on her goals is Josephine Esther Mentzer, the founder of the Estée Lauder Cosmetic Company, who is described as a person who “simply out-worked everyone else in the cosmetics industry. She stalked the bosses of New York City department stores until she got some counter space at Saks Fifth Avenue in 1948.”⁵⁶ Her company, which presently controls 8 percent of the cosmetics market in U.S. department stores and had \$6.4 billion in revenues in 2006 from 130 countries throughout the world, pioneered the practice, which is common today, of giving a free gift to customers with a purchase.

Positive Outlook and Optimistic

Entrepreneurs are confident optimists, especially when it comes to their ideas and their ability to successfully achieve their goals. They are people who view the future in a positive light, seeing obstacles as challenges to be overcome, not as stumbling blocks. They visualize themselves as owners of businesses, employers, and change agents. The rough-and-tumble world of entrepreneurship is not a good fit for someone who is not an optimist.

Bryant Gumbel, the former *Today* show host and CBS morning show anchor, once told a story that illustrates this point well:

It is Christmas morning and two kids—one a pessimist, the other an optimist—open their presents. The pessimist gets a brand new bike decked out with details and accessories in the latest style. “It looks great,” he says. “But it will probably break soon.” The second kid, an optimist and future entrepreneur, opens a huge package, finds it filled with horse manure and jumps with glee, exclaiming, “There must be a pony in there somewhere!”⁵⁷

Prefers Simple Solutions

Ross Perot, the founder of EDS, and Ted Turner, the founder of CNN, are two successful entrepreneurs who have a prototypical knack for always describing the simplicity of their entrepreneurial endeavors. One of their favorite quotes, stated with their respective comforting southern accents, is, “It’s real simple.” One can easily envision one of them being the entrepreneur described in the following story of a chemist, a physicist, an engineer, and an entrepreneur. Each of them was asked how he or she would measure the height of a light tower with the use of a barometer. The chemist explained that she would measure the barometric pressure at the base of the tower and at the top of the tower. Because barometric pressure is related to altitude, she would determine the height of the tower from the difference in pressures. The physicist said that he would drop the barometer from the top of the tower and time how long it took to fall to the ground. From this time and the law of gravity, he could determine the tower’s height. The engineer said that she would lower the barometer from the top of the tower on a string and then measure the length of the string. Finally, the

entrepreneur said that he would go to the keeper of the tower, who probably knows every detail about the tower, and say, “Look, if you tell me the height of the tower, I’ll give you this new shiny barometer.”⁵⁸

Autonomous and Independent

Entrepreneurs are known to be primarily driven by the desire to be independent of bosses and bureaucratic rules. Essentially, they march to their own beat. As one observer who was experienced in training entrepreneurs noted, “Entrepreneurs don’t march left, right, left. They march left, left, right, right, left, hop, and skip.”⁵⁹

Risk Taker

A study by Wayne Stewart, a management professor at Clemson University, investigated common traits among serial entrepreneurs, whom he defined as people owning and operating three or more businesses over their lifetime. He found that the 12 percent of all entrepreneurs who fit the “serial entrepreneur” bill had a higher propensity for risk, innovation, and achievement than their counterparts. In essence, they were less scared of failure.⁶⁰

The most common misconception people have of entrepreneurs is that they are blind risk takers. Most people think that entrepreneurs are no more than wild gamblers who start businesses with the same attitude and preparation that they would undertake if they were going to Las Vegas to roll the dice, hoping for something positive to happen. This perception could not be further from the truth. Successful entrepreneurs are, without doubt, risk takers—they have to be if they are going to seize upon new opportunities and act decisively in ambiguous situations—but for the most part they are “educated” risk takers. They weigh the opportunity and its associated risks before they take action. They research the market or business opportunity, prepare solid business plans prior to taking action, and afterward diligently “work” the plan. They also recognize that risk taking does not—despite the fact that this is a calculated risk—always guarantee success. There are always exceptions to the rule, however. Fred Smith, the founder and CEO of Federal Express, did roll the dice, so to speak, 20 years

ago when his start-up was low on capital. Despondent after being unsuccessful at raising capital during a trip to Chicago, he boarded a plane to Las Vegas at O'Hare Airport instead of to his home in Memphis and played blackjack, winning \$30,000, which he used to save his company.

