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## Bringing The Real World Into The Entrepreneurial Classroom

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## BRINGING THE REAL WORLD INTO THE ENTREPRENEURIAL CLASSROOM

Nancy Niles, Concord College

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*From 1997-2003, this author managed a Small Business Development Center, providing free technical assistance to new and existing small businesses. She counseled hundreds of business clients during her tenure regarding successful business management. Based on her experience, she developed a 10-step business start-up program that brings the real world into the entrepreneurial classroom. This teaching concept presents the student with an understanding of the major principles and practices necessary to start a business venture. The instructor will focus on both theoretical and practical concepts. Students will have the opportunity to perform research and analyze data in order to open up their own business. They will complete financial forms that a small business owner must complete to obtain commercial lending. They will follow the steps an actual small business start-up owner follows to lay the foundation to opening their doors. This teaching tool has been used in both independent studies and traditional classroom teaching with positive student feedback.*

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### Introduction

Dollinger has stated that the youth of today are more entrepreneurial than any previous generation (2003: 2). There are entrepreneurial education programs at the elementary and secondary school level. There is a consortium for entrepreneurship education that provides technical assistance for youth programs. There is a curriculum, PACE (Program for Acquiring Competence in Entrepreneurship) which is taught at all educational levels. There are Entrepreneurial Centers being developed at colleges and universities nationally. Kuratko states that in the 1970s, entrepreneurial courses were offered at only a handful of schools. Today that number has increased to more than 1000, and schools are reporting a record number of students enrolling in these courses (2004: 9). Many successful corporations have established entrepreneurship components in their firms to create innovative products to sustain a competitive advantage (Hitt, 2005). Business and society has recognized that entrepreneurship is an integral component of the success of our economy and business education needs to keep pace with the entrepreneurial movement. Entrepreneurial pedagogy is changing based on the broadening interest and acceptance in entrepreneurial education (Solomon, 2002). The author has developed a unique entrepreneurship course based on her experience as a small business consultant in the economic development sector. During academic years 2003-2005, this course has been used in both independent studies and traditional classroom settings with very favorable student feedback with a percentage of these students starting their own business as a direct result of this course.

From 1997-2003, this author had an opportunity to

manage a government-funded small business development center, providing technical assistance to new and existing small businesses. During her tenure there, she counseled hundreds of business clients regarding business management. Based on her experience, she developed a 10-step business start-up program that can be implemented in the classroom over the course of a semester. This course can be taught with supplemental material from appropriate textbooks or Internet resources. Case studies can be assigned to further assess students' knowledge. During the first day of class, the 10 step program is provided to the student with instructor expectations. Appendix 1 contains a list of resource information for both the instructor and student. Appendix 2 outlines a suggested grading procedure for the instructor.

This program gives the students a realistic approach to being a new business owner. The students are required to make informed decisions at each step that will impact how they will operate their own business. This paper will outline the 10 step program, providing suggested discussion components and student outcomes for each step.

### Step 1: Laying a Foundation for Opening a Business

#### Discussion Outline

Theory foundation: There are many theories regarding entrepreneurs and the types of personalities that portray successful entrepreneurs. Bird's Model of Entrepreneurial Intentionality focuses on external opportunities and a person's visionary thinking (Bird, 1988). The ACE Model of predicting entrepreneurial intentions states that media and culture persuades individuals to start a business (DePillis, 2001). An initial

and interesting assessment would have the students take a self-assessment test which may provide insight as to why they want to open their own business. Is it a result of an existing poor working relationship with a current boss or do they feel there is a market for their product or service? What are their true reasons for opening a business? There are several assessment tools that can provide small business start ups with insight about why they want to open their business. Visit [www.sba.gov](http://www.sba.gov) to utilize the Small Business Administration's self-assessment tool or the instructor selects.

**Personal credit issues:** The importance of good personal credit is vital when opening a business. Many think their personal credit rating does not matter when obtaining a commercial loan. Everyone should evaluate their credit rating for two reasons: (1) incorrect information about their credit rating and (2) they need to know if they can borrow money. If there are credit issues, they can collaborate with a credit repair agency that oftentimes is a non-profit organization and is a free service. Poor credit can dramatically impact the ability to borrow money.

