



# THE PRACTICE OF ENTREPRENEURSHIP



# Agenda

Intro to Effectuation

4 principles of Effectuation

Who starts new businesses?

Entrepreneurial preferences

# Interactive 1

## This Week!

# ASSIGNMENT

## Founder Card

# Entrepreneurship in Action

Let's say you want to start an Austrian coffee shop in Almaty...

Step 1	Think of an idea
Step 2	Do market research
Step 3	Select market segments
Step 4	Select location
Step 5	Design coffee shop to appeal target segment
Step 6	Get some financial projections
Step 7	Write a business plan
Step 8	Raise required funding
Step 9	Find a partner/ team
Step 10	Implement marketing strategy
Step 11	Open business
Step 12	Manage the Business
	Plan an Exit



Search & select

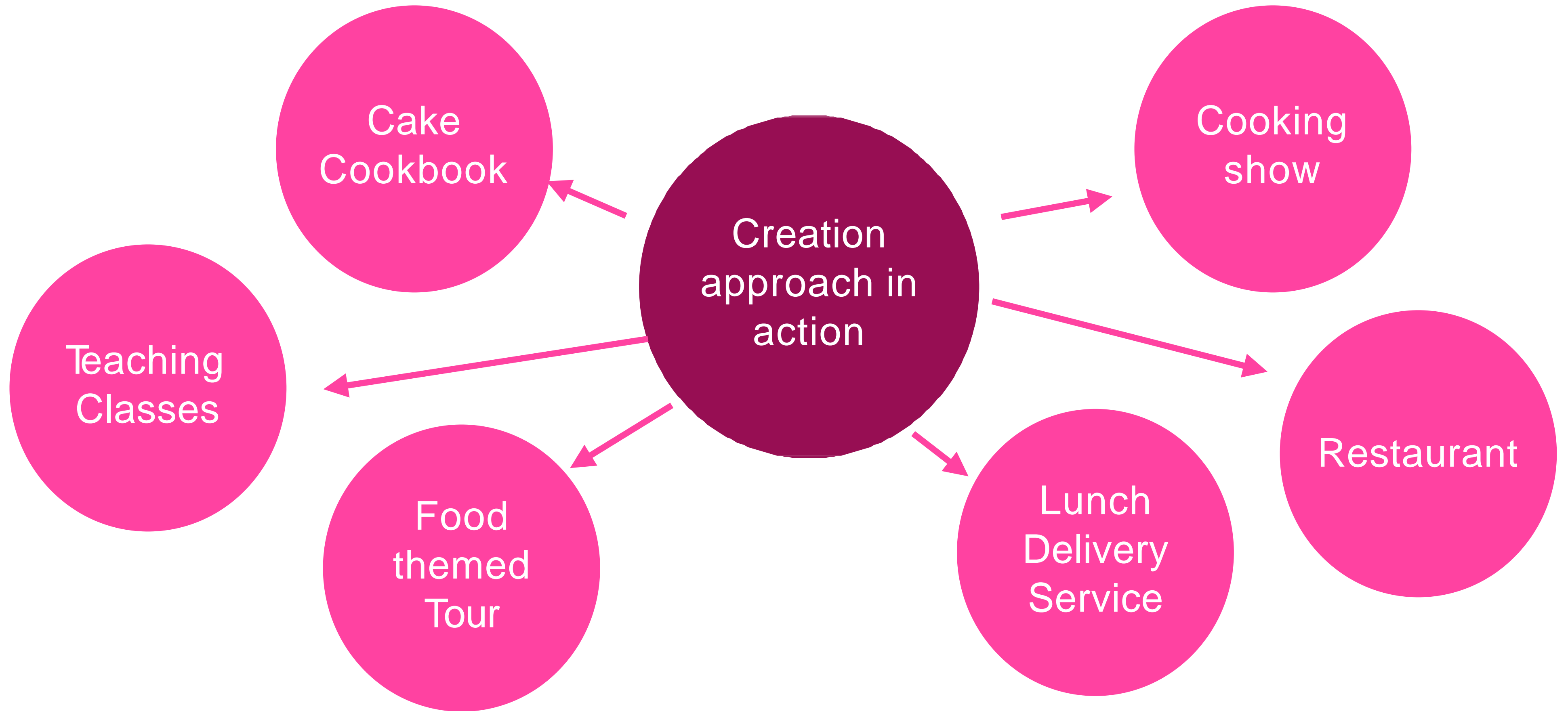


- How do you start with little money?
- Partner with existing coffee shop
- Participate in food fairs, set up a catering service
- Set up a business, and convince friends to allow to bring cakes at lunch to office
- Some of the people sign up to a lunch service
- Eventually save up enough and opens a restaurant with existing customer base



**Create & Transform**

# Entrepreneurship in Action





# What distinguishes great entrepreneurs?

## How do expert entrepreneurs think and solve problem

- Effectuation ... based on Prof Saras Sarasvathy's groundbreaking research
- She spent time with the US most successful entrepreneurs as they grappled with business problems. She required that her subjects have at least 15 years of entrepreneurial experience, have started multiple companies—both successes and failures—and have taken at least one company public.
- Sarasvathy concluded that master entrepreneurs rely on what she calls effectual reasoning.
- Brilliant improvisers, the entrepreneurs don't start out with concrete goals. Instead, they constantly assess how to use their personal strengths and whatever resources they have at hand to develop goals on the fly, while creatively reacting to contingencies.
- By contrast, corporate executives—those in the study group were also enormously successful in their chosen field—use causal reasoning. They set a goal and diligently seek the best ways to achieve it.
- Early indications suggest the rookie company founders are spread all across the effectual-to-causal scale. But those who grew up around family businesses will more likely swing effectual, while those with M.B.A.'s display a causal bent.
- She then set out to identify the decision-making heuristics learned by expert entrepreneurs in uncertain, disruptive situations.





# 4 principles of effectuation



**Principle 1**  
**Start with**  
**your means**



# Principle 1: Start with your means

**When expert entrepreneurs build a new venture, they start with their means**

- Who am I - my traits, tastes and abilities
- What I know - my education, training, expertise and experience
- Who I know - my social and professional networks
- Using a combination of these means, the entrepreneur begins to imagine possibilities and takes action
- Very often she starts very small and moves directly into implementation without elaborate planning
- With each action, outcomes are reconfigured
- Eventually, certain emerging effects lead to the emergence of clearly achievable and desirable goals
- The end goals are the combined result of the imagination and aspirations of the entrepreneur and the people she has interacted with during the process

# Bird-in-hand



**Start with your means.**

Don't wait for the perfect opportunity. Start taking action, based on what you have readily available: who you are, what you know, and who you know.

