

## **CHAPTER 2: THE ENTREPRENEURIAL MIND-SET IN INDIVIDUALS: COGNITION AND ETHICS**

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### **True/False**

1. The generation of the twenty-first century may become known as generation E because it is becoming the most entrepreneurial generation since the Industrial Revolution.

ANS: T

2. Entrepreneurial cognition is, in part, about understanding how entrepreneurs use simplifying mental models to make assessments, judgments, and decisions about opportunities.

ANS: T

3. Commitment, determination, and perseverance are the only characteristics one needs to become a successful entrepreneur.

ANS: F

4. There is a certain psychic risk involved with entrepreneurship.

ANS: T

5. The “dark side” of entrepreneurship refers to the stress that entrepreneur’s experience.

ANS: F

6. According to the Model of Entrepreneurship Motivation, the entrepreneur’s expectations are not compared with the actual or perceived outcomes of the firm.

ANS: F

7. A loss orientation toward grief recovery in dealing with failure can sometimes lessen negative emotional reactions.

ANS: F

8. Today’s entrepreneurs are faced with few ethical decisions because the legal system imposes greater penalties on wrongdoers.

ANS: F

9. Ethics represents a set of principles prescribing a behavioral code that does not include moral duty and obligations.

ANS: F

10. A code of conduct is a statement of ethical practices or guidelines to which an enterprise adheres.

ANS: T

### **Multiple Choice**

1. Every person has the \_\_\_\_\_ and \_\_\_\_\_ to pursue a career as an entrepreneur
- stubbornness; stupidity
  - potential; free choice
  - rights; regulations
  - obligation; duty

ANS: B

2. Entrepreneurs
- are driven by intense commitment and perseverance.
  - are egomaniacs.
  - loners who never fit in to typical firms.
  - are never satisfied.

ANS: A

3. Characteristics often attributed to the entrepreneur include:
- Commitment, determination, and perseverance
  - Prefers to be a loner
  - Power hungry
  - Ability to be indecisive

ANS: A

4. Which of the following is not a trait of successful entrepreneurs?
- initiative
  - frustration
  - perseverance
  - strategic thinking

ANS: B

5. When entrepreneurs believe that their accomplishments and setbacks are within their own control and influence, they are exhibiting
- persistent problem-solving.
  - internal locus of control.
  - external locus of control.
  - opportunity orientation.

ANS: B

6. Areas of risk to the entrepreneur include
- career, family, psychic.
  - family, business, social.
  - psychic, social, physical.
  - financial, product, market

ANS: A

7. Which of the following may be the greatest risk to the well-being of the entrepreneur?
- social risk
  - financial risk
  - psychic risk
  - family risk

ANS: C

8. Generally, entrepreneurial stress is due to
- being surrounded by incompetents.
  - fear of failure.
  - the discrepancy between the entrepreneur's expectations and the ability to meet demands.
  - caused by a big ego.

ANS: C

9. Entrepreneurial stress can be caused by having a type A personality which can be defined as
- having a chronic sense of time urgency
  - taking too little responsibility
  - getting away from business
  - taking things personally

ANS: A

10. The entrepreneurial ego can cause the entrepreneur to
- have a sense of pessimism.
  - take characteristics that usually lead to success to the extreme.
  - ignore government regulations.
  - take too few risks.

ANS: B

11. Which of the following is not characteristic of the "dark side" of entrepreneurship?
- an external optimism
  - a desire for success
  - knowing when to take a vacation
  - a sense of distrust

ANS: C

12. The decision to behave entrepreneurially is the result of the interaction of:
- the individual's personal entrepreneurial mind-set and an opportunity
  - the existence of a viable business idea
  - the relevant business environment
  - a new market

ANS: A

13. A decision to sell pharmaceuticals that have not been cleared with the Federal Drug Administration is an example of a(n)
- illegal and ethical decision.
  - legal and unethical decision.
  - illegal and unethical decision.
  - legal and ethical decision.

ANS: C

14. A decision to sell toys that pass minimum safety standards but can often result in minor accidents to children is an example of a(n)
- illegal and ethical decision.
  - legal and unethical decision.
  - illegal and unethical decision.
  - legal and ethical decision.