Entrepreneurs are risk takers because failure does not scare them. As John Henry Peterman, the founder of the Kentucky-based J. Peterman catalog, commonly known as the company that employed Elaine Benis on the hit television series *Seinfeld*, said, "There is a great fear of failure in most people. I never had that. If failing at something destroys you, then you really have failed. But if failing leads you to a new understanding, new knowledge, you have not. If you don't make any mistakes, you're not doing it right."⁶¹

Opportunist

Entrepreneurs are proactive by nature. The difference between an entrepreneur and a nonentrepreneur is that the former does not hesitate to seize upon opportunities. When entrepreneurs see an opportunity, they execute a plan to take advantage of it. That disposition is in stark contrast to nonentrepreneurs, who may see something glittering at the bottom of a stream and say, "Isn't that gold?" But instead of stopping and mining the gold, they simply keep paddling their boat.⁶² An example of this type of opportunism is the story of Henry Kwahar, who owned a hot dog stand on the south side of Chicago in the early 1970s. During one of the hottest days of August 1973, a refrigerated truck filled with frozen fish broke down in front of Henry's stand. Rather than let the fish spoil, Henry, who had never sold fish before, offered to buy the entire stock at a very sharp discount. The truck driver agreed, and that is how Dock's Great Fish Fast Food Restaurant began. Henry named the restaurants after his father, Dock. There are presently 27 Dock's restaurants in Chicago and Cleveland.

Sacrificer

Every successful entrepreneur will acknowledge that success does not come without sacrifice. The most common sacrifice that an

entrepreneur makes is in terms of personal income, particularly during the initial stages of a company. Almost all entrepreneurs must be willing to give up some amount of personal income to get a business started, either by committing their own resources or by taking a cut in pay. One of Jeff Bezos's early investors said that the most convincing factor was that Bezos had given up a job at D. E. Shaw with a seven-figure annual salary to start Amazon.com. The investor quoted, "The fact that Bezos had left that kind of situation overwhelmed me. It gave me a very, very powerful urge to get involved with this guy."⁶³ In fact, capital providers, such as bankers and venture capitalists, want to see an entrepreneur earning a salary that is enough to live comfortably, but not too comfortably, during the buildup stage of the business. Specifically, the entrepreneur's expected salary should be enough to cover her personal bills (e.g., home mortgage, car payment, and so on), but not enough to permit personal savings of any significant magnitude. This indicates to potential financial backers both the entrepreneur's level of commitment to the venture and her realism about the challenges that lie ahead.

A case in point: In 1996, a venture capitalist received a business plan from a team of three prospective entrepreneurs who wanted to start a national daily newspaper targeting middle-class minorities. The idea seemed sound—such a newspaper did not exist to meet the demands of a rapidly growing segment of the U.S. population. The request for start-up capital was rejected, however, as it was evident to the venture capitalist, upon reading the business plan, that the team did not understand this key notion of sacrificing personal income. The three of them included in their projections starting salaries of nearly \$400,000 each, comparable to the corporate salaries they were earning at the time! Such salaries put them in the top 1 percent of the highest-salaried people in the country. The venture capitalist viewed this as a sure sign that these three businesspeople were not sincere entrepreneurs. Business owners in general earn much less than what these three prospective entrepreneurs expected. Even 10 years after those entrepreneurs proposed combined compensation of over \$1.2 million, according to Salary.com's survey of small businesses in 2006, the average base salary for CEOs of small businesses was \$258,000 (see Table 2-4).⁶⁴ For entrepreneurs in information technology and health sciences,

industries in which venture capital is prominent, the average compensation is \$238,000 for founder CEOs and \$290,000 for non-founder CEOs.⁶⁵ According to the SEC, Bill Gates's 2001 annual salary, excluding bonuses, was only \$616,677.

TABLE 2-4

Average Total Cash Compensation for CEOs of Companies with Fewer than 500 Employees

Region	Average Salary
Northeast	\$545,000
South	\$411,000
West Coast	\$430,000
Midwest	\$243,000
Mountain States	\$109,000

Source: Salary.com, 2006.

Another difficult sacrifice that successful entrepreneurs sometimes make is spending less time with their families. For example, entrepreneur Alan Robbins, the owner of a 50-employee firm called Plastic Lumber Company, once said that he regretted not spending more time with his children during the beginning of his business, but he considered it a trade-off he had to make. He argued, "When you start a business like this . . . you have to deny your family a certain level of attention."⁶⁶ The demands of owning or building a business put considerable strains on an entrepreneur's time.

