Entrepreneurship – does it start with a good idea?

Dr Erik Lundmark
What do scholars mean when they say “entrepreneurship”?

Examples of definitions:

“The starting of a business”

“The emergence of new economic activity” (but new to what? => the world, the market, the business, the person?)

“The discovery and exploitation of entrepreneurial opportunities”

… often the definition is not explicitly stated. Through studying the most influential papers in the field we can get an idea of how entrepreneurship is understood.
What are the similarities between entrepreneurship and parenthood?
Parenthood

Examples of what we learn from the metaphor:

• Entrepreneurs often care about their ventures intensively and they do not always make detached unemotional decisions about them.
• Ventures start out fragile, but grow sturdier with time.

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Examples of how the metaphor can mislead:

• The metaphor suggests that ventures’ growth and learning patterns are similar to those of people when in fact organisations develop in much less predictable ways.
How many new ventures survive?

Proportion of firms surviving

Source: Lundmark working paper do not cite
How many new firms die each year?

Source: Lundmark working paper do not cite
Change in short-term revenue volatility

Source: Lundmark working paper do not cite
Mutagen

Mutagens are agents, such as radiation or chemicals, that increase the frequency of mutations.

The mutagen metaphor suggests that entrepreneurship is a source of variation and deviation from established practice, which gives rise to innovations or new organizational forms.

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<td>Mutagen</td>
<td>Variation, selection, retention or struggle and survival of the fittest.</td>
<td>Blind or myopic non-conformist.</td>
<td>The function of entrepreneurship – unpredictability and selection forces.</td>
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</table>
TEA rate and GDP per capita, 2014

Source: Global Entrepreneurship Monitor 2014 Global Report
Entrepreneurship is most beneficial when there are many opportunities

...but how to identify them?
Your challenge!

• Exercise to test your skills in a new area

• Benchmark yourself against students, Lawyers, managers, CEOs, etc.

If you have previous experience of building spaghetti towers – please let me know!
Marshmallow challenge!

20 sticks of spaghetti + one yard tape + one yard string + one marshmallow

Source: MarshmallowChallenge.com
The Marshmallow Challenge

- Build the Tallest *Freestanding* Structure
- The *Entire* Marshmallow Must be on Top
- Use Much or Little of the Kit as You Want
- Break up the Spaghetti, String or Tape
- The Challenge Lasts *18 minutes*
The Marshmallow Challenge

- Did you perform well?
- If so why? If not, why not?
- What could you have done better in terms of process?
Method

“entrepreneurship is a method, a meta-logic or procedural rationality” (Sarasvathy and Venkataraman, 2011, p. 125)

The method metaphor specifically focuses our attention on the process of entrepreneurship; the how takes centre stage while the who and the what fades to the background.

Making do with what is at hand vs. Making a plan and acquiring the proper resources

Bricolage and effectuation vs. Planning and engineering
What is management?

“…knowing what you want to do and then seeing that it is done in the best and cheapest way.“ (Frederick Winslow Taylor)

In practice:

• Set goals
• Plan
• Execute
• Monitor

Goals are set => Plan => Purpose-built resources acquired => Execution => Measurement
What is Entrepreneurship?

…exploring what you can do with what you have at hand…
(Saras Sarasvathy and Ted Baker)

In practice:

• Experiment with resources at hand
• Break out of functional fixedness (Bricolage)
• Trial and error
• Failure is a learning opportunity
Management vs. Entrepreneurship

Goals are set => Plan => Purpose-built resources acquired => Execution => Measurement

Resources assessed => Possible outcomes investigated => Experimentation => New venture

Bricolage – breaking out of functional fixedness

Feedback

New outcomes

New resources
## Management vs. Entrepreneurship

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Know what you want – get it efficiently

Don't know what you want – but won't stop until you get it
Implications?

• Ideas need to match opportunities
• Opportunities emerge as entrepreneurs interact with the market
• Planning has limited benefits in new and uncertain environments
• Thought experiments may be helpful, but you cannot think your way to a successful venture
Where do good ideas come from?

- Intersection of knowledge domains
- Intersection of networks
- Intimate knowledge of a domain
- Outsider perspective on a domain
Four Actions Framework

Reduce
Which factors should be reduced well below the industry's standard?

Eliminate
Which of the factors that the industry takes for granted should be eliminated?

Create
Which factors should be created that the industry has never offered?

Raise
Which factors should be raised well above the industry's standard?

A New Value Curve

## Business Model Canvas

<table>
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<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
<th>Source: <a href="https://strategyzer.com">https://strategyzer.com</a></th>
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<tr>
<td>Who are our key individuals?</td>
<td>What key activities do our key partners expect?</td>
<td>What value do we deliver to the customer?</td>
<td>What type of relationship does each of our segments require?</td>
<td>How do we create value?</td>
<td>Source: <a href="https://strategyzer.com">https://strategyzer.com</a></td>
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<td>What role do they play?</td>
<td>Our Main Value Proposition</td>
<td>How much is the profit margin?</td>
<td>How do we meet their needs?</td>
<td>What makes us unique?</td>
<td>Source: <a href="https://strategyzer.com">https://strategyzer.com</a></td>
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<td>What benefits do they get?</td>
<td>Revenue Model</td>
<td>What is our cost structure?</td>
<td>How will they pay for our product?</td>
<td>What is our value proposition?</td>
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### Key Resources

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### Channels

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<th>Channels</th>
<th>How do we reach our segments?</th>
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<td>Through which channels do our segments want to receive?</td>
<td>Our Main Value Proposition</td>
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### Cost Structure

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### Revenue Streams

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<td>For which value do our segments pay us?</td>
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Summary

• There are millions of ideas out there
• Most ventures change trajectories as they develop
• Planning is of limited use in uncertain environments
• Few ideas are unique – don’t be afraid to talk about them
• Get others involved
• Experiment and get feedback – effectuation and bricolage