WHY ENTREPRENEURSHIP HAS WON!

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Abstract

During the last 15 years, entrepreneurship has developed from a struggling marginal field of inquiry into a dynamic centerpiece of many business schools. It has assumed the status of a required course at some high ranked schools and the field has achieved a central role in the fund raising strategies of many schools. This paper argues that this change is a natural result of both external forces and of the development of a behavioral theory of entrepreneurship. The external forces have drawn considerable attention to the success of entrepreneurs in changing the competitive landscape. The behavioral theory has tied the field to central questions of interest to traditional academic disciplines.

Introduction

The field of entrepreneurship was described in 1983 as "an intellectual onion". "You peel it back layer by layer and when you get to the center, there is nothing there, but you are crying." This description of the field by a senior faculty member at Harvard Business School was given to a young person being recruited into the field. This not so kind advice reflected a long-standing set of complaints (Cole, 1968) (Drucker, 1985) (Kirzner, 1973). In spite of the lack of earlier academic attention, studies have shown the vital importance of new ventures and small business in job creation (Birch, 1979, 1987). Silicon Valley, Silicon Alley, Route 128, Austin, and Research Triangle are the envy of the world. There has been a change in the sociology of entrepreneurship in many parts of the world (Thorton, 1999). It is occurring at a higher rate (Gartner & Shane, 1995) and with more capital behind it than at any time in the past century (Gompers & Lerner, 1998).

Never before in history have so many individuals been able to identify and implement the definition that we use to guide our research and teaching at Harvard. That definition is: "Entrepreneurship is the pursuit of opportunity beyond the resources you currently control" (Stevenson 1983, 1985, 1990). This definition takes into account both the individual and the society in which the individual is embedded. The individual identifies an opportunity to be pursued and then, as an entrepreneur, must seek the resources from the broader society. This approach follows on the work of early scholars such as Schumpeter (1934) who identified the interaction of the individual with the context in his early work. It corresponds to later admonitions, such as those of Aldrich

(1992), who argued that individuals, organizations, and the context need to be studied to develop a theory of entrepreneurship.

This paper will argue that progress in entrepreneurship has been enhanced by the societal environment in which it flourishes and by the strong development of theoretical underpinnings.

Societal Change

The author would assert that the number of resources available for the pursuit of opportunity has never been greater. He has taken note of the availability of financial capital. This is perhaps the least unique resource required to pursue opportunity. Intellectual capital, human capital, and public capital in the form of infrastructure and social norms provide even more important resources to the entrepreneur. The embeddedness perspective (Granovetter, 1985) addresses the descriptive and practical weaknesses of the dichotomous treatment of hierarchies and markets (Williamson, 1985). When history and culture in more than 40 countries over the last two decades are examined, some hypotheses emerge. They are

1. Entrepreneurship flourishes in communities where resources are mobile.
2. Entrepreneurship is greater when successful members of a community reinvest excess capital in the projects of other community members.
3. Entrepreneurship flourishes in communities in which the success of other community members is celebrated rather than derided.
4. Entrepreneurship is greater in communities that see change as positive rather than negative.

It appears that the last two decades have seen major societal changes in all of these dimensions. Changes in the financial markets and labor markets have increased mobility substantially. Perhaps more important, improvement in logistics, cross border flows of labor, capital, and ideas, weakening of intellectual property protection, and global communication have helped people, money, products, and ideas disperse throughout the world, flowing to the areas of greatest opportunity.

The entrepreneurial community's success has attracted capital on an unprecedented scale. The venture capital market and the market for initial public offerings have gone to unprecedented valuations. Perhaps most interesting, however, is the extent to which successful entrepreneurs have reinvested in venture funds and in angel networks. The entrepreneurial community is the basis of much of the monetary and managerial capital being invested in new companies (Prasad and Linde, 1999; Darwall and Roberts, 1998). Reinvestment in the entrepreneurial community by the entrepreneurial community continues and reinforces the tradition of entrepreneurial ethnic communities such as the offshore Chinese, the emigrant Koreans, and many others.