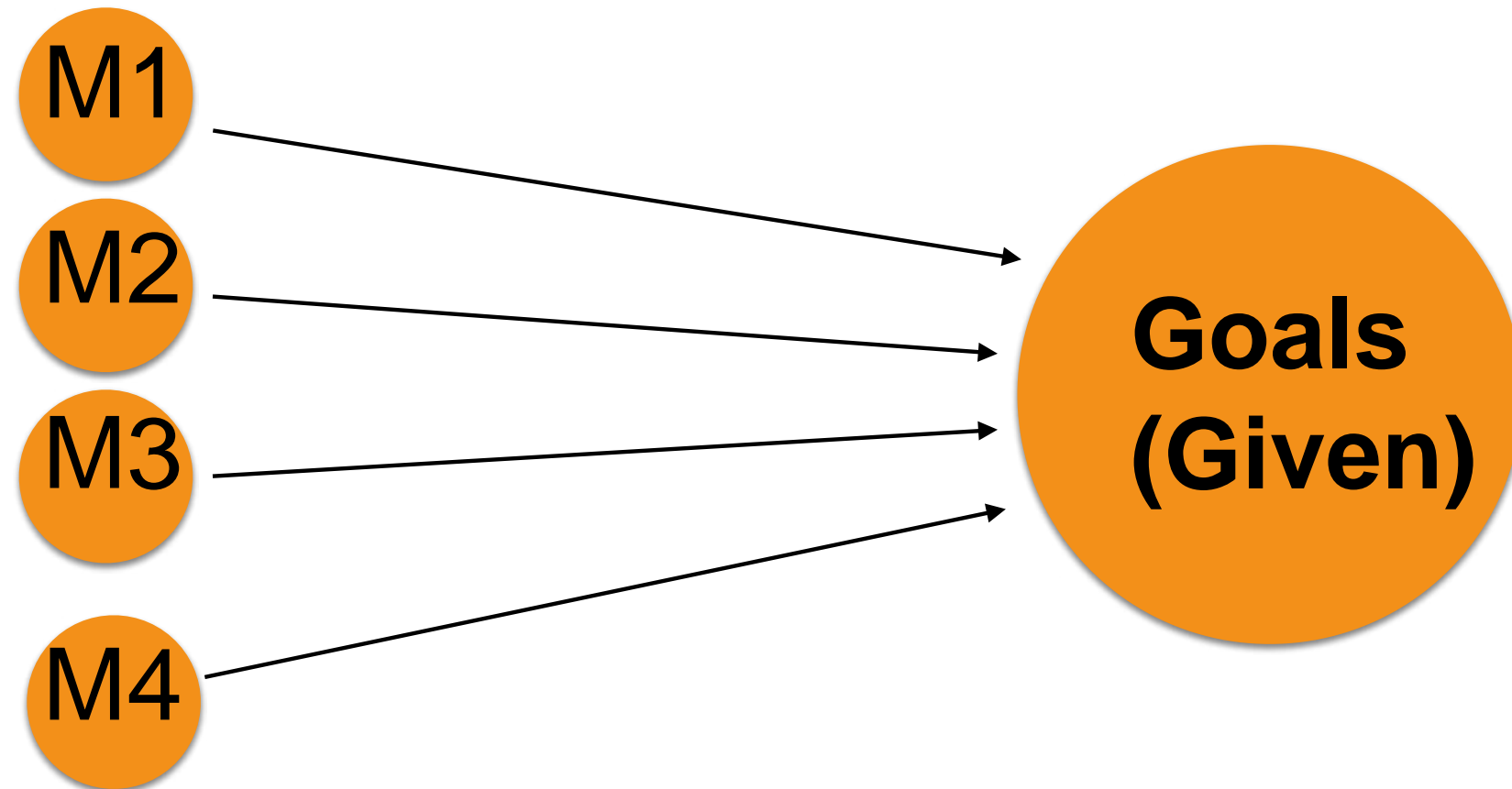


# Causal vs effectual reasoning

## Managerial thinking (*Causal*)

Selecting between given means to achieve a pre-determined goal.

### Means

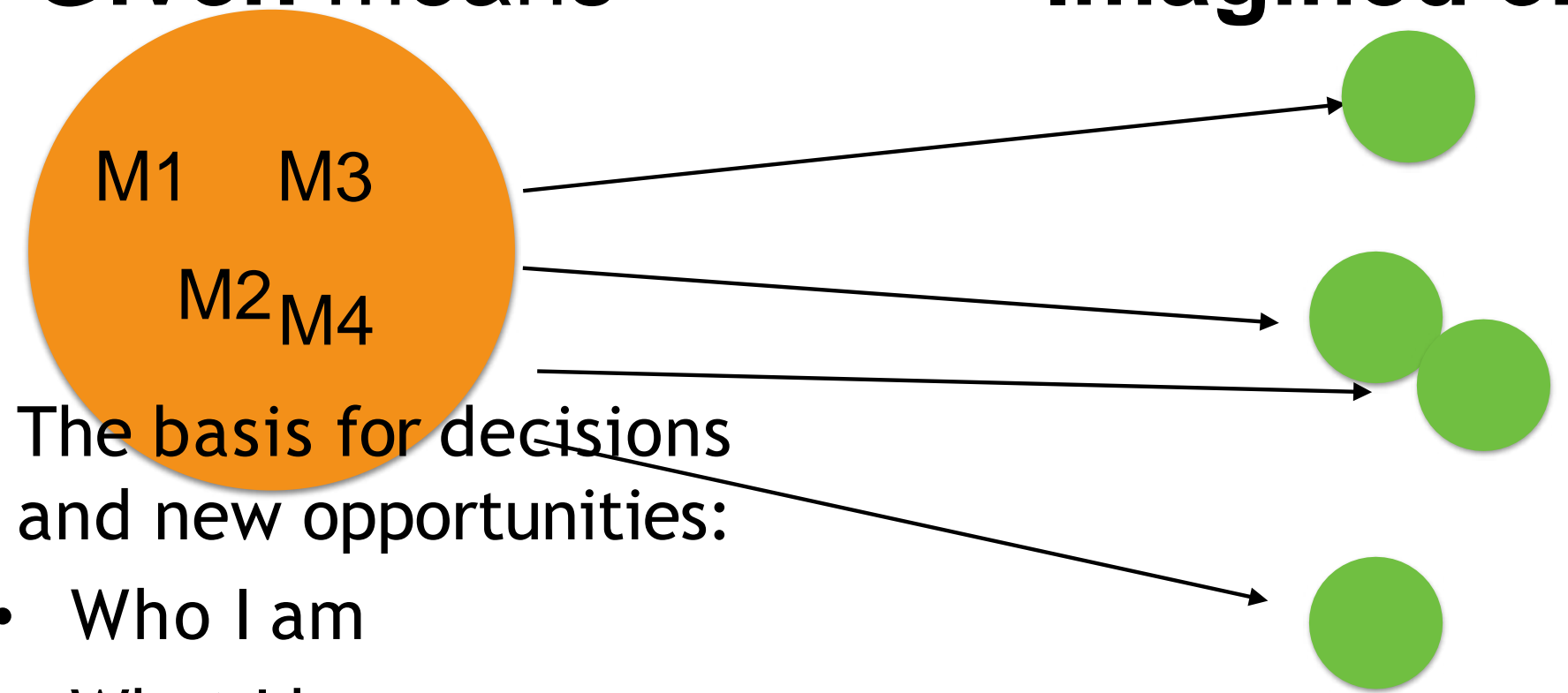


## Entrepreneurial thinking (*Effectual*)

Imagining a possible new end using a given set of means.