Walk before you run. Starting their business from home or as a part-time venture, is an excellent way to assess the potential market. Many successful small business owners maintain their current employment while they assess their business venture. Additionally, how small businesses set up the legal structure of their business should be discussed prior to opening their business. Many new owners start up as a sole proprietorship (single owner) or partnership (multiple owners) because they are the least costly method of organization. Although all structures have advantages and disadvantages, by selecting a simple way to organize their business, small businesses can change the structure to a more complex structure as the business grows.

### Student Activities

- Focuses on self-assessment. The students take a self assessment tool developed by the Small Business Administration (or as assigned) to see if they have the personality to open a business. Discussion in class will focus on typical entrepreneurial traits.
- Discussion of personal credit issues.
- Understanding the legal structures of a business. Students become familiar with legal structure choices for their business.
- Guest speaker – Business owner(s) discusses first year of business operations.
- Outcome: Students submit a completed self-assessment test and their interpretation of the test, a

written discussion on personal credit issues and a discussion of the types of legal business structures.

### Step 2: The Five W's – Who, What, When, Where, and Why

#### Discussion Outline

**External analysis -** Selecting a business strategy. A study of the general environmental trends may reveal an opportunity for an entrepreneur (Longenecker, 2005; Hitt, 2006). The product or service that is their focal point should be analyzed from a strategic point. Discussion should focus on which type of business strategy; cost leadership or differentiation or an integration of both strategies will be selected initially for the business. Who is the target market? What type of service or product will you be providing for this market segment? What type of business strategy will you select? When will the business be opened? Where should you locate your business or should it be online? Or should it be a brick and click operation? Why will this business work? Discussion should focus on how to develop strategies that will give their business an advantage over their competitors.

**Internal analysis discussion.** Discussion should focus on the type of human capital needed to operate this business successfully. Human resource planning or workforce planning applies the basic planning process to human resource needs. Byars indicates that managers should view human resource planning as one of their most important responsibilities (2006: 89). The following questions need to be asked and answered: Who is going to own the business? Who will manage the business? What type of skilled employees is needed? What kind of organizational culture will be promoted?

### Student Activities

- Students discuss their proposed business idea with a business level strategy.
- Students discuss options for marketing plans.
- Outcome: Students submit a business idea, strategy, and human resource analysis.

### Step 3: Entrepreneurial Financial Management - Estimating Start-Up Costs

#### Discussion Outline

Failure and lack of capital entrepreneurial financial management (EFM) includes: (1) setting clear financial goals, (2) forecasting revenues, (3) understanding the financial statements, (4) effective cash management, and

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(5) raising funds for the venture (Cornwall et al, 2004). This step provides a basis for EFM. Financing is one of the major hurdles to opening business doors. Insufficient capital is a major reason for business failures. It is necessary that small businesses calculate how much money their new business will need to open and keep their doors open. This estimate will include any one-time expenses dedicated to renovating a location, initial inventory, regulatory expenses, and operational or recurring expenses. Including a contingency fund for operations is vital. Planning tools such as a profit and loss statement or a simple budget statement can assist small businesses with this step. These steps will also assist small businesses with determining their funding needs. How much funding is needed? Can the new small business owner finance this endeavor themselves?

### Student Activities

- The students list one time and recurring expenses for the proposed business. The budget estimate which will assist in determining if the business can be self-funded or if they need additional financing.
- Outcome: Students submit a proposed budget for their small business start-up.

### Step 4: Financial Management Issues

#### Discussion Outline

**Importance of financial management.** An accountant or bookkeeper can be an excellent resource for managing money, but small businesses need to know as the owner what their sales revenue is and the expenses needed to create those revenues. Using a computer software package or a simple book keeping ledger can be tools to assist small businesses with their financial management. Initially, if small businesses feel they can't afford an accountant, it is still crucial that they develop accurate financial record keeping for their business.

**Recordkeeping methods.** Students should understand the two basic methods of recordkeeping methods based on recording and reporting of the income and expenses; cash and accrual accounting. The most popular method is the cash basis since revenues and expenses are reported at the actual date they are received. Accrual recordkeeping focuses on when the revenues and expenses regardless when the cash is actually received. The IRS does require certain types of business to use accrual accounting methods (Pinson, 2004).

### Student Activities

- Discussion of the importance of managing money

and the type of systems used by small business owners.