Out of the decade of greed of the 1980s emerged the celebration of the entrepreneur. Gates, Walton, and countless others are honored by schools, nominated to prestigious charities, extolled in the popular press, and studied by the new generation of potential entrepreneurs. More remarkable, perhaps, than these mega successes are the many "netrepreneurs" who have achieved great visibility and wealth in record time. Amazon's Jeff Bezos was *Time Magazine*'s man of the year in 1999. Meg Whitman of E-Bay and countless others are providing role models for the impatient entrepreneurs. Their success is celebrated without regard to the potential of failure.

The value of change is highlighted in the current environment of the Internet. Unlike biotechnology, which caused many people to see both risk and reward, the Internet brings information that is fast and free. Connnectedness is seen as an unmitigated positive value, and studies that show the positive effect of the number of network nodes (Hagel and Armstrong, 1997) are cited in both the academic and the popular press. Perhaps the speed and magnitude of the creation of wealth has been important in society's recognition of the value of change. Weakness in the protectionist power of unions in the face of new technology has accompanied envy and frequent emulations of the capitalist system. These factors have given people comfort about change.

Changes in society have many roots. Scholars have written about the psychological change that has occurred (Mills, 1987). There have been a number of explanations, starting perhaps in 1911 with Schumpeter (1934). Collins and Moore (1964) put a lot of attention on the individual. Both early and later authors have focused on the cultural setting (Weber, 1904), ethnicity (Aldrich and Waldinger, 1990) and the individual experience (Cooper and Dunkelberg, 1986). Some authors have written extensively about an ecological perspective on entrepreneurship (Aldrich, 1999).

The author has in other settings criticized these approaches as lacking in operational import (Stevenson and Jarillo, 1991). There is little that the individual can do to change his or her basic psychological makeup or even the cultural setting. The individual can become embedded in a context that facilitates the recognition of opportunity and the pursuit of it.

A Research Perspective

Perhaps the greatest change in the academic field of entrepreneurship has been new vigor in the development of deep intellectual roots. The Babson Research Conference on Entrepreneurship began in 1983 with 37 papers. The entrepreneurial research community now has its own division in the Academy of Management. Following on the development of the field, most schools have courses in entrepreneurship, and there are at last report more than 150 chairs in the field. Studies of business education have argued for even more (Porter and McKibben, 1988).

Harvard Business School has taken a slightly different approach to research in the field by announcing that entrepreneurship should <u>not</u> be what scholars study but rather the entrepreneurial firm should be <u>where</u> people study. The issues and problems in entrepreneurial firms have proved to be central to the research domain of many respected academics.

Harvard Business School changed to a focus on research by scholars from many fields following the symposium on entrepreneurship held in 1983. At that time, practitioners and scholars were brought together to set an agenda for the school. As part of that program, the author published a paper entitled "Perspectives on Entrepreneurship" (Stevenson, 1983). That paper and subsequent works emphasize the "how" of entrepreneurship rather than the "who" or "what."

The paper identified six dimensions on which entrepreneurial organizations differed from administratively driven organizations. These dimensions are shown in Figure 1.

Perhaps success in overcoming the reputation as an intellectual onion was achieved because of the emergence of traditional academics interested in the characteristics of the entrepreneurial firm. Over the last 17 years, a great deal of serious academic attention has been paid to entrepreneurial behaviors.

Opportunity analysis has always been part of the strategic literature (Learned, et al., 1965; Ansoff, 1965). Serious analysis of the sources of opportunity (the first dimension) first appeared in the field of economics and in early work by business scholars such as Rumelt (1974) but migrated to the mainstream business literature with Porter's seminal work (1981, 1985). That work was followed by national analysis (Porter, 1990) that emphasized the role of context for successful competitive behavior. At the same time as there was positive movement toward the opportunity driven side of the spectrum, there were serious critiques of the traditional resource based approaches. The inertial impact of social contracts (Walton, 1985) and the weaknesses of performance measurement systems based upon resources (Johnson and Kaplan, 1987) set the stage for scholars to reexamine the assumptions regarding continuity of opportunity and the value of controlled resources for pursuing opportunity.