### Given means

### Imagined ends



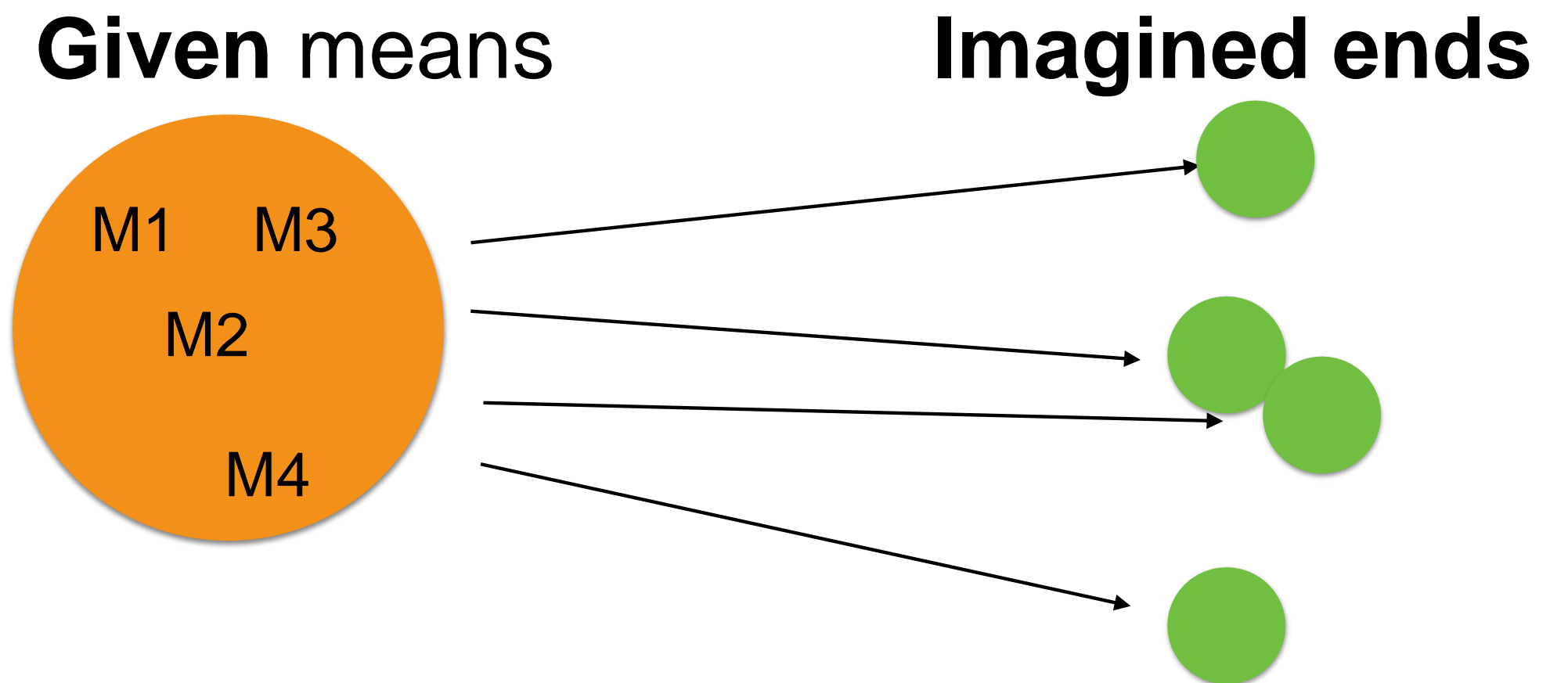
The basis for decisions and new opportunities:

- Who I am
- What I know
- Whom I know

# Effectuation... you don't know where you will end up

## Entrepreneurship not as a process but as an inherently creative method

- If you allow yourself to be open to the the end goal changing, then the resource needs also change
- Sums up entrepreneurship as a highly iterative process that is difficult to plan
- Typically you don't make one plan, or do one market research, but you have to do this several times over





# Career dilemmas: Should I take the plunge?

- Should I become an entrepreneur?
- If so, when should I make the leap into founder hood - early in my career or after I accumulate more career experience?
- How can I dispassionately evaluate my idea?
- Will my partner support me when things get tough?
- Is the family situation conducive to starting a company?
- Do I have enough experience? Do I have to hire experienced people?

# Effectual: Don't take the plunge!

Expert entrepreneurs don't take the plunge, but they set out gradually, constructing the business in components while preserving the ability to return to the dock

## 1 What you can lose?

- Calculate first the absolute maximum amount you are willing to lose
- Second decide on the absolute minimum you want to earn
- This provide a useful filter to evaluate opportunities

## 2 Toes first

- Always chose the least risky strategy
- Launch something on the side

## 3 Opportunity cost

## 4 Walk before you can jump

- Go step by step



## Dark secrets

Stuart Read and Saras Sarasvathy on turning a perceived negative into a positive

### BLIND DATE

Ever been on a blind date? Most people say it's simultaneously scary and exciting, and always memorable. Which is also what people say about Axel Rudolph's Unsicht-Bar, a small Cologne eatery run by the blind where patrons enjoy wine, cuisine and conversation in pitch dark. Even the glow of a mobile phone is not permitted. Diners are attended by blind waiter/guides who describe the food and its location on the plate using a clock face metaphor.

### SUCCESS WITHOUT LOOKING

Since its opening in 2002, Unsicht-Bar has won acclaim from restaurateurs and critics alike. In addition to the novel experience of spending the evening with someone you can't see, eliminating the sense of sight intensifies the rest of the senses so that Unsicht-Bar's simple fare (the chef seasons with only salt, pepper, garlic, onions and herbs) comes alive in a way you might never have tasted before.

"You smell better, you are more receptive to differences in texture, consistency and temperature," Rudolph explains. Unsicht-Bar's popularity has led Rudolph to open additional locations in Hamburg and Berlin. (A similar venture, Dans le Noir, opened in Paris in 2004.)

### VISION INVERSION

Rudolph's venture embodies a powerful insight into opportunity. Take Post-it notes, for example — who would want a glue that cannot stick? Similarly, blindness is generally considered a liability. Rudolph inverts it.

Opportunities are like blind dates — scary and exciting, yet memorable and often worth embracing



Eating by numbers: a table at Unsicht-Bar (with the light switched on)

Unsicht-Bar makes blindness a point of differentiation and a basis for advantage. He takes a negative and makes it positive.

### SEEING UPSIDE DOWN

Inversions are everywhere. Consider violent video games. Criticised for the disruptive psychological effects on minors, games such as Full Spectrum Warrior are now the basis for an emerging software market in treating war veterans with post-traumatic stress disorder. Retro styles are an inversion of the idea that clothing goes out of fashion. And celebrities driving the inexpensive, compact Toyota Prius invert the notion that wealth and luxury are embodied in a large car.

### AN EYE TO OPPORTUNITY

The next time you feel you are on a blind date with destiny, look around you. Look for things that evoke a negative response. And think about transforming them into a positive basis for a new venture. For, as experienced entrepreneurs will tell you, opportunities are usually blind dates — simultaneously scary and exciting, yet memorable and, more often than you might think, worth embracing.

Stuart Read is professor of marketing at IMD. Saras Sarasvathy is associate professor of business administration at the University of Virginia's Darden School.