However, this doesn't mean that the entrepreneur must *completely* neglect his family or friends in order to run a successful business. To do so in the name of entrepreneurship is called "entremanship"! When I owned my businesses, I didn't miss the nightly dinner with my family. I didn't miss my kids' birthday parties or baseball games—I worked around them. My two daughters are older now—one in graduate business school at Harvard and the other recently graduating from Princeton—but when I started my businesses they were ages eight and four. I coached my younger daughter's Little League baseball team and her flag football team. I would have coached the older one, too, but she'd

decided that perhaps it would be best for me to simply cheer from the stands. I've seen more of my kids' games and events than any other parent I know.

Of course you're going to work long hours in the first couple of years to get your business going. But one of the beautiful things about being your own boss is that, by and large, you're the one who determines *which* hours to work. In addition to sitting on several boards of billion-dollar companies, I'm also a director for several start-ups. I tell these entrepreneurs, "Go home, have dinner with the family, and read the kids a bedtime story. Then get your butt back to work." When Staples surveyed small-business owners (those with under 20 employees), 33 percent reported working while they eat dinner, 73 percent said that they worked during their last vacation, and over 75 percent reported working more than a 40-hour workweek.⁶⁷ The MasterCard Global Business Survey of 4,000 small-business owners found that the average U.S. business manager works 52 hours per week. This figure actually rises to 54 hours per week if you include all eight countries surveyed.⁶⁸ When *Inc.* magazine surveyed the CEOs of its 500 fastest-growing companies, 66 percent of them remember working at least 70 hours per week when they started their company, and 40 percent reported working more than 80 hours per week.⁶⁹ Ken Ryan, CEO of Airmax, told *Inc.*, "There were times when I slept on the floor by the phone so as not to miss a call." The good news is that only 13 percent say that they *now* log more than 70 hours. Trust me, it gets better. You *can* make time to take your kids to the park, but nobody said starting a business was a walk in one.

Visionary

Webster's Collegiate Dictionary defines a visionary as someone who is "marked by foresight." This is an appropriate characterization of most successful entrepreneurs. They are able to anticipate future trends, identify opportunities, and visualize the actions needed to accomplish a desired goal. They must then sell this vision to potential customers, financiers, and employees. A couple of entrepreneurs who were great visionaries and made an impact on almost everyone's daily lives include

Ray Kroc, Founder—McDonald's Corporation

Ray Kroc was an acquirer; he purchased McDonald's restaurants in 1961 for \$2.7 million from the two brothers who founded the chain, Dick and Mac McDonald. After concluding that Americans were becoming people who increasingly liked to "eat and run" rather than dining traditionally at a restaurant or eating at home, his vision was to build the quick-service, limited-menu restaurants throughout the country. McDonald's, with operations in 118 countries, is now the largest restaurant company in the world. By the way, for the graying dreamers reading this book, Kroc was a 52-year-old salesman when he bought McDonald's.

Akio Morita, Cofounder—Sony Corporation

Akio Morita cofounded Sony—the company that a Harris survey ranked as the number one consumer brand in America for the seventh consecutive year in 2006. The company, which was started in 1942 under the name Tokyo Telecommunications Engineering Inc. and went on to become the first Japanese firm on the NYSE in 1970, succeeded by using Akio's vision to market the company throughout the world so that the name would immediately communicate high product quality. While this is a marketing concept that is commonly used today, it was not so 40 years ago, especially in Japan. In fact, most Japanese manufacturers produced products under somebody else's name, including Pentax for Honeywell, Ricoh for Savin, and Sanyo for Sears. Sony successfully introduced the small pocket-sized transistor radio in 1957. Six years later, in 1963, with the vision of making Sony an international company, Morita moved his entire family to New York so that he could personally get to know the interests, needs, and culture of Americans and the American market.⁷⁰

All successful entrepreneurs are visionaries at one time or another. They have to constantly reinvent their strategy, look for new opportunities, and go after new products and new ideas if they are to survive. However, this does not mean that they have this ability all the time. Visionaries can become nonvisionaries. In fact, as Cognetics Consulting points out, sometimes "the most astute masters of the present are often the least able to see the future."⁷¹ Examples of some famous nonvisionaries include:

Heavier than air flying machines are impossible.

—Lord Kelvin
President of the Royal Society, in 1895⁷²

Everything that can be invented has been invented.

—Charles H. Duell
Commissioner, U.S. Office of Patents, in 1899⁷³

I think there is a world market for maybe five computers.

—Thomas Watson
Chairman, IBM, in 1943⁷⁴

We don't like their music, we don't like their sound, and guitar music is on the way out.

—Decca Recording Company,
rejecting the Beatles in 1962⁷⁵

There is no reason anyone would want a computer in their home.