- Discussion of accountants and their importance to the business.
- Outcome: Students select a type of accounting system for their business.
- Expert: CPA will review accountancy procedures with students.

### Step 5: Creating the Business Plan

#### Discussion Outline

**Business plan development.** A business plan serves two important functions. It guides the company operations and outlines a strategy which can be turned into a reality and it can be used as a marketing tool to persuade commercial lenders and investors to finance your business (Boveel, 2005). A business plan is important for a small business owner for two reasons: Business plans can be customized to the type of business being started, however the plan should analyze marketing, operational, management and financial issues. These analyses will be important to the owner and to the interested financier. It will demonstrate to both parties that the small business owner has built a solid foundation for their proposed business.

There are business plan development resource books and internet sites that provide different business plan examples that will help small businesses achieve this goal. For example, [www.entrepreneurmag.com](http://www.entrepreneurmag.com) and [www.sbdnet.utsa.edu](http://www.sbdnet.utsa.edu) provide excellent examples of business plans as well as specific industry information.

### Student Activities

- Development of a business plan. Sample plans are provided by instructor or accessed through reliable websites.
- Outcome: Students submit narrative business plan

### Step 6: Financial Projections

#### Discussion Outline.

This task is one of the most difficult to complete for a small business start-up. Many new small business owners have no idea how to calculate what their revenues and operating expenses will be. However, financial projections are a necessary component of a business plan. When submitting a plan for funding consideration to a bank, a commercial lender will expect to see a pro forma financial statement which should include a month by month profit and loss projection for

the first one-three years, cash flow statement, and balance sheet. The development of a financial forecast will all provide a baseline for the capital requirements needed for the business start-up.

### Additional Discussion

There are many methods of developing financial projections for both revenues and expenses. Here is one suggestion - Start the financial projections by focusing on one customer's average sale. Talk to similar businesses, investigate the proposed industry standards or go with their gut instinct if the product or service is unique. Once they calculate their average sale per customer, they can multiply this estimate by the number of proposed customers per week and per month. Eventually the calculation will lead to the amount of revenue monthly and yearly.

If the proposed business is seasonal, a variation of the revenues must be included in the projection. Operational expenses can be estimated by speaking directly to those organizations or companies involved in the expenses such as utility companies, landlords, inventory supplier, etc.

Secondly, Robert Morris Associates (RMA) compiles annual data on industry profiles in accordance with the North American Industry Classification System. Depending on business size, industry standards are provided for financial performance. Utilizing this system will also guide the student to develop realistic financial projections.

Those who regularly evaluate business plans such as investors and bankers, follow a similar and consistent pattern - They review the executive summary to assess if they have an initial interest in the business and secondly, they examine the link between the marketing and projected revenues plan (Cornwall,2004).

### Student Activities

- Students research RMA data for guidelines. Students will compare marketing plan to financial revenues.
- Guest Speaker. Invite local accountant to discuss projection development.
- Outcome: Students submit financial projections.

### Step 7: Commercial Lender Focus

#### Discussion Outline

**Importance of a business plan.** A commercial banker or investor will expect a well-written business plan (step 5) which will also include the financial projections for their business discussed in step 6. It

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demonstrates to the lender that small businesses are organized and it demonstrates to them that small businesses will be able to repay their debt service. Most commercial lenders expect 10-20% of the loan amount will be contributed by you. Investors could expect a higher market rate of return on their investment.

**Collateral issues or personal guarantees.** Many commercial lenders will expect collateral or personal guarantees for the loan which could equal to 100% of the loan amount. Personal Financial Statements: Lenders will ask small businesses to complete a personal net worth statement to ensure that small business owners do have assets to collateralize their loan.

**Credit ratings.** Depending on geographic areas, many banks will compute a credit score based on their lender laws. They have developed a minimum score that is acceptable to their institution to lend small businesses funds. That is why good personal credit is so important.

**Co-signor.** If small businesses have weak credit, many banks may accept a co-signor on their application that has strong credit.

Once small businesses owners have finished their business plan and financial spreadsheets and receive financing, many think they don't have to look at the plan again. These tools are wonderful management tools for small businesses to use as their business grows. It is important to revisit these on a quarterly basis to ensure that their path is still the correct one to follow as their business grows.

