

Section 1

The Entrepreneurial Perspective

Chapter 01

The Entrepreneurial Mindset

Chapter 02

Corporate Entrepreneurship

Chapter 03

Generating and Exploiting New Entries

Chapter 01

THE ENTREPRENEURIAL MINDSET

LEARNING OBJECTIVES

- 01: To introduce the concept of entrepreneurship and explain the process of entrepreneurial action.
- 02: To describe how structural similarities enable entrepreneurs to make creative mental leaps.
- 03: To highlight bricolage as a source of entrepreneurs' resourcefulness.
- 04: To introduce effectuation as a way expert entrepreneurs sometimes think.
- 05: To develop the notion that entrepreneurs cognitively adapt.
- 06: To introduce sustainable entrepreneurship as a means of sustaining the natural environment and communities and developing gains for others.

CHAPTER OUTLINE AND TEACHING NOTES

OPENING PROFILE—Ewing Marion Kauffman

I. THE NATURE OF ENTREPRENEURSHIP

1. Entrepreneurial actions begin at the nexus of a potential opportunity and an enterprising individual.
2. An *entrepreneurial opportunity* could stem from introducing an existing technological product used in one market to create a new market or it could be creating a new technological product for an existing market or creating a new product for a new market.
 - a. Because opportunities exist in high uncertainty, entrepreneurs must use their judgment about whether or not to act.
 - b. The individual's prior knowledge can decrease the amount of uncertainty.
3. The McMullen–Shepherd model explains how knowledge and motivation influence two stages of *entrepreneurial action*.
 - a. Signals of changes in the environment that represent possible opportunities will be noticed by some individuals but not others.
 - b. Individuals with knowledge of markets and technology are more capable of

In the Press: A key question that all would-be entrepreneurs face is finding the business opportunity that is right for them. In this article, Raffi Amit, a professor of management at Wharton, offers insights into how entrepreneurs can identify new business opportunities and evaluate their potential risks. (Knowledge@Wharton. (2009, November 11). How entrepreneurs identify new opportunities. *Forbes.com*. <http://www.forbes.com/2009/11/11/identify-new-opportunities-entrepreneurs-wharton.html>)

Learning Objective 01

To introduce the concept of entrepreneurship and explain the process of entrepreneurial action.



Entrepreneurial opportunities

Those situations in which new goods, services, raw materials, and organizing methods can be introduced for financial or nonfinancial gain of the entrepreneur and/or other stakeholders.



Entrepreneurial action

Action through the creation of new products/processes and/or the entry into new markets, which may occur through a newly created organization or a venture within an established organization.

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- detecting changes in the external environment, and if motivated will allocate further attention to processing this information.
- c. The result of Stage 1 is an individual's realization that an opportunity exists for someone.
 - d. The result of Stage 2 is the individual then needs to determine whether it represents an opportunity for them.
4. To be an entrepreneur is to act on the possibility that one has identified an opportunity worth pursuing and it involves ***entrepreneurial thinking***.

If the individual overcomes enough doubt to form (1) the belief that the situation represents an opportunity for someone in general, and then (2) the belief that the opportunity for someone is an opportunity for themselves personally, this individual will likely act.

Figure 1.1 “Entrepreneurial Action”

The McMullen–Shepherd model.

AS SEEN IN BUSINESS NEWS:

Do Entrepreneurs Benefit From Paranoia?



Entrepreneurial thinking

Individuals' mental processes of overcoming ignorance to decide whether a signal represents an opportunity for someone and/or reducing doubt as to whether an opportunity for someone is also an opportunity for them specifically, and/or processing feedback from action steps taken.

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II. HOW ENTREPRENEURS THINK

1. Entrepreneurs think differently than nonentrepreneurs.
2. They often make decisions in highly uncertain environments, with high stakes and immense time pressures.
3. Given this decision-making environment, they need to think structurally, engage in bricolage, effectuate, and cognitively adapt.

A. Think Structurally

1. Forming opportunity beliefs often requires creative mental leaps launched from one's existing knowledge.
2. The creative mental leap could be a new product for an existing market or applying an existing technology or product to a new market.
3. Making these connections between a new product (service, business model, or technology) and a new target market is aided by the *superficial similarities and structural similarities* between the source (e.g., the market) and the destination (e.g., technology).

The text uses the example of NASA's flight simulator sensor system that helps shuttle pilots focus, pay attention, and concentrate for extended periods. The system shares high levels of structural similarities with the target market of parents seeking non-pharmaceutical alternatives to treat attention deficit hyperactivity disorder.

Learning Objective 02

To describe how structural similarities enable entrepreneurs to make creative mental leaps.



Superficial similarities

Exist when the basic (relatively easy to observe) elements of the technology resemble (match) the basic (relatively easy to observe) elements of the market.



Structural similarities

Exist when the underlying mechanisms of the technology resemble (or match) the underlying mechanisms of the

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4. The entrepreneurial challenge often lies in making mental leaps based on *structural* similarities.

