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A Perspective on Entrepreneurship

The term “entrepreneurship” has entered the business vocabulary as the 1980s’ equivalent of “professionalism,” the managerial buzzword of the 1970s. Many individuals aspire to be entrepreneurs, enjoying the freedom, independence and wealth such a career seems to suggest. And larger corporations want to become more “entrepreneurial,” their shorthand for the innovative and adaptive qualities they see in their smaller—and often more successful—competitors.

Our purpose in this chapter is to shed some light on the concept of entrepreneurship. We will define entrepreneurship as a management process, and will discuss why we believe encouraging entrepreneurial behavior is critical to the long-term vitality of our economy. Finally, we will suggest that the practice of entrepreneurship is as important, if not more important—to established companies as it is to start-ups.

Increasing Interest in Entrepreneurship

It would be difficult to overstate the degree to which there has been an increase in the level of interest in entrepreneurship. A strong indicator of such interest is provided by the unprecedented rise in the rate of new business formation. The number of annual new business incorporations has doubled in the last ten years, from annual rates of about 300,000 to over 600,000.

These trends are mirrored in the capital markets that fund these start-ups. The decade 1975-1984 saw explosive growth in the amount of capital committed to venture capital firms in the United States. There was a concurrent dramatic increase in the amount of money raised in the public capital markets by young companies.

In addition to interest on the part of individuals who wish to become entrepreneurs and investors who wish to back them, there has been a wave of interest in what some refer to as “In entrepreneurship,” or entrepreneurship in the context of the larger corporation. In addition to the wealth of books and articles on the subject, some large firms seem to have recognized their shortcomings on certain critical dimensions of performance, and have structured themselves in an attempt to be more innovative.

Indeed, we believe that the strengthening of entrepreneurship is a critically important goal of American society. The first thirty years of the postwar period in the United States were characterized by an abundance of opportunity, brought about by expanding markets, high investment in the national infrastructure, mushrooming debt. In this environment, it was relatively easy to achieve

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business success, but this is no longer true. Access to international resources is not as easy as it once was; government regulation has brought a recognition of the full costs of doing business, many of which had previously been hidden; competition from overseas has put an end to American dominance in numerous industries; technological change has reduced product life in other industries; and so forth. In short, a successful firm is one that is either capable of rapid response to changes that are beyond its control, or, is so innovative that it contributes to change in the environment. Entrepreneurship is an approach to management that offers these benefits.

Defining Entrepreneurship

As we have discussed, there has been a striking increase in the level of attention paid to the subject of entrepreneurship. However, we've not yet defined what the term means.

As a starting point, it may be helpful to review some of the definitions scholars have historically applied to entrepreneurship. There are several schools of thought regarding entrepreneurship, which may roughly be divided into those that define the term as an economic function and those that identify entrepreneurship with individual traits.

The functional approach focuses upon the role of entrepreneurship within the economy. In the 18th century, for instance, Richard Cantillon argued that entrepreneurship entailed bearing the risk of buying at certain prices and selling at uncertain prices. Jean Baptiste Say broadened the definition to include the concept of bringing together the factors of production. Schumpeter's work in 1911 added the concept of innovation to the definition of entrepreneurship. He allowed for many kinds of innovation including process innovation, market innovation, product innovation, factor innovation, and even organizational innovation. His seminal work emphasized the role of the entrepreneur in creating and responding to economic discontinuities.

While some analysts have focused on the economic function of entrepreneurship, still others have turned their attention to research on the personal characteristics of entrepreneurs. Considerable effort has gone into understanding the psychological and sociological sources of entrepreneurship—as Kent refers to it, “supply-side entrepreneurship.” These studies have noted some common characteristics among entrepreneurs with respect to need for achievement, perceived locus of control, and risk-taking propensity. In addition, many have commented upon the common—but not universal—thread of childhood deprivation and early adolescent experiences as typifying the entrepreneur. These studies—when taken as a whole—are inconclusive and often in conflict.