—Ken Olsen
Founder and Chairman, Digital Equipment Corp., in 1977⁷⁶

Problem Solver

Anyone working in today's competitive and ever-changing business environment knows that the survival of a company, be it large or small, depends on its ability to quickly identify problems and find solutions. Successful entrepreneurs are comfortable with and adept at identifying and solving problems facing their businesses. Risk takers by nature, they are willing to try new ways to solve the problems facing their companies and are capable of learning from their own and others' mistakes or failures. The successful entrepreneur is one who says, "I failed here, but this is what I learned." Successful entrepreneurs are always capable of extracting some positive lesson from any experience.

An example of someone who exhibits this characteristic is Norm Brodsky, a former owner of six companies and presently a writer for *Inc.* magazine. In an article, he says, "I prefer chaos. Deep down I like having problems. It's hard to admit it, but I enjoy the excitement of working in a crisis atmosphere. That's one of the reasons I get so much pleasure out of starting businesses. You have nothing but problems when you are starting out."⁷⁷

Comfortable with Ambiguity or Uncertainty

The ability to function in an environment of continual uncertainty is a common trait found among successful entrepreneurs. Often, they will be required to make decisions, such as determining

market demand for a newly developed product or service, without having adequate or complete information. Other important traits that successful entrepreneurs have in common are that they are hard-working people who possess numerous skills, as they are required to play multiple roles as owners of businesses. They are good leaders. They have the ability to sell, whether it is a product, an idea, or a vision. One of the most infamous sales pitches used by an entrepreneur was when Steven Jobs, the cofounder of Apple Computer, was closing his recruiting speech to PepsiCo.'s John Sculley, whom he wanted to become Apple's CEO. To sell John on the opportunity, Jobs asked him, "Do you want to spend the rest of your life selling sugared water or do you want a chance to change the world?"⁷⁸

IMPACT ON THE ECONOMY

Entrepreneurs with small and medium-sized growth businesses are playing an increasingly crucial role in the success of the U.S. economy.⁷⁹ Not only are they providing economic opportunities to a diverse segment of the population, but they are also providing employment to an increasingly large segment of the U.S. population. The Fortune 500 companies are no longer the major source of employment; rather, entrepreneurs are creating jobs and therefore are doing "good for society by doing well." As one employee of a 400-employee firm said about his company's owner, "To everybody else she's an entrepreneur. But to me she is a Godsend."⁸⁰

In the 1960s, 1 out of every 4 persons in the United States worked for a Fortune 500 company. Today, only 1 out of every 14 people works for one of these companies. Companies with fewer than 500 workers employ 51 percent of all employees. Approximately 42 million people work at companies with 20 to 49 employees, a workforce second only to that of companies with at least 5,000 employees.⁸¹

Small businesses have long been recognized as a primary engine of growth and innovation. The SBA reports that new businesses create between 60 and 80 percent of all new jobs every year. In 2003, as the United States emerged from a recession, firms with fewer than 500 employees created almost 1 million net jobs. Recent data even within small business segments show that the smaller the firm, the more jobs it creates. Between 2002 and 2003, firms

with fewer than 20 employees added 4 times as many jobs (1.6 million) as firms with 20 to 499 employees. Small businesses produce 13 to 14 times more patents than do large firms.⁸²

Finally, entrepreneurial firms are also important participants in U.S. international trade. Data from the Department of Commerce show that in 2002, companies with fewer than 500 employees represented 97 percent of all U.S. exporters and contributed approximately 26 percent of the \$599.8 billion in exports that year.⁸³

As the data in Table 2-5 show, entrepreneurial firms created almost all of the net new jobs from 1998 through 2003.

TABLE 2-5**Job Creation by Industry and Size of Firm, 1998–2003**

Industry	Firm Size (by Number of Employees)								Total
	1–19	%	20–99	%	100–499	%	500+	%	
All industries	6,494,443	122.95	451,455	8.55	14,510	0.27	-1,678,180	-31.77	5,282,228
Manufacturing	156,738		-386,461		-532,122		-2,136,555		-2,898,400
Retail trade	440,504		-56,808		-20,381		528,099		891,414
Services	857,132		332,601		234,302		204,635		1,628,670
Other	5,040,069		562,123		332,711		-274,359		5,660,544

Source: Small Business Administration.

The findings of a study undertaken by Cognetics Consulting, a company specializing in small businesses, reinforces the data provided in Table 2-5. As you can see in Table 2-6, from 2000 through 2005, employment increased mainly in small companies, while it decreased in larger ones.