### Student Activities

- Guest speaker. Invite local commercial lender to discuss expectations and review personal financial statement and bank application.
- Outcome: Students submit a completed personal financial statement and a bank application (supplied by instructor).

### Step 8: Risk Management - Business Protection

#### Discussion Outline

**Business insurance considerations.** Every business, particularly a small business, may be at risk for financial losses as a result of natural disasters or unexpected events. It is important that as a potential owner, you identify potential threats to your business (Anastasio,S, [www.sba.gov](http://www.sba.gov)). Business insurance should be purchased by owners to protect their assets and protect them from lawsuits due to injury to a third party. Depending on the type of business, some owners can purchase a (business owner policy) which is designed for commercial coverage which can include both liability

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and property coverage and can be reasonably priced. If the small business owner has an existing auto or homeowner's policy, a business insurance policy may also be included with the existing policy, reducing costs.

**Specialized insurance.** Business owners can also purchase business interruption insurance which provides for the net profit loss and expenses during a period when the business is closed for unforeseen reasons. Businesses who are located in high hazard areas should also consider additional natural disaster insurance.

**Workmen's compensation.** Depending on state regulations and the type of business operation, worker's compensation should be purchased to protect owners' against work-related injuries.

### Student Activities

- Students discuss appropriate types of insurance for their selected business.
- Students discuss the importance of workmen's compensation.
- Guest Speaker: Insurance representative will outline necessary business insurance.
- Outcome: Students submit their insurance needs.

### Step 9: Internal Revenue Service is a Business Ally

#### Discussion Outline

**Government compliance.** It is extremely important that small businesses comply with the Internal Revenue Service regulations and any state and local regulations. The IRS has developed an excellent website ([www.irs.gov](http://www.irs.gov)) that will provide information regarding small businesses management. Additionally, many state and local regulations require additional requirements regarding health and safety, business licensing, alcohol distribution, food preparation and other issues. Contact with each local agency prior to opening the business is vital to ensure compliance.

### Student Activities

- Discussion of the importance of taxes as it relates to businesses and the type of legal structure selected for the business.
- Students will visit the IRS website to access information ([www.irs.gov](http://www.irs.gov)).
- Outcome: Students submit a completed IRS form for a tax ID number and discuss tax implications for business legal structure.
- Expert: IRS representative discusses tax issues.

### Step 10: What is Next for the Entrepreneur?

#### Discussion Outline

Ongoing learning - Running a business is an ongoing learning process for an owner so here are a few final guiding points for the first 6 months of their business.

**Marketing/publicity strategy review:** Developing a marketing strategy for many new start ups is forgotten because they have limited funds which they prioritize for other operations. Small business may have the best product in the world but if no one knows about it... Depending on the business strategy, marketing strategies may differ. Some businesses may profit from radio spots; other start-ups may profit from print media exposure. To determine what is effective for the business, the owner should develop an evaluation tool to assess the current strategy. Start-ups have precious dollars to waste and an effective marketing scheme is necessary.

**Community Involvement:** Community participation is a great way of advertising your business. Joining civic organizations such as Rotary, Optimist, Lion's Club, and Kiwanis are excellent examples. It provides an opportunity to network with other business professionals. Local chambers of commerce are strong business supporters and provide many opportunities for networking so consider a membership to that organization to enhance community exposure. In addition to being dedicated to community activities, companies are finding out that their public image is more favorable and there is a stronger employee morale (Boveel: 50).

#### Additional Discussion Points

If your business is experiencing cash flow problems, pay suppliers first. The owner makes the sacrifices. Quality service can be the owner's competitive edge. By developing a customer database and surveying the customers will assess any issues quickly. Once the business is open for 3-6 months, the owner should review the financial projections to assess the progress of the business.

### Student Activities

- Review of marketing strategy.
- Review of financial projections.
- Discussion of value of community involvement.
- Outcome: Students provide an evaluation of their proposed marketing strategy and financial projections and proposed community activity.

- Outcome: Students present their business idea to the class for evaluation. Classmates assume role of commercial lender or investor and rank the business plans based on whether they would provide funding for their business.
- Expert: A commercial lender provides feedback on business plan proposals.

### Grading Procedures

Depending on the semester length, each step can be accomplished within 1-2 weeks. This format can also be used as an independent study. Each student submits each step throughout the semester so timely feedback can be provided. Points are awarded, based on each step's level of difficulty. At the end of the 10-step process, a student should be able to present their completed business plan to a commercial lender or investor for consideration.