We believe, however, that neither of these approaches is sound. Consider, for example, the degree to which entrepreneurship is synonymous with “bearing risk,” “innovation,” or even founding a company. Each of these terms focuses upon *some* aspect of *some* entrepreneurs. But, if one has to be the founder to be an entrepreneur, then neither Thomas Watson of IBM nor Ray Kroc of McDonald's will qualify; yet few would seriously argue that both these individuals were not entrepreneurs. And, while risk bearing is an important element of entrepreneurial behavior, it is clear that many entrepreneurs bear risk grudgingly and only after they have made valiant attempts to get the capital sources and resource providers to bear the risk. As one extremely successful entrepreneur said: “My idea of risk and reward is for me to get the reward and others to take the risks.” With respect to the “supply side” school of entrepreneurship, many questions can be raised. At the heart of the matter is whether the psychological and social traits are either necessary or sufficient for the development of entrepreneurship.

Finally, the search for a single psychological profile of the entrepreneur is bound to fail. For each of the traditional definitions of the entrepreneurial type, there are numerous counter-examples that disprove the theory. We simply are not dealing with one kind of individual or behavior pattern, as even a cursory review of well-known entrepreneurs will demonstrate. Nor has the search for a psychological model proven useful in teaching or encouraging entrepreneurship.

Entrepreneurship as a Behavioral Phenomenon

Thus, it does not seem useful to delimit the entrepreneur by defining those economic functions that are “entrepreneurial” and those that are not. Nor does it appear particularly helpful to describe the traits that seem to engender entrepreneurship in certain individuals. From our perspective, entrepreneurship is an approach to management that we define as follows: the pursuit of opportunity without regard to resources currently controlled.

This summary description of entrepreneurial behavior can be further refined by examining six critical dimensions of business practice. These six dimensions are the following: strategic orientation, the commitment to opportunity, the resource commitment process, the concept of control over resources, the concept of management, and compensation policy.

We shall define these dimensions by examining a range of behavior between two extremes. At one extreme is the “promoter” who feels confident of his or her ability to seize opportunity regardless of the resources under current control. At the opposite extreme is the “trustee” who emphasizes the efficient utilization of existing resources. While the promoter and trustee define the end points of this spectrum, there is a spectrum of managerial behavior that lies between these end-points, and we define (overlapping) portions of this spectrum as entrepreneurial and administrative behavior. Thus, entrepreneurial management is not an extreme example, but rather a range of behavior that consistently falls at the end of the spectrum.

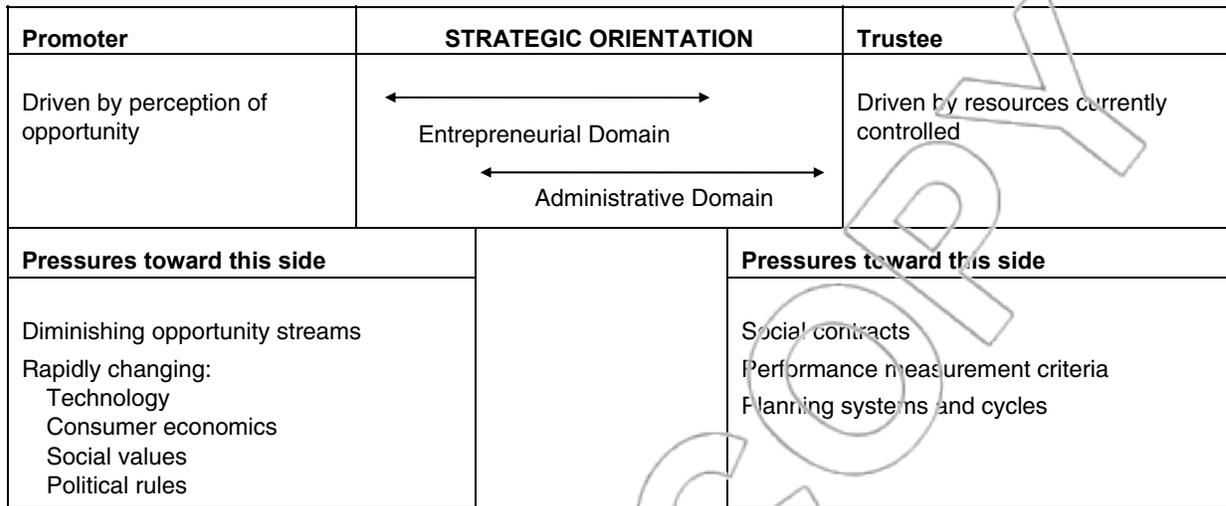
The remainder of this chapter defines these key business dimensions in more detail, discusses how entrepreneurial differs from administrative behavior, and describes the factors that pull individuals and firms towards particular types of behavior.