TABLE 2-6**Employment Growth by Firm Size, 2000–2005**

Number of Employees	Employment Growth, 2000–2005
1–19	3.4%
20–499	2.2%
Over 500	1.3%

Source: Small Business Association.

Contrary to popular belief, small businesses are not the exception in the American economy; they are the norm. This fact was highlighted when *Crain's Chicago Business* weekly business newspaper advertised its new small-business publication by taking out a full-page advertisement that read:

THERE WAS A
TIME WHEN 90% OF
CHICAGO AREA
BUSINESSES HAD
REVENUES OF
UNDER \$5 MILLION.
(YESTERDAY).⁸⁴

On the national level, the same holds true. Out of the approximately 23 million businesses in the United States, only about 5.2 percent have annual revenues greater than \$1 million, and approximately 15,000 companies have sales of \$100 million or more.⁸⁵ Figure 2-3 provides data on the ownership category of all businesses in 2000.

FIGURE 2-3

Business Ownership, 2000

5.8 million nonfarm employer firms
9.9 million self-employed
17.9 million sole proprietorships
2 million partnerships
5.5 million corporations

Source: SBA Office of Advocacy, August 2001.

In terms of firm size, again Chicago is an excellent example of the national situation. Data from the U.S. Census Bureau show that 95.3 percent of businesses in Chicago have fewer than 100 employees.⁸⁶ As stated earlier, the national situation is the same: only 103,585 companies have more than 100 employees, and only 17,047

employ more than 500 employees. In fact, of the 5.88 million companies with at least 1 employee, more than 60 percent employ fewer than 5 people, while 89 percent employ fewer than 20.⁸⁷ Clearly, large companies are the exception.

The dominance of small businesses as major employers holds true on the international level as well, particularly in Asia. In Japan, for example, 70 percent of the workforce is employed at companies with 300 or fewer workers⁸⁸; in South Korea, 87 percent of the workforce is employed in companies with less than 200 employees.⁸⁹ In Taiwan, 78 percent of the labor force is employed by companies with fewer than 200 employees.⁹⁰ Small companies are also very dominant in the United Kingdom, where 99.3 percent of all businesses had fewer than 49 employees and 58.5 percent of all employment came from firms with fewer than 250 employees.⁹¹

Thus, small-business owners should not be ashamed or embarrassed by their size, but should rather be proud that they are major contributors to the success of the U.S. and the global economy. They are, in fact, economic “heroes and sheroes.”

IMPACT ON GENDER AND RACE

The entrepreneurial phenomenon has been widespread and inclusive, affecting both genders and all races and nationalities in the United States. One group that has benefited is female entrepreneurs. In the 1960s, there were fewer than 1 million women-owned businesses employing less than 1 million people. By the 1970s, women owned less than 5 percent of all businesses in the United States. In the 1980s, they owned about 3 million businesses, approximately 20 percent of all businesses, generating \$40 billion in annual revenues.

Things have changed tremendously. Recent statistics from the Center for Women’s Business Research showed that in 2006, privately held women-owned businesses in the United States totaled 7.7 million, employed 7.1 million people, and generated \$1.1 trillion in revenues. This report defines women-owned businesses as privately held firms in which women own 51 percent or more of the firm. When firms that are 50 percent owned by women are considered, an additional 2.7 million firms come into play, raising the total number of firms to 41 percent of all privately held firms in the

country. Between 1997 and 2006, the number of majority women-owned firms increased 42.3 percent—nearly twice the rate of all other firms (excluding publicly held companies). Also, at 4.4 percent growth, revenues for these firms increased faster than the national average, which was actually a decline of 1.2 percent for the same period.⁹² Finally, not surprisingly, contrary to much of what is said in the popular press, women are not starting businesses out of need. Forte Foundation research reports that women start businesses for the same reasons as men: because they are driven to achieve and want control over their achievement.⁹³

The entrepreneurship revolution has also included virtually all of the country's minority groups. Minority-owned firms grew three times faster than the national average between 1997 and 2002, increasing from 3.1 million to about 4.1 million firms. The number of African–American–owned businesses jumped 45 percent to 1.2 million over the same five-year period, and the number of Asian-owned businesses jumped 24 percent to 1.1 million. Hispanic enterprises also saw a significant increase, moving up 31 percent to 1.6 million.⁹⁴ Finally, for minority women, the data are also strong. The number of businesses owned by women of color grew at six times the rate of all privately held firms in the United States and generated \$147 billion in annual sales.

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