Appendix 2 contains an outline of the distribution of points allocated for each step, based on level of difficulty. Students maintain a semester notebook for their work. Each week, the student submits the notebook to the instructor for grading. Instructor returns the notebook prior to the next step submission. Students' feedback indicated that this protocol enabled them to more clearly understand the steps involved in starting a business. In addition to the 10 step process, the instructor selected appropriate case studies that emphasized each step. Case studies were completed as an in- class assignment in groups of 2-4. Students appreciated the case studies because they underscored the principles discussed in class.

### CONCLUSION

The author has spent the last 2 years as an instructor teaching management courses at a small rural university in southern West Virginia. She has spent years in the economic development arena. Her philosophy of teaching statement emphasizes bringing "real world" concepts into the classroom so students are prepared to enter their professional worlds with practical knowledge the instructor has acquired during her successful career.

Starting and operating a business can be overwhelming. The instructor's small business start-up clients appreciated this 10-step model because it allowed them to focus their efforts in an organized system with successful results. By teaching this method in her classroom, hopefully, some of her students will be able

to achieve similar results and more fully comprehend what a real business owner experiences when trying to start a business.

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Nancy Niles is an associate professor of management at Concord University. She received her Ph.D. in health policy from University of Illinois at Urbana Champaign. Her current research interests include entrepreneurship, business ethics education and the impact of information technology on business development.

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## APPENDIX 1

## Suggested resource list for 10 step program

## Texts:

- Small Business Management: An entrepreneurial emphasis Longenecker, Moore and Petty, 2003 Thomson/Southwestern ISBN: 0-324-06554-X
- Start your own business – The only start-up book you'll ever need. Rieva Lesonsky, 2001. Entrepreneur Press. ISBN: 1-891984-21-7

## Suggested websites for student use:

[www.sba.gov](http://www.sba.gov) - US Small Business Administration website – excellent website for small business owners  
[www.irs.gov](http://www.irs.gov) - US Internal Revenue Service website – has a special section for small business owners  
[www.score.org](http://www.score.org) - Service Corps of Retired Executives- Partners with the SBA to provide information for small business owners. Service is free or low cost.  
[www.entrepreneurmag.com](http://www.entrepreneurmag.com) - Entrepreneur's magazine - provides excellent information on new and existing businesses  
[www.bizstats.com](http://www.bizstats.com) - Statistics and general information on small business  
<http://bplans.com> - Sample business plans – some are free downloads  
[www.business.gov](http://www.business.gov) - Federal resources for business  
[www.nlbo.org](http://www.nlbo.org) - Website for women-owned businesses  
[www.businessownersideacafe.com](http://www.businessownersideacafe.com) - Resource for small business activity  
[www.isquare.com](http://www.isquare.com) - Small business advisor  
[www.startupjournal.com](http://www.startupjournal.com) - Website focused on start ups from Wall Street Journal  
[www.webcateaofficeadepot.com](http://www.webcateaofficeadepot.com) - Free small business seminar series offered online  
[www.morebusiness.com](http://www.morebusiness.com) - Website for start up businesses. Provides samples templates  
[www.entreworld.org](http://www.entreworld.org) - Information for each stage of a small business start up  
[www.fed.org](http://www.fed.org) - Foundation for Enterprise Development is a non profit organization that provides advice on ownership strategies.  
[www.asbdc-us.org](http://www.asbdc-us.org) - Small Business Development Centers - A government-sponsored program that provides free or low cost technical assistance to new and existing small businesses. They are located nationally and are sponsored partially by the Small Business Administration. You can locate a local SBDC via this website or the local telephone book.

## APPENDIX 2

## Suggested Allocation of Grading Points

Step 1: Foundation	10 POINTS
Step 2: The 5 W's	20 POINTS
Step 3: Start Up Costs	20 POINTS
Step 4: Financial Management	5 POINTS
Step 5: Business Plan	100 POINTS
Step 6: Financial Projections	50 POINTS
Step 7: Commercial Lender	10 POINTS
Step 8: Business Protection	5 POINTS
Step 9: Internal Revenue Service	10 POINTS
Step 10: What's Next	20 POINTS
TOTAL	250 POINTS