The second dimension, which identifies a difference in the process of commitment to opportunity, has also been affected by both positive reinforcement in academic research and stern warning regarding the viability of the opposing approach based upon systematic planning. Porter (1981) among others described first mover advantage. Later work on time-based competition (Stalk, 1996) has reinforced the power of speed as a competitive weapon. The innovation literature (Abernathy and Clark, 1985; Wheelwright and Clark, 1992) has all pointed to the benefits of quick response to change and the need to create organizations that can move. More recent work, such as Christensen's (1997), has shown how larger firms can be overwhelmed with inertia in spite of advanced technology and superb market intelligence. This shows the practical problems created by the scholarly work urging managers to recognize multiple constituencies (Lodge, 1980, 1984) and the complexity of the processes for internally negotiating strategies (Dyer, Salter, and Webber, 1987).

The third dimension, identified in 1983, came as a surprise to many scholars of entrepreneurship. Since the late 1700s many observers in both the academic community and the world of practice have identified the entrepreneur with risk taking. This is based on Ricard Cantillion's observations that the entrepreneur buys at certain prices and sells at uncertain prices and thereby bears the risk of the transaction.

The author has written or co-written over 170 case studies at Harvard, half of these specifically on entrepreneurs. Very few of these entrepreneurs would be identified as risk seekers. They tend to be risk takers who seek to manage the risk by sequential commitment to the opportunity. This method of commitment contrasts strongly with the planning approach advocated by many authors (Lorange, Scott-Morton, and Ghoshal, 1986; Bower, 1986). A multi-staged commitment process corresponds to the needs of many resource providers (Sahlman, 1988), who expect demonstrated results before adding to the meager resource base provided initially. Subsequent studies of the venture capital process have built on this model (Gompers and Lerner, 1999).

The traditional disciplines have also recognized the practice with the title of real options theory. The notion that delay of a decision provides a valuable option builds on the Nobel Prize winning work of Fisher Black, Myron Scholes, and Robert Merton and the earlier insights of Howard Raiffa and Robert Schlaifer. A stream of literature is building in this field (Ghemawat, 1991).

The fourth dimension differentiates forms of control over resources. Chandler (1977) illustrated how firms grew large to exploit economies of scale. Under the communication conditions of the early 20th century, this often required vertical integration. Early students of entrepreneurship observed other forms of organization (Larson, 1988) that avoided “hierarchies” with their attendant agency costs (Pratt and Zeckhauser, 1985). Those forms of organization shortened both the innovation cycle and the product cycle (Hayes and Wheelwright, 1984). Jensen (1993) warns of the impact of hierarchical control over resources and the creation of barriers to exit. Increasingly, the economics literature is addressing the question of optimal scale and optimal diversification (Grossman and Hart, 1986). The network structure of the Internet world has provided an object lesson regarding the new forms of organizational control. “Alliances,” “partnerships,” “market teams” are the new lexicon as entrepreneurs struggle to match resources with unpredictable needs. Big companies such as Cisco Systems are forming alliances as well as acquiring companies to keep their options open. There is a strong recognition of the fact that, in a world of knowledge-based competition, the assets are never acquired because they can go home at night (Bhidé, 2000).

The fifth dimension focuses on management through networks rather than hierarchy. Understanding the network form of management is now a hot topic (Eccles and Nohria, 1992; Nohria, 1992). The impossibility of achieving the theoretical limits of formal organization had already been well documented (Lawrence and Lorsch, 1967; Gulick and Urwick, 1937), but the success of the entrepreneurial firm propelled deeper study of the alternatives. The relationship between the entrepreneur and the key human resources that determine success is often far more complex than the theoretical structure observed from the outside. Because the key resources are often external, trust, persuasion, and salesmanship are not well represented on a formal organizational chart (Bhidé and Stevenson, 1990).