Strategic Orientation

Strategic orientation is the business dimension that describes the factors that drive the firm’s formulation of strategy. A promoter is truly opportunity-driven. His or her orientation is to say, “As I define a strategy, I am going to be driven only by my perception of the opportunities that exist in my environment, and I will not be constrained by the resources at hand.” A trustee, on the other hand, is resource-driven and tends to say, “How do I utilize the resources that I control?”

Within these two poles, the administrator’s approach recognizes the need to examine the environment for opportunities, but is still constrained by a trustee-like focus on resources: “I will prune my opportunity tree based on the resources I control. I will not try to leap very far beyond my current situation.” An entrepreneurial orientation places the emphasis on opportunity: “I will search for opportunity, and my fundamental task is to acquire the resources to pursue that opportunity.” These perspectives are represented on **Figure 1**.

Figure 1



It is this dimension that has led to one of the traditional definitions of the entrepreneur as opportunistic or—more favorably—creative and innovative. But the entrepreneur is not necessarily concerned with breaking new ground; opportunity can also be found in a new mix of old ideas or in the creative application of traditional approaches. We do observe, however, that firms tend to look for opportunities where their resources are. Even those firms that start as entrepreneurial by recognizing opportunities often become resource-driven as more and more resources are acquired by the organization.

The pressures that pull a firm towards the entrepreneurial range of behavior include the following:

- Diminishing opportunity streams: old opportunity streams have been largely played out. It is no longer possible to succeed merely by adding new options to old products.
- Rapid changes in:
 - Technology: creates new opportunities at the same time it obsoletes old ones.
 - Consumer economics: changes both ability and willingness to pay for new products and services.
 - Social values: defines new styles and standards and standards of living.
 - Political roles: affects competition through deregulation, product safety and new standards.

Pressures which pull a firm to become more “administrative” than entrepreneurial include the following:

- The “social contract”: the responsibility of managers to use and employ people, plant, technology and financial resources once they have been acquired.

- Performance criteria: how many executives are fired for not pursuing an opportunity, compared with the number that are punished for not meeting return on investment targets? Capacity utilization and sales growth are the typical measures of business success.
- Planning systems and cycles: opportunities do not arrive at the start of a planning cycle and last for the duration of a three- or five-year plan.

Commitment to Opportunity

As we move on to the second dimension, it becomes clear that the definition of the entrepreneur as creative or innovative is not sufficient. There are innovative thinkers who never get anything done; it is necessary to move beyond the identification of opportunity to its pursuit.

The promoter is a person willing to act in a very short time frame and to chase an opportunity quickly. Promoters may be more or less effective, but they are able to engage in commitment in a rather revolutionary fashion. The duration of their commitment, not the ability to act, is all that is in doubt. Commitment for the trustee is time-consuming, and once made, of long duration. Trustees move so slowly that it sometimes appears they are stationary; once there, they seem frozen. This spectrum of behavior is shown on **Figure 2**.

Figure 2

Promoter	COMMITMENT TO OPPORTUNITY	Trustee
Revolutionary with short duration		Evolutionary of long duration
Pressures toward this side		Pressures toward this side
Action orientation Short decision windows Risk management Limited decision constituencies		Acknowledgment of multiple constituencies Negotiation of strategy Risk reduction Management of fit

It is the willingness to get in and out quickly that has led to the entrepreneur’s reputation as a gambler. However, the simple act of taking a risk does not lead to success. More critical to the success of the entrepreneurs is knowledge of the territory they operate in. Because of familiarity with their chosen field, they have the ability to recognize patterns as they develop, and the confidence to assume the missing elements of the pattern will take shape as they foresee. This early recognition enables them to get a jump on others in commitment to action.

Pressures which pull a business towards this entrepreneurial end of the spectrum include:

- Action orientation: enables a firm to make first claim to customers, employees and financial resources.

- Short decision windows: due to the high costs of late entry, including lack of competitive costs and technology.
- Risk management: involves managing the firm's revenues in such a way that they can be rapidly committed to or withdrawn from new projects. As George Bernard Shaw put it, "Any fool can start a love affair, but it takes a genius to end one successfully."
- Limited decision constituencies: requires a smaller number of responsibilities and permits greater flexibility.