## BOOK REVIEW BUYOLOGY MARTIN LINDSTROM (RANDOM HOUSE BUSINESS BOOKS, £8.99)

### WHO'S THE AUTHOR?

Danish branding guru and writer Lindstrom is one of *Time* magazine's 100 most influential people in the world.

### WHAT'S THE PITCH?

Neuromarketing, using science to make us choose one brand over another and buy stuff, is the most powerful force in retail. To this

end, Lindstrom set up a huge experiment where members of the public were exposed to advertising and marketing materials while hooked up to an MRI scanner to see how their brains reacted.

### GOOD STUFF

The research is truly enlightening. Anti-smoking campaigns make people want to smoke, product

placement is often a huge waste of money and the smell of melons helps to sell consumer electronics. The future of market research will no doubt be in the laboratory.

### BAD STUFF

Not much, apart from Lindstrom's occasional habit of telling the reader about his jet-set lifestyle and what an expert he is.

### VERDICT

Fun and lively look at how our brains influence our decision-making subconsciously. The science is not exact, and very much in the foothills of development, but it's still astonishing in parts.

**BUSINESS LIFE RATING: ★★★★★**



## Sole survivor

Stuart Read and Nick Dew report on an accidental entrepreneur who worked with the right materials to turn his sweaty feet into a multi-million-pound business

In 1992, you would not have called Mario Moretti Polegato an entrepreneur. He was a vintner, bottling wines from Italy's Treviso region. In that year, business took Polegato to Reno, Nevada, for a meeting of international wine producers. Seeking to make the most of his visit to the United States' scenic west, he took a hike in the mountains and found himself with sweaty feet from the summer heat. His solution? Cut holes in the soles of his shoes so his feet could breathe. He did this on the spot and still has both the shoes and a scar to show for it.



Polegato with the shoes that inspired his Geox empire

### NOT A SOLE SUFFERER

Polegato was simultaneously delighted and dissatisfied with his innovation. On the one hand, he could not be the only person in the world afflicted with the discomfort of sweaty feet. Surely his idea would be of interest to a potential consumer audience? On the other hand, the innovation had an obvious defect. What was fantastic in the dry desert would be downright damp on a rainy London street. He still had work to do before he could leave the winery and pursue his newfound mission of making feet around the world more comfortable.

### NOVEL COMBINATIONS

Then Polegato started doing something often seen in the world of new ventures. He put

things together that had never been put together before. Two of his more fruitful, though not initially obvious inputs came from NASA and academia.

Anxious to find a material that would let sweat out, while keeping rainwater from getting

in, Polegato headed to NASA in Houston, Texas, where he found a material developed to perform exactly the same purpose — but for space suits.

And, at the universities of Padua, in Italy, and Trondheim, in Norway, he found researchers

in materials science working on membrane technology to manage water transfer. Making the connection to his own needs, Polegato engaged them in development of his new shoe.

Combining these unusual partners with a bit of investment money and some assistance with footwear design from a small ski-boot company, Polegato stepped out with something truly novel — a shoe that breathes.

### STEPPING UP THE PACE

Polegato's story offers three useful tips for any entrepreneur. The first is that opportunities abound, and the second is that an easy way to create opportunities is simply to look for problems people need solved. The third is that innovation is more often a process of combination than it is of invention. Everything Polegato needed to create breathable shoes existed — but nobody had put the pieces together to create a shoe before.

### BEST FOOT FORWARD

Apparently, Polegato was not the only foot-sweater in the world. In 2007, his breathable-shoe producing firm Geox posted net income of £47m against sales of £266m. The firm employs 3,500 people worldwide, and contracts to almost as many more. Polegato himself made the Forbes list of the top 300 richest people in the world this year and, perhaps more important, has had dry, comfortable feet for years.

Innovation is more often a process of combination than it is of invention



Stuart Read is professor of marketing at IMD, Lausanne, Switzerland.

Nick Dew is assistant professor at the Naval Postgraduate School, Monterey, California





A woman with long, wavy brown hair is sitting at a desk, smiling and looking at a laptop. She is wearing a dark blue pinstriped blazer over a white lace-up top. Her hands are on the laptop keyboard. In the background, there is a large window with a grid pattern, letting in bright light. On the desk, there is a smartphone and some papers.

# **Principle 2**

## **Set affordable loss**

# Principle 2: Set affordable loss

## Don't optimise returns, minimise loss

- In much of the business world, the manager is in charge of launching a new product analyses the market and chooses segments with the highest expected value
- Select the optimal strategy to maximise returns!
- Expert entrepreneurs turn this logic on its head: They think in terms of affordable loss instead of expected returns.
- They decide on what they are willing to lose rather than what they expect to make
- Instead of calculating up front how much money they will need to launch their project and investing time, effort and energy in raising that money, the effectual entrepreneur tries to estimate the downside and examines what she is willing to lose.
- The entrepreneur then uses the process of building the project to bring other stakeholders on board and leverage what they can afford to lose together.



# Principle 2: Set affordable loss

- By allowing estimates of affordable loss to drive decisions about which venture to start, entrepreneurs stop depending on predictions
- Instead they focus on opportunities that have a low failure cost and that generate more options for the future
- Cheap failure enables learning that can be applied to the next opportunity
- NOTE: This does NOT mean that entrepreneurs chose projects that won't cost a lot if they fail - or that they don't expect to make a lot of money! It simply acknowledges that uncertain opportunities are difficult to value upfront, whereas investment of time, money and other resources available is quantifiable, manageable and controllable.

**An estimate of affordable loss does not depend on the venture, but on the person.**



# Affordable loss

**Set affordable loss** Evaluate opportunities based on whether the downside is acceptable, rather than on the attractiveness of the predicted upside.

## Expected Return

Calculate upside potential and pursue the (risk adjusted) best opportunity.

## Affordable Loss.

Calculate downside potential and risk no more than you can afford to lose.

# **Principle 3**

## **Lemonade principle**





# Principle 3: Leverage contingencies

## The Lemonade principle: Turn the unexpected into the profitable

- Expert entrepreneurs learn not only to work with surprises but also to take advantage of them
- In most plans, surprise are bad — > they go on a risk register
- But because expert entrepreneurs don't tie their idea to any theorised or preconceived market, anything and everything is potentially a surprise that can lead to a valuable opportunity
- INnis and Gunn case study
- Crisp surprise
- The actual origins of many products are surprises that an entrepreneur was able to transform into an opportunity

# Joy

## Watch the movie

Joy Mangano, inventor and entrepreneur known for inventions such as the self-wringing Miracle Mop





# Lemonade ...

## Attitude to surprise

**Avoid surprises.**

**Leverage surprises.**

**Leverage contingencies** Embrace surprises that arise from uncertain situations, remaining flexible rather than tethered to existing goals.





# Principle 4

## Crazy quilt



# **Principle 4: Form partnerships**

**Focus on building partnerships, rather than beating competitors**

- If you don't start with a pre-determined market for your idea, you don't know who your competitor will be, so detailed competitive analysis has little value
- Instead entrepreneurs generally take the product to the nearest potential customer.
- Some of the people they interact with make a commitment to the venture and the venture process starts

# Patchwork Quilt ... Attitude to others



## **Patchwork Quilt** {FORM PARTNERSHIPS}

Expert entrepreneurs build partnerships with self-selecting stakeholders. By obtaining pre-commitments from these key partners early on in the venture, experts reduce uncertainty and co-create the new market with its interested participants.

