

Workshop Review

What makes Entrepreneurs Entrepreneurial?

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The entrepreneurship fairy tale

Prof. Saras Sarasvathy began the workshop by sharing her personal story and why she got involved with entrepreneurial research. She was an entrepreneur herself back in an earlier life, when she started up a textile company in her homeland India. When she later moved into academia and took up her position at the University of Virginia, she drew upon this experience and wanted to get to the bottom of the question of what entrepreneurs can learn from each other, and whether the conventional wisdom of entrepreneurship, which has been taught for decades in universities and business schools, is actually applicable to the real world.

Although the story of some newly founded companies follows the script of the entrepreneurial fairy tale (i.e. someone has a (great) idea, they invest in market research, write a business plan, find investors, build the business and then sell it off or go public in order to then sit back and enjoy the fruits of their harvest), in most cases the actual process of entrepreneurship follows a very different path...

So what do entrepreneurs actually do?

The reader may be surprised to learn that the richest woman in China today, founder of the Nine Dragons paper business, a multi-billion \$ enterprise, started out as a mere employee in a paper company. She had limited capital, little entrepreneurial ambition and certainly no idea of how to write a business plan. She merely flew to the USA where she stayed with relatives, went to a local waste plant and took on a container of used paper, which she then shipped back to China, making the most of cheap rates as the ships were empty on their way home. There Mrs Cheung Yan had it recycled by small companies and made into packaging, which she then sold on to hungry manufacturers, who were suffering from the shortage of cheap packaging for their export markets.

Prof. Sarasvathy goes on to add that there are literally hundreds of similar stories about how companies evolve - even dating back to the 18th century. So what makes this story so unusual? Certainly there is no thought-through business plan (other than the idea in her mind), and she does not rely on any predictive business practices. Mrs Yan stuck to what was do-able and practical in her circumstances at the time. She kept her risks low, so that if her worst-case scenario should come to bear, she would not lose all.

What do successful entrepreneurs have in common?

So what connects successful entrepreneurs, if following conventional business practices is not the answer? Prof. Sarasvathy went on to study entrepreneurial expertise using the methodology of think-aloud protocols. She wanted to understand the decision-making processes, as well as explore the underlying beliefs concerning predictability of successful entrepreneurs. She interviewed 27 experts and asked them to work through a 17-page problem set of 10 typical questions encountered by entrepreneurs as they build a venture. They were asked to think aloud for the entire test period. The result was that the majority used "effectual reasoning" - i.e. they refrained from trying to predict the future when addressing questions concerning their business idea - especially in the early period of their ventures.

These successful entrepreneurs are not great risk takers; on the contrary, they calculate risks based on the belief, that the future is fundamentally unpredictable. The core of effectual reasoning therefore is a shift from the conventional causal paradigm "to the extent in which the future is predictable, I can control it" to an alternative way of thinking and acting, "to the extent in which I can control the future, I do not need to predict it". So how do you control a future, which is not predictable?

While causal thinkers are like great generals seeking to conquer fertile lands (Genghis Khan conquering two thirds of the known world), effectual thinkers are like explorers setting out on voyages into uncharted waters (Columbus discovering the new world)

Saras Sarasvathy

What is Effectual Reasoning?

This approach constitutes working with what can be controlled and acting in the present, rather than leaning towards an unpredictable future. Instead of thinking about expected return, effectual reasoning pays attention to expected loss, rather than relying upon competitive analysis, effectual thinkers focus on building strategic partnerships and rather than relying on prediction, effectual entrepreneurs learn "to turn the unexpected into the profitable". The focus is taken away from following trends and allowing them to influence actions, towards co-creating a future (market) in close co-operation with stakeholders. The original idea or concept is then developed further using the expertise and resources of these external players. Prof. Sarasvathy then surprised her audience by relating that experienced, second time round entrepreneurs who now want to "do it their way" and not involve outsiders to such a large extent, were more likely to fail!

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