ANS: B

15. A \_\_\_\_\_ is a statement of ethical practices or guidelines to which an enterprise adheres.
- code of conduct
  - code of ethics
  - code of honor
  - code of silence

ANS: B

### **Short Answer**

1. Explain and discuss the "dark side" of entrepreneurship.

ANS:

The entrepreneurial profile has its destructive side. First, the need for control can become an obsession. The need for control can cause problems in networking and in an entrepreneurial team. A sense of distrust can cause the entrepreneur to lose sight of reality or focus on trivial things. An entrepreneur's desire for success can also be destructive if the individual becomes more important than the venture itself. The last "dark side" trait is external optimism. When the entrepreneur takes optimism to the extreme, he or she may begin using a fantasy approach to the business. Trends, facts, and reports are ignored because the entrepreneur thinks everything will turn out fine.

2. Discuss the specific areas of entrepreneurial risk.

ANS:

The four areas of risk are financial risk, career risk, family and social risk, and psychic risk. First, financial risk deals with the amount of savings or resources that the entrepreneur puts into venture. If the venture is not successful, the money or resources will most likely be lost. The entrepreneur will probably sign obligations that exceed his or her personal wealth. The second risk is career. The would-be entrepreneur frequently asks if he or she will be able to find a job or go back to a previous job. The new venture has no guarantees about career security. Family and social risk are also to be considered.

3. Name the sources of entrepreneurial stress and discuss the ways of dealing with stress.

ANS:

Entrepreneurs experience four types of stress. The first is loneliness. Although there are many people around the entrepreneur, there are few in whom he can confide. Another stress is immersion in business. A successful entrepreneur may make enough money for vacations, but never have the time to go because the business would not allow it. People problems are another type of stress. The entrepreneur may get frustrated, disappointed, and aggravated by employees or other individuals upon whom the venture's work depends. Usually this happens when the entrepreneur's expectations of a high performance are not met. The last source of stress is the need to achieve. The entrepreneur usually attempts to accomplish too much and sometimes cannot manage to control the need for achievement. The three steps an entrepreneur can take to reduce stress are acknowledging its existence, developing coping mechanisms, and probing for personal unacknowledged needs. There are five ways in which an entrepreneur can cope with stress. First is networking. Networking involves sharing experiences with other business owners. Another coping mechanism is to get away from it all. These interludes help combat immersion in business. Communicating with subordinates may help to cope with stress. The entrepreneur can be aware of the concerns employees have about their jobs.

Finding satisfaction outside of the company is also important. The entrepreneur needs to get away and enjoy life. The last way an entrepreneur can deal with stress is by delegating. Appropriate delegates need to be found and trained so the entrepreneur can gain time away from the business.

4. Define ethics and discuss some conflicts over the ethical nature of decisions.

ANS:

In a broad sense, ethics is the rules or parameters for conduct in any activity as long as it is done in an "acceptable" manner. Ethics can also be described as a set of principles prescribing a behavioral code that explains what is good and right or bad and wrong. Even though society is in an ever-changing state, this definition implies that universal principles remain intact. An entrepreneur faces many conflicts for many reasons. One conflict arises as a business is faced with outside as well as inside interests. Some examples are stockholders, the community, the government, employees, and unions. Also, as society changes, the values and mores of society must change.

5. Give some in-depth examples of the dilemmas entrepreneurs face with ethics and laws.

ANS:

One dilemma entrepreneurs face is managerial rationalization. Managers may use rationalizations to justify questionable conduct. Some examples are: believing that the activity is not “really” illegal or immoral, the act is in the company’s best interest, the behavior will not be found out, and the company will condone the act. The questionable act may seem all right to the manager using these rationalizations, yet is against the laws of the business world and society.

Another dilemma concerns the matter of morality. Using LaRue Hosmer’s conclusions concerning legal requirements and moral judgments, the requirements might overlap but not duplicate the moral standards of society. First, this results from laws not having any moral content, laws being morally unjust, and moral standards having no legal basis. Second, legal requirements tend to be negative whereas morality tends to be positive. Third, legal requirements can lag behind the acceptable moral standards of society.

Another dilemma entrepreneurs are often faced with concerns economic trade-offs. Economic trade-offs occur when innovations, risk taking, or venture creation are used to stimulate the economic system to create new jobs and new growth. These qualities produce the trade-off between economic and social welfare. Some examples are, advertising for cigarettes with death as a possible result; toxic waste dumps invading lakes, streams, and eventually drinking water; minorities being laid off only because they were the last to be hired, and capital gains realized through the advance information of mergers.