## **Competition.**

Set up transactional relationships with customers and suppliers.

## **Partnership.**

Build your “future” together with customers, suppliers and even prospective competitors.

**Form partnerships** Form partnerships with people and organizations willing to make a real commitment to jointly creating the future—product, firm, market—with you. Don't worry so much about competitive analysis and strategic planning.



# Summary

The Approach	The Market	The Logic	The Heuristics
<b>Search and Select</b>	Markets are fixed. Part of any given market may be served, underserved or latent.	Explore a finite set of possibilities to find unserved, underserved or latent areas in the market.	<b>Causation:</b> Predict to identify a goal. Focus is on achieving that goal by accumulating the necessary means. Surprises are bad.
<b>Create and Transform</b>	Markets can be created. Creation can be intentional, or an unanticipated consequence of people just doing things they think are possible and worth doing.	Knowing it is possible to create demand, let interactions give rise to an infinite set of possibilities, which can then be prioritised by self-selected stakeholders.	<b>Effectuation</b> Start taking action. Focus is on transforming a set of evolving means to generate goals that emerge along the way. Surprises are good.

# A different way at looking at the world

- Entrepreneurs see the world as open, still in the making
- Human action has a genuine role. Firms and markets are human artefacts.
- Opportunities are not something that is external or outside of their control. They believe in creating and discovering opportunities... they believe in their ability to learn.
- They see companies as a tool to create novelty or a lifestyle for themselves.
- They are trying to make success happen rather than trying to avoid failure. They see failing as a normal part of venturing... they often create a portfolio of ventures, knowing and learning to kill those that will lead nowhere and nurture those with potential



# The entrepreneurial process

- Transforming your means into something valuable
- Affordable loss: Risk little fail cheap
- Use slack resources for bootstrap financing
- Form partnership to increase your means
- Leverage surprises

# Ideas change

When putting all the pieces together, at any point there exists the possibility that your actions combined with the means and commitments of others may change and redirect the course of the venture.



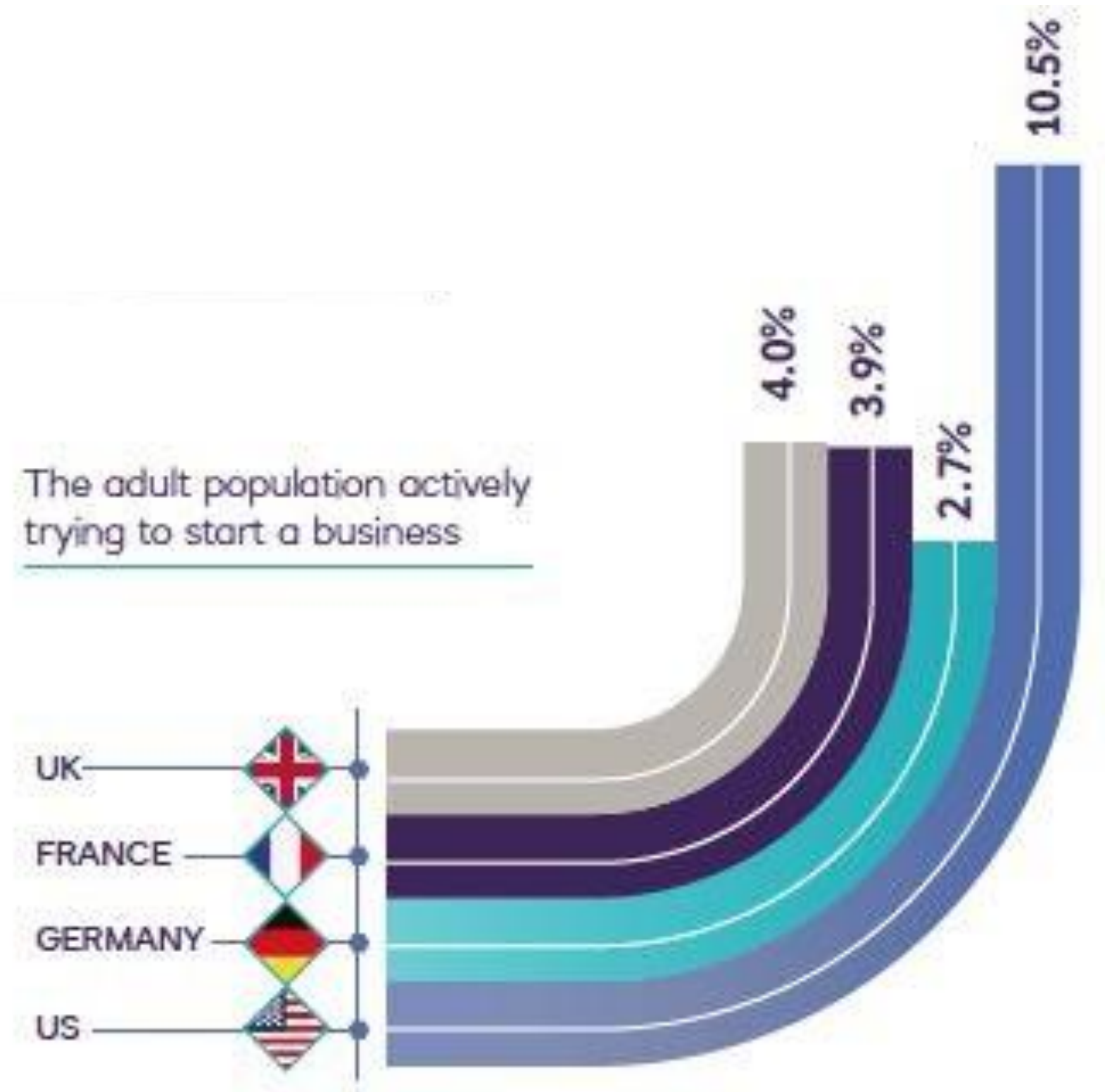
# Who becomes an entrepreneur?