In contrast, administrative behavior is a function of other pressures:

- Multiple decision constituencies: a great number of responsibilities, necessitating a more complex, lengthier decision process.
- Negotiation of strategy: compromise in order to reach consensus and resultant evolutionary rather than revolutionary commitment.
- Risk reduction: study and analysis to reduce risk slows the decision-making process.
- Management of fit: to assure the continuity and participation of existing players, only those projects which "fit" existing corporate resources are acceptable.

Commitment of Resources

Another characteristic we observe in good entrepreneurs is a multistaged commitment of resources with a minimum commitment at each stage or decision point. The promoters, those wonderful people with blue shoes and diamond pinky rings on their left hands, say, "I don't need any resources to commence the pursuit of a given opportunity. I will bootstrap it." The trustee says, "Since my object is to use my resources, once I finally commit I will go in very heavily at the front end."

The issue for the entrepreneur is: what resources are necessary to pursue a given opportunity? There is a constant tension between the amount of resources committed and the potential return. The entrepreneur attempts to maximize value creation by minimizing the resource set, and must, of course, accept more risk in the process. On the other hand, the trustee side deals with this challenge by careful analysis and large-scale commitment of resources after the decision to act. Entrepreneurial management requires that you learn to do a little more with a little less. **Figure 3** addresses this concept.

Figure 3

Promoter	COMMITMENT OF RESOURCES	Trustee
Multistaged with minimal exposure at each stage		Single-staged with complete commitment upon decision.
Pressures toward this side		Pressures toward this side
Lack of predictable resource needs Lack of long-term control Social needs for more opportunity per resource unit International pressure for more efficient resource use		Personal risk reduction Incentive compensation Managerial turnover Capital allocation systems Formal planning systems

On this dimension we have the traditional stereotype of the entrepreneur as tentative, uncommitted, or temporarily dedicated—an image of unreliability. In times of rapid change, however, this characteristic of stepped, multistaged commitment of resources is a definite advantage in responding to changes in competition, the market, and technology.

The process of committing resources is pushed towards the entrepreneurial domain by several factors:

- Lack of predictable resource needs: forces the entrepreneurs to commit less up front so that more will be available later on, if required.
- Lack of long-term control: requires that commitment match exposure. If control over resources can be removed by environmental, political or technological forces, resource exposure should also be reduced.
- Social needs: multistaged commitment of resources brings us closer to the “small is beautiful” formulation of E. F. Shumacher, by allowing for the appropriate level of resource intensity for the task.
- International demands—pressures that we use no more than our “fair share” of the world’s resources, e.g., not the 35% of the world’s energy that the United States was using in the early 1970s.

The pressures within the large corporation, however, are in the other direction—toward resource intensity. This is due to:

- Personal risk reduction: any individual’s risk is reduced by having excess resources available.
- Incentive compensation: excess resources increase short-term returns and minimize the period of cash and profit drains—typically the objects of incentive compensation systems.

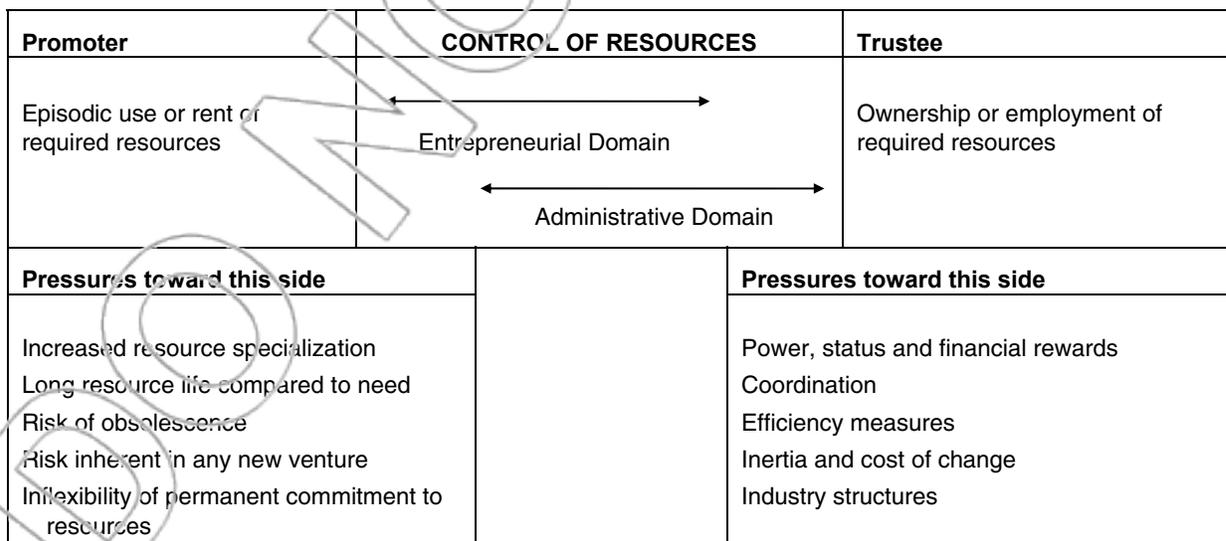
- Managerial turnover: creates pressures for steady cash and profit gains, which encourages short-term, visible success.
- Capital allocation systems: generally designed for one-time decision making, these techniques assume that a single decision point is appropriate.
- Formal planning systems: once a project has begun, a request for additional resources returns the managers to the morass of analysis and bureaucratic delays; managers are inclined to avoid this by committing the maximum amount of resources up front.