The sixth dimension has also emerged as an area of serious academic pursuit. Sharing the value created is an issue for the start-up business because often until value is created there is nothing to share. At the same time, Jensen, Murphy, and others have focused considerable attention on the lack of sharing within large organizations and the consequences. Jensen and Meckling (1976) began a whole stream of serious inquiries into the role of ownership in the allocation of rewards and decision rights. The entrepreneurial setting provides a clear illustration for the value-added concepts (Brandenburger and Nalebuff, 1995). This setting also illustrates the importance of the process of commitment. Studies in the venture business of the sharing economics illustrate some of the challenges in devising appropriate sharing arrangements (Gompers and Lerner, 1996). Bhidé (1993) pointed out the hidden costs associated with capital that is not tied to ventures but is perpetually seeking liquidity.

A Retrospective Look

No claim is being made that the author's 1983 paper drove the academic agenda. Rather, the observation is that the arena of entrepreneurship involves many fascinating and important problems that have come to the attention of mainstream scholars. Entrepreneurship, properly conceived, is an intellectual domain of hard and important problems that can be attacked with the best possible scholarship. The progress of the field has been substantially enhanced as it attaches its problems to discipline tested tools.

The *caveat* must be given, however, that entrepreneurship is more than the sum of its parts. Successful entrepreneurship is a study of the dynamic fit between a set of individuals, an opportunity derived from a particular context, and the deal that unites them. The nature of the fit requires constant vigilance. There is no such thing as an opportunity forever. Context changes, and the opportunity becomes a trap. Deals need to be robust, but the best deals are subject to strategic behavior when their consequences are fully understood. Individuals change too. The assumption that rational, evaluating, maximizing individuals start businesses cannot begin to account fully for the instances of creative genius, self-sacrificing loyalty, and charismatic leadership.

The last two decades have shown the importance and the relevance of the field of entrepreneurship. It is not important in isolation. Its importance is part of the global change that is affecting the way we live and work.

The Future

The changes occurring in the world require every educator and educational institution to refocus. Entrepreneurship at Harvard has benefited by being chosen as one of the initiatives of Dean Kim Clark. We believe that if we are successful in rising to the challenge, the school can have the same degree of impact in this century as it has had in the last. The challenge is exacerbated by the requirement to understand technology, globalization, and community development as well as the nuances of entrepreneurship.

Technology is changing the way we live and work. Educators must be at the leading edge in order to model, by their behavior and their institutions' behavior, the world in which the educational participants will live. Faxes, e-mails, instant access to enormous information on the Internet, high-speed data transmission, CAD/CAM, cell phones, and ubiquitous linkages define our New World. When communications, computation, and storage are almost free, there are profound changes that must occur in the way people manage people and produce and distribute goods and services. The increasing role of technology implies that entrepreneurial teachers must focus themselves and their students on the management of technology and of technological development. The fast-paced, high stakes world of technology yields different exciting problems for research.

The changes in technology coupled with changes in the political and economic scene are leading to the second challenge of globalization. Federal Express and others provide fast, cheap air freight. Modern logistical control, the communication revolution, and the emergence of energetic market-based economies are opening the world to truly becoming one market. Companies tend to ignore traditional geographic boundaries when identifying the boundaries of the arena in which they will develop their play. Some say that if a start-up does not have a global perspective, it cannot survive in the long term. Political barriers have been reduced, but the volatility of politics and economics seem to be increasing. To be an effective business person in this New World requires an understanding of how to work on a global scale. Competitors, customers, suppliers, and employees may spring from other cultures and other systems. Understanding how to work across cultural divides and learning from that experience is a critical new challenge.

In the face of the need to work in and through other cultures, entrepreneurship becomes a critical dimension. Since 1947, Harvard Business School has taught a course in starting new ventures. After 1983, when the school began using the working definition of entrepreneurship as "the pursuit of opportunity beyond the resources that you currently control," new ties were formed, and much new research continues to be spawned. Globalization and the immediate access to huge amounts of information have reinforced the trend toward entrepreneurial behavior. Few organizations can own or employ all of the resources that are critical to them in their pursuit of opportunity. The behavioral characteristics of entrepreneurial organizations identified in 1983 were noted previously: pursuit of opportunity, rapid commitment, willingness to change, multi-staged commitment processes, use of others' resources, managing through networked relationships, and rewards based upon value created. These characteristics are the ones needed to pursue global opportunity in the face of rapid change.