# Entrepreneurship in the UK

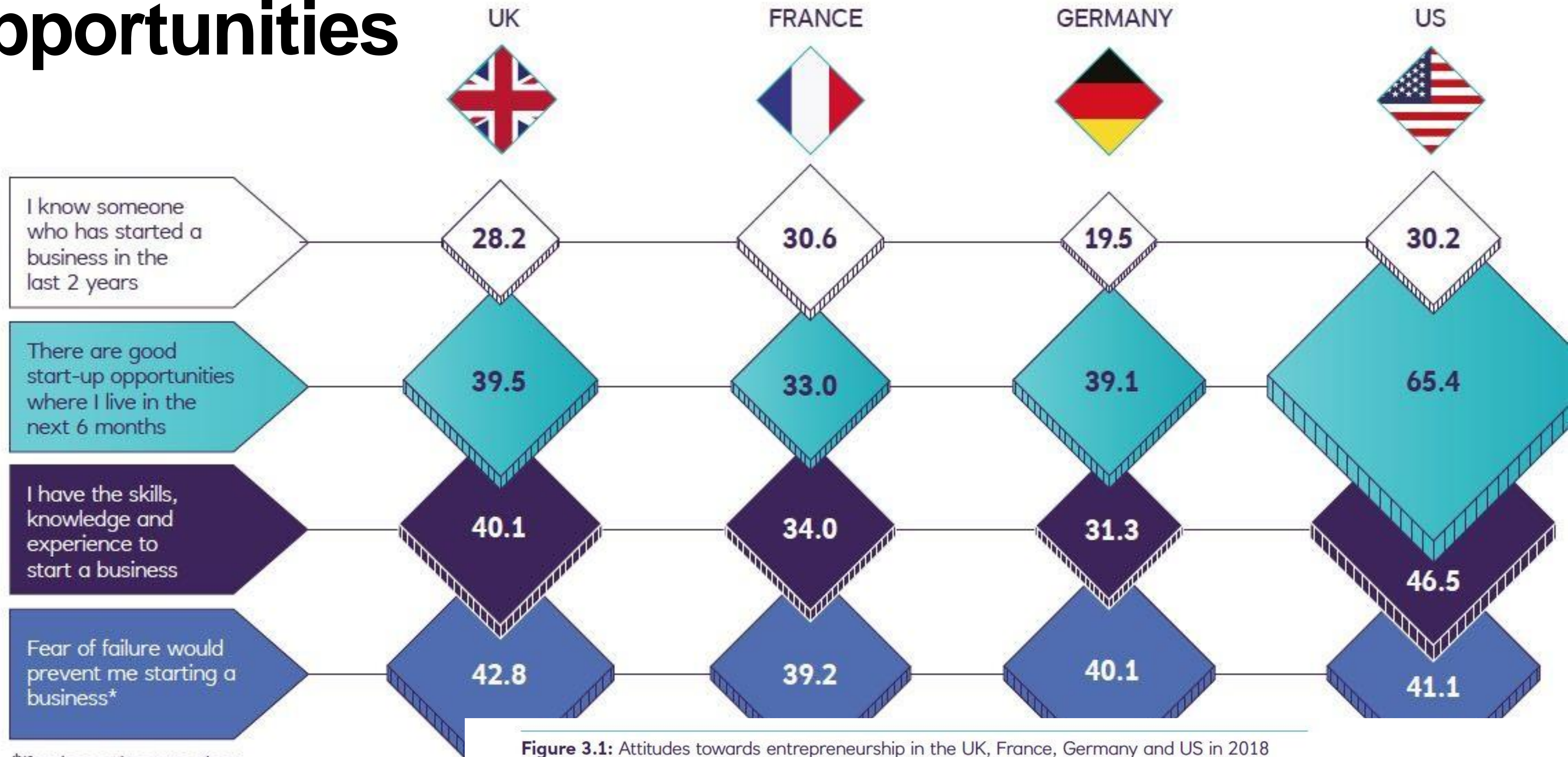
## General Entrepreneurship Monitor

- In total, 1 in 5 individuals of working age in the UK were engaged in some type of entrepreneurial activity or intended to start a business within the next three years.
- 8.5% of working age adults expected to start a business within the next 3 years compared to 7.6% in Germany; both rates were lower than those in France (20.4%) and the US (18.5%).
- 4.0% of the adult population in the UK were actively trying to start a business (nascent entrepreneurs), compared with 2.7% in Germany, 3.9% in France and 10.5% in the US.





# Opportunities



\*(for those who agree there are good start-up opportunities)

**Figure 3.1:** Attitudes towards entrepreneurship in the UK, France, Germany and US in 2018 - percentage of working age population who are neither nascent entrepreneurs nor existing business owner/managers, who expressed an opinion and agreed with the statement at the top of the column (Source: GEM Global and UK APS 2018)



# Male & Female Entrepreneurship

Male and Female Total Entrepreneurial activity across the UK (ratio varies across the regions)







# Female Entrepreneurs: gender diversity across the UK's high-growth ecosystem

We've highlighted key trends amongst, and disparities between, all-female, mixed-gender and all-male founding teams; from the funding they've received to the key support systems they've leveraged.

Send me the report

We will use your information to keep you informed about our research and products. You may unsubscribe at any time using the links at the bottom of our emails. For more information, see our [Privacy Policy](#).

ALL-FEMALE FOUNDING TEAMS

2,988

MIXED-GENDER FOUNDING TEAMS

2,333

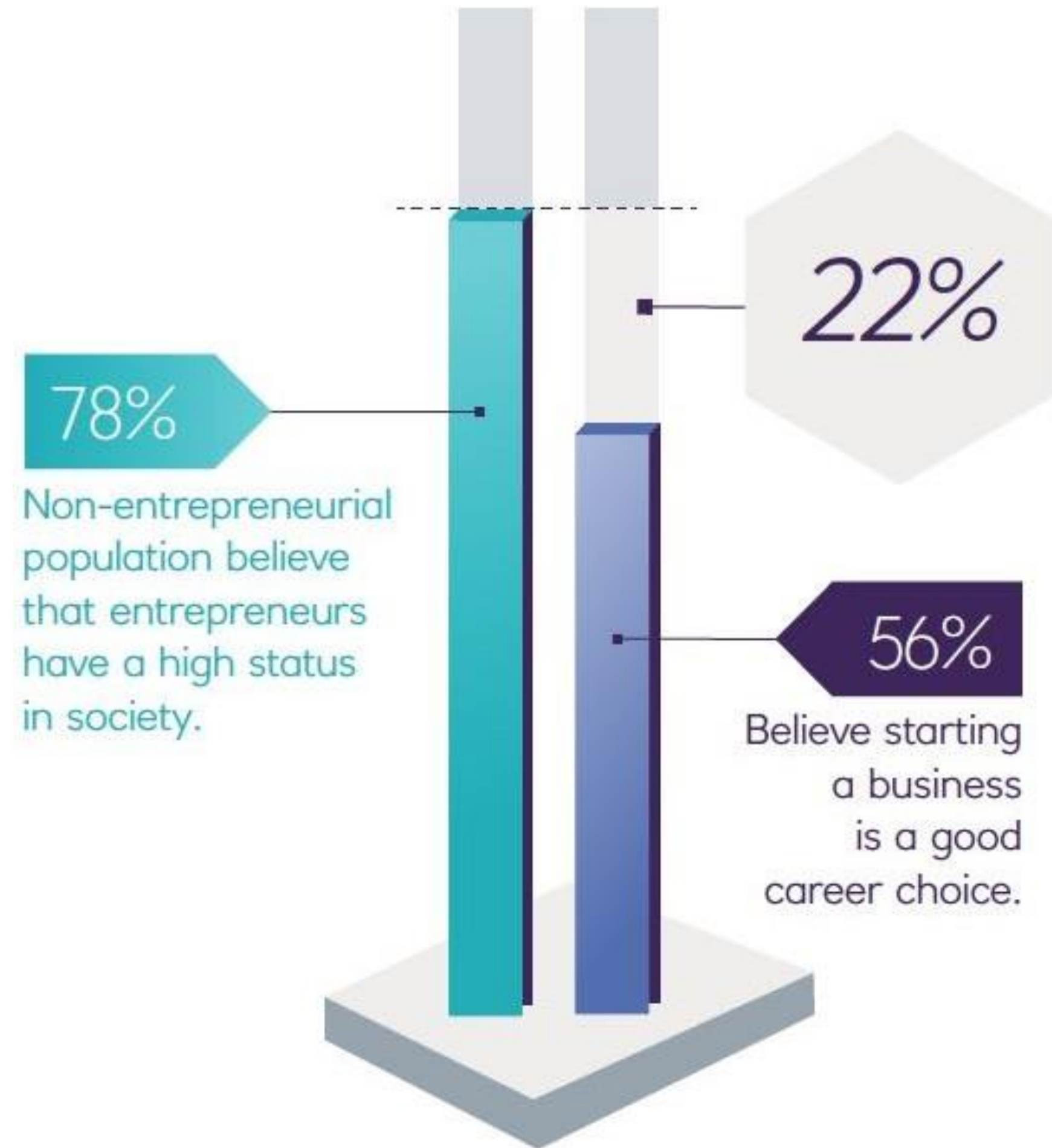
ALL-MALE FOUNDING TEAMS

16,060

<https://www.beauhurst.com/blog/uks-top-10-female-entrepreneurs-under-30/#charlotte>