Control of Resources

When it comes to the control of resources, the promoter mentality says, "All I need from a resource is the ability to use it." These are the people who describe the ideal business as the post office box to which people send money. For them, all additional overhead is a compromise of a basic value. On the other hand, we all know companies that believe they do not adequately control a resource unless they own it or have it on their permanent payroll.

Entrepreneurs learn to use other people's resources well; they learn to decide, over time, what resources they need to bring in-house. They view this as a time-phased sequence of decisions. Good managers also learn that there are certain resources you should never own or employ. For instance, very few good real estate firms employ an architect. They may need the best, but they do not want to employ him or her, because the need for that resource, although critical to the success of the business, is temporary. The same is true of good lawyers. They are useful to have when you need them, but most firms cannot possibly afford to have the necessary depth of specialization of legal professionals constantly at their beck and call. Figure 4 illustrates this dimension.

Figure 4



The stereotype of the entrepreneur as exploitative derives from this dimension: the entrepreneur is adept at using the skills, talents, and ideas of others. Viewed positively, this ability has become increasingly valuable in the changed business environment; it need not be parasitic in the context of a mutually satisfying relationship. Pressures towards this entrepreneurial side come from:

- Increased resource specialization: an organization may have a need for a specialized resource like a VLSI design engineer, hi-tech patent attorney or state-of-the-art circuit test equipment, but only for a short time. By using, rather than owning, a firm reduces its risk and its fixed costs.
- Risk of obsolescence: reduced by merely using, rather than owning, an expensive resource.
- Increased flexibility: the cost of exercising the option to quit is reduced by using, not owning, a resource.

Administrative practices are the product of pressures in the other direction, such as:

- Power, status and financial rewards: determined by the extent of resources ownership and control in many corporations.
- Coordination: the speed of execution is increased because the executive has the right to request certain action without negotiation.
- Efficiency: enables the firm to capture, at least in the short run, all of the profits associated with an operation.
- Inertia and cost of change: it is commonly believed that it is good management to isolate the technical core of production from external shocks. This requires buffer inventories, control of raw materials, and control of distribution channels. Ownership also creates familiarity and an identifiable chain of command, which become stabilized with time.
- Industry structures—encourage ownership to prevent being preempted by the competition.

Management Structure

The promoter wants knowledge of his/her progress via direct contact with all of the principal actors. The trustee views relationships more formally, with specific rights and responsibilities assigned through the delegation of authority. The decision to use and rent resources and not to own or employ them will require the development of an informal information network. Only in systems where the relationship with resources is based on ownership or employment can resources be organized in a hierarchy. Informal networks arise when the critical success elements cannot be contained within the bounds of the formal organization. **Figure 5** illustrates this range of behavior.

Many people have attempted to distinguish between the entrepreneur and the administrator by suggesting that being a good entrepreneur precludes being a good manager. The entrepreneur is stereotyped as egocentric and idiosyncratic and thus unable to manage. However, though the managerial task is substantially different for the entrepreneur, management skill is nonetheless essential. The variation lies in the choice of appropriate tools.