With global enterprises and entrepreneurial behavior, hierarchy does not and cannot suffice. Being part of a supportive community becomes the basis for repeated, mutually beneficial transactions. Contracts are incomplete and often only marginally enforceable through judicial processes. Legal systems and ethical systems are often in conflict. Therefore, to interact effectively and efficiently, individuals must sense that they are part of a community that cares, protects, and ensures legitimate behavior on the part of others. Trust, caring, agreed-upon standards for performance, and agreed-upon sanctions are the oil that lubricates the friction inherent in free exchange. Building a sense of community is a leadership task. Learning to live as part of a community that is dispersed, asynchronous, and diverse is one of the initiatives that shapes character as well as knowledge. Such a community is created and linked by the technology that is evolving.

These four challenges for the future are mutually reinforcing. Scholars and practitioners who attempt to deal with one of the challenges without understanding the others do so at their own peril. Entrepreneurship creates the technology and is enabled by it. Communities that form across traditional boundaries enable globalization and enable growth through entrepreneurship. Entrepreneurs build community by managing networks rather than hierarchies and by reinforcing the community through celebration and reinvestment in other community members' new ideas. They share the rewards of innovation with customers, suppliers, and other partners in the enterprise in order to assure cooperation.

Schools and educators, like successful businesses, must be engaged in renewal. The four initiatives aimed at improving our technology, educating for global perspective, building entrepreneurship, and supporting a strong sense of community are at once new and deeply rooted traditions in history and practice. Emphasis upon these initiatives is required to prepare our students for the world of tomorrow. The community of entrepreneurial scholars should note that entrepreneurship is an important part of the future but is not the only critical future arena in which progress is required.

The Risks

With the benefit of hindsight, the opportunity of the last twenty years is evident. An entrepreneurial revolution has occurred. Some of the early volunteers have had a most exciting time. The danger lies in presuming that the future is without challenge.

Surely there will be massive, public, and costly failures among the current "entrepreneurs," just as there have been when many have seen other exciting market-based opportunities (Sahlman and Stevenson, 1985).

Our colleagues see massive funds pouring in to support research and teaching. The Batten Center for Entrepreneurship at the Darden School recently was given $60 million. Much will be expected from such a resource commitment. Entrepreneurial educators must be more than cheerleaders. We can no longer simply say "entrepreneurship is different". Entrepreneurship is now a part of the mainstream.

Perhaps the greatest danger of all is that the hardy band of entrepreneurial scholars will become like many successful businesses. Businesses and scholars fail by not valuing change. Guarding the past, espousing orthodoxy, and refusing to see the wisdom inherent in the challenges of the young and inexperienced will lead to the same problems in education as in business.

Seeing entrepreneurship as part of a systemic response to change and as an initiator of the changes should help us avoid "the innovator's dilemma." In the meantime, let us celebrate the victory and thank our colleagues for their profound help.

Figure 1

A PROCESS DEFINITION OF ENTREPRENEURSHIP

Key Business Dimension

Entrepreneur		Administrator
Driven by Perception of Opportunity	**Strategic Orientation**	Driven by Resources Currently Controlled
Quick Commitment	**Commitment to Opportunity**	Evolutionary with Long Duration
Multistage with minimal Exposure at each stage	**Commitment Process**	Single-stage with Complete Commitment Upon Decision
Episodic Use or Rent of Required Resources	**Control of Resources**	Ownership or Employment of Required Resources
Flat with Multiple Informal Networks	**Management Structure**	Formalized Hierarchy
Value Based & Team Based	**Compensation and Reward System**	Resource Based Individual and Promotion Oriented

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