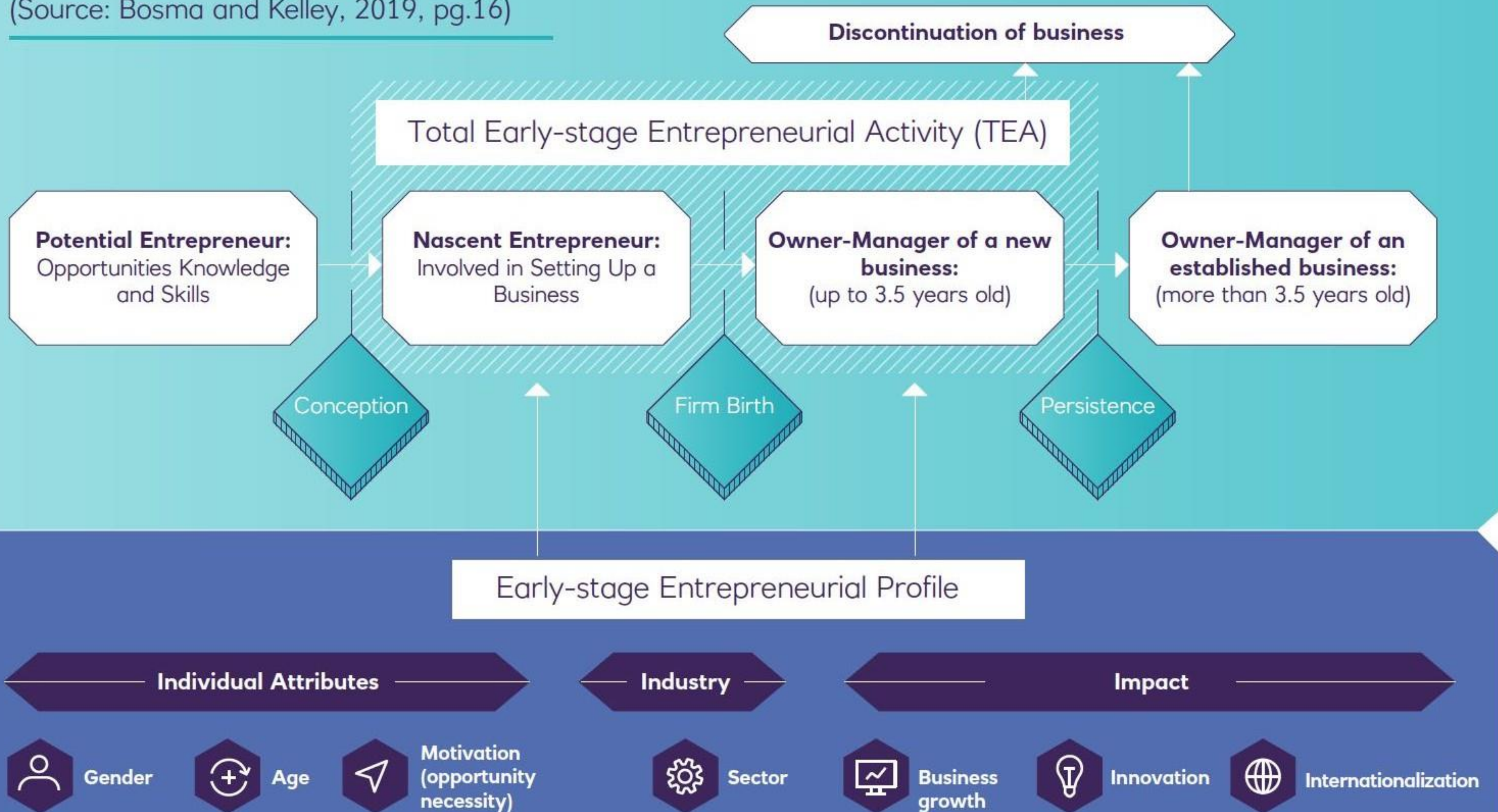
# Entrepreneurial Attitudes

## Entrepreneurial Attitudes





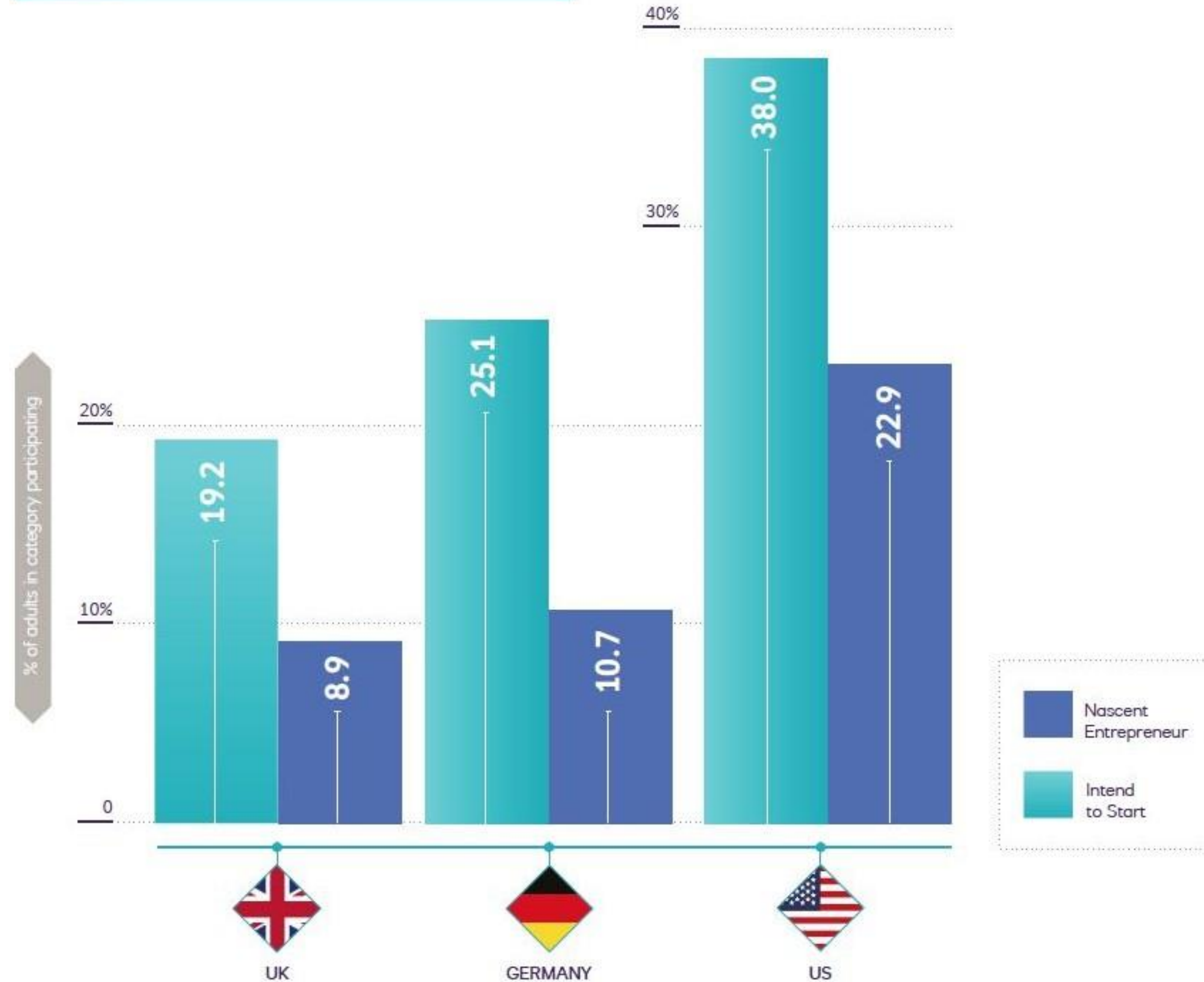
**Figure 1.1:** The Entrepreneurial Process and GEM Operational Definitions  
(Source: Bosma and Kelley, 2019, pg.16)