Figure 5

Promoter	MANAGEMENT STRUCTURE	Trustee
Flat with multiple informal networks		Formalized hierarchy
Pressures toward this side		Pressures toward this side
Coordination of noncontrolled resources Challenge to legitimacy of owner's control Employees' desire for independence		Need for clearly defined authority and responsibility Organizational culture Reward Systems Management theory

More entrepreneurial management is a function of several pressures:

- Need for coordination of key noncontrolled resources results in need to communicate with, motivate, control and plan for resources *outside* the firm.
- Flexibility: maximized with a flat and informal organization.
- Challenge to owner's control: classic questions about the rights of ownership as well as governmental environmental, health and safety restrictions, undermine the legitimacy of control.
- Employees' desire for independence—creates an environment where employees are unwilling to accept hierarchical authority in place of authority based on competence and persuasion.

On the other side of the spectrum, pressures push the firm towards more administrative behavior. These include:

- Need for clearly defined authority and responsibility: to perform the increasingly complex planning, organizing, coordinating, communicating and controlling required in a business.
- Organizational culture—which often demands that events be routinized.
- Reward systems—which encourage and reward breadth and span of control.

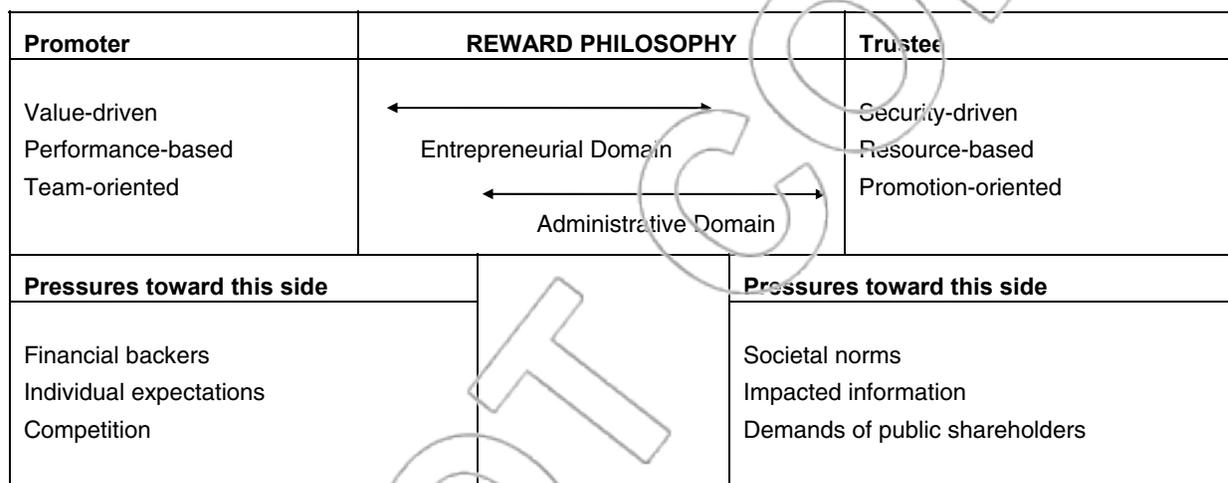
Reward Philosophy

Finally, entrepreneurial firms differ from administratively managed organizations in their philosophy regarding reward and compensation. First, entrepreneurial firms are more explicitly focused on the creation and harvesting of value. In start-up situations, the financial backers of the organization—as well as the founders themselves—have invested cash, and want cash out. As a corollary of this value-driven philosophy, entrepreneurial firms tend to base compensation on

performance (where performance is closely related to value creation). Entrepreneurial firms are also more comfortable rewarding teams.

As a recent spate of takeovers suggests, more administratively managed firms are less often focused on maximizing and distributing value. They are more often guided in their decision making by the desire to protect their own positions and security. Compensation is often based on individual responsibility (assets or resources under control) and on performance relative to short-term profit targets. Reward in such firms is often heavily oriented towards promotion to increasing responsibility levels. **Figure 6** describes this dimension.

Figure 6



The pressures that pull firms toward the promoter end of the spectrum include:

- Individual expectations: increasingly, individuals expect to be compensated in proportion to their contribution, rather than merely as a function of their performance relative to an arbitrary peer group. In addition, individuals seemingly have higher levels of aspiration for personal wealth.
- Investor demands: financial backers invest cash and expect cash back, and the sooner the better. Increasingly, shareholders in publicly held firms are starting to press with a similar orientation.
- Competition: increased people competition for talent creates pressure for firms to reward these individuals in proportion to their contributions.