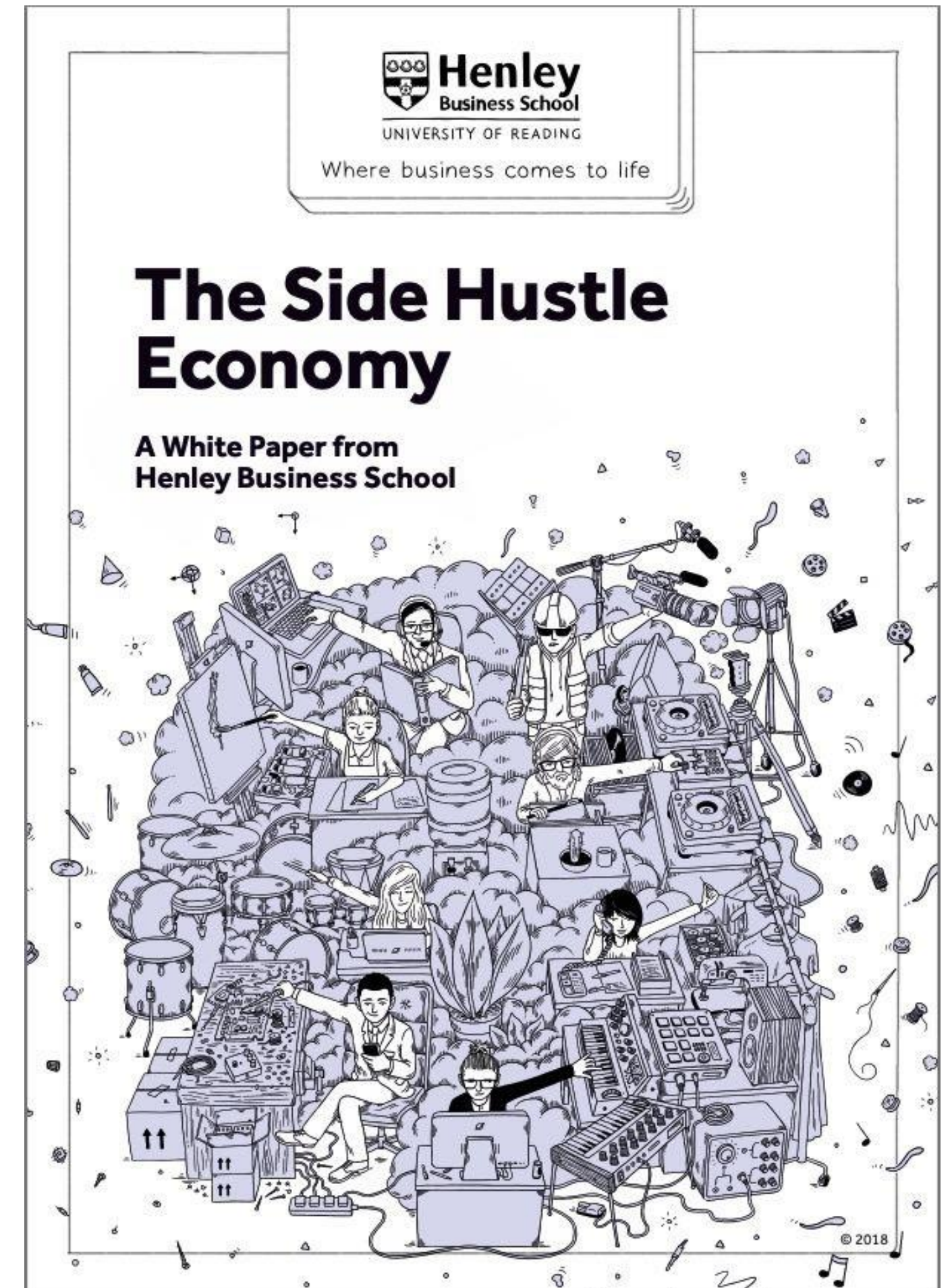
# Participation in the Gig Economy in the UK, Germany and UK

**Figure 2.3.** Participation in the Gig Economy in 2018 by Future and Nascent Entrepreneurs in the UK, Germany and US (Source: GEM Global APS 2018)



# Side Hustle

- **£72 billion - the income generated by side hustles in the UK**
- **25% of all UK adults are side hustlers**
- **49% of businesses don't have a policy on side-working**





# Entrepreneurial preferences

# Different types of entrepreneurial businesses



See Steve Blank, Stanford University: <http://www.kauffman.org/Entrepreneurship/typecasting-the-entrepreneur.aspx>



# The 3Hs for a startup team

The 3Hs is the ideal members of the foundation team.  
It is better that one of the members plays more than a dual role.

## Hacker



The hacker is a developer who can put ideas into practice quickly.

## Hipster



The hipster is a designer who can make the product beautiful for users.

## Hustler



The hustler is a businessman who can create proper human relations.

# Role preferences

## C-level roles

Chief Executive Officer (CEO) - Visionary Opportunist
Business Development/ Sales - Rainmaker
Product director – Innovator
Chief Operating Officer (COO) - Delivering results
Chief Marketing Officer (CMO) - Branding and Marketing
Customer Success Manager (CSM) - Keeping customer happy
Chief Technology Officer (CTO) - Leading technology development



# Summary

## The Practice of Entrepreneurship

Entrepreneurship is more like a practice than a process

4 principles of Effectuation

Who starts new businesses?

Entrepreneurial preferences shape the business