On the other side, a variety of pressures pull firms toward more trustee-like behavior:

- Societal norms: we still value loyalty to the organization, and find it difficult to openly discuss compensation.
- Impacted information: it is often difficult to judge the value of an individual's contributions, particularly within the frame of the annual compensation cycle performance review that most firms use.

- Demands of public shareholders: many public shareholders are simply uncomfortable with compensation that is absolutely high, even if it is in proportion to contribution.

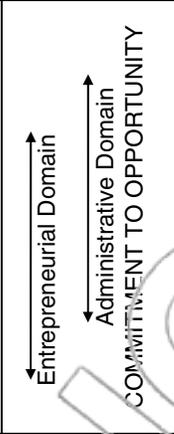
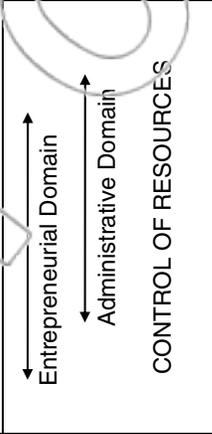
Summary

These characteristics have been gathered onto one summary chart (see **Figure 7**). In developing a behavioral theory of entrepreneurship, it becomes clear that entrepreneurship is defined by more than a set of individual traits and is different from an economic function. It is a cohesive pattern of managerial behavior.

This perspective on entrepreneurship highlights what we see as a false dichotomy: the distinction drawn between entrepreneurship and intrapreneurship. Entrepreneurship is an approach to management that can be applied in start-up situations as well as within more established businesses. As our definition suggests, the accumulation of resources that occurs as a firm grows is a powerful force that makes entrepreneurial behavior more difficult in a larger firm. But the fundamentals of the behavior required remain the same.

Still, our primary focus will be on the start-up. The situational factors that define a start-up situation do much to encourage entrepreneurship. As we look at the start-up process, however, it is worth keeping in mind that many of these lessons can be applied equally well in the large corporate setting.

Figure 7 A Perspective on Entrepreneurship—Summary

Pressures Toward This Side	Promoter	Key Business Dimension	Trustee	Pressures Toward This Side
Diminishing opportunity streams Rapidly changing: Technology Consumer economics Social values Action orientation Short decisions windows Risk management Limited decision constituencies	Driven by perception of opportunity Revolutionary with short duration	 <p>Entrepreneurial Domain ↔ Administrative Domain STRATEGIC ORIENTATION</p>	Driven by resources currently controlled	Social contracts Performance measurement criteria Planning systems and cycle
Lack of predictable resource needs Lack of long-term control Social need for more opportunity per resource unit Interpersonal pressure for more efficient resource use	Multistaged with minimal exposure at each stage	 <p>Entrepreneurial Domain ↔ Administrative Domain COMMITMENT TO OPPORTUNITY</p>	Evolutionary of long duration	Acknowledgment of multiple constituencies Negotiation of strategy Risk reduction Management of fit
Increased resource specialization Long resource life compared to need Risk obsolescence Risk inherent in any new venture Inflexibility of permanent commitment to resources	Episodic use or rent of required resources	 <p>Entrepreneurial Domain ↔ Administrative Domain CONTROL OF RESOURCES</p>	Single-staged with complete commitment upon decision	Personal risk reduction Incentive compensation Managerial turnover Capital allocation systems Formal planning systems
Coordination of key noncontrolled resources Challenge to legitimacy of owner's control Employees' desire for independence	Flat with multiple informal networks	 <p>Entrepreneurial Domain ↔ Administrative Domain MANAGEMENT STRUCTURE</p>	Ownership or employment of required resources Formalized hierarchy	Power, status, and financial rewards Coordination Efficiency measures Inertia and cost of change Industry structures
Individual expectations Competition Increased perception of personal wealth creation possibilities	Value-based Team-based Unlimited	 <p>Entrepreneurial Domain ↔ Administrative Domain COMPENSATION/REWARD POLICY</p>	Resource-based Driven by short-term data Promotion Limited amount	Need for clearly defined authority and responsibility Organizational culture Reward systems Management theory Societal norms IRS regulations Impacted information Search for simple solutions for complex problems Demands of public shareholders