B. Bricolage

1. Entrepreneurs often lack resources, so they seek resources from others to provide the slack necessary to experiment and generate entrepreneurial opportunities or engage in bricolage.
2. **Bricolage** refers to taking existing resources and experimenting, tinkering, repackaging, and/or reframing them so that they can be used in a way for which they were not originally designed or conceived.
3. When facing limited resources, entrepreneurs creatively use those resources to exploit a potential opportunity.

C. Effectuation

1. A *causal process* involves thinking of a desired outcome and then coming up with a plan to achieve that outcome.
2. The *effectuation process* looks at what a

The text uses the example of the farmer whose land held abandoned coal mines full of methane gas. The farmer tapped the methane for use and profit. He sold the excess power to the local utility company and used the methane to heat a greenhouse for hydroponic tomatoes and later, tropical fish.

Discussion point: It's Friday night. Use causal process to decide what to do this weekend: A student has \$50, access to a car with a full tank of gas and a laptop with unlimited web access. Their roommate is away for the weekend. They have a term paper due on Monday that is 75% done. There is a job fair on campus Tuesday where over 100 employers will be seeking interns, and full time, permanent employees. Use effectuation process to determine possible

market.

Learning Objective 03

To highlight bricolage as a source of entrepreneurs' resourcefulness.



Bricolage

Entrepreneurs making do by applying combinations of the resources at hand to new problems and opportunities.

Learning Objective 04

To introduce effectuation as a way expert entrepreneurs sometimes think.



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person has and then selects from several possible outcomes.

- a. Entrepreneurs use the effectuation process.
- b. Causal and effectuation processes are illustrated with Sarasvathy's "Curry in a Hurry" example.
 - i. Causal process example uses Kotler's STP—segmentation targeting and positioning—process.
 - ii. The effectuation process allows for building several different sorts of firms in disparate industries.
- c. Most managers of firms need to take an *entrepreneurial mindset* so their firms can successfully adapt to changes.
- d. Effectuation allows entrepreneurs to think in periods of high uncertainty.
- e. To develop this mindset, individuals must attempt to make sense of opportunities, constantly question "dominant logic," and revisit what they think is true about markets and

weekend outcomes.

Effective entrepreneurs are thought to continuously rethink every aspect of a firm's operation and long-term

Causal process

A process that starts with a desired outcome and focuses on the means to generate that outcome.



Effectuation process

A process that starts with what one has (who they are, what they know, and whom they know) and selects among possible outcomes.



Entrepreneurial mind-set

Involves the ability to rapidly sense, act, and mobilize, even under uncertain conditions

Learning Objective 05

To develop the notion that

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firms.

D. Cognitive Adaptability

1. To be good at effectuation, individuals must develop a *cognitive adaptability*.
 - a. Decision frameworks are organized on knowledge about people and situations then used to help make sense of what is going on.
 - b. Cognitive adaptability is reflected in an entrepreneur's metacognitive awareness, or ability to reflect upon, understand, and control their thinking and learning.
 - c. Learn to be more cognitive by asking questions in four areas:
 - i. **Comprehension questions** raise understanding that a problem or opportunity exists, the nature of the situation, and its implications.
 - ii. **Connection tasks** prompt the entrepreneur to tap into their knowledge and experience without overgeneralizing.
 - iii. **Strategic tasks** prompt

health.

entrepreneurs cognitively adapt.



Cognitive adaptability

Describes the extent to which entrepreneurs are dynamic, flexible, self-regulating, and engaged in the process of generating multiple decision frameworks focused on sensing and processing changes in their environments and then acting on them.

Table 1.1 Mike Haynie's "Measure of Adaptive Cognition"

[How cognitively adaptable are you?](#)



Comprehension questions

Questions designed to increase entrepreneurs' understanding of the nature of the environment.

Connection tasks

Tasks designed to stimulate entrepreneurs to think about the current situation in terms of similarities to and differences from situations previously faced and solved.

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- entrepreneurs to think about the what, why, and how of their approach to the situation.
- iv. **Reflection tasks** prompt entrepreneurs to generate their own feedback (create a feedback loop in their solution process) to provide the opportunity to change.
- d. When cognitive adaptability increases, entrepreneurs adapt to new situations, are creative, and communicate their reasons behind a particular response.

Strategic tasks
Tasks designed to stimulate entrepreneurs to think about which strategies are appropriate for solving the problem (and why) or pursuing the opportunity (and how).

Reflection tasks
Tasks designed to stimulate entrepreneurs to think about their understanding and feelings as they progress through the entrepreneurial process.

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III. THE INTENTION TO ACT ENTREPRENEURIALLY

1. Entrepreneurial action is most often intentional as they intend to pursue certain opportunities, enter new markets, and offer new products.
2. Individuals have stronger intentions to act when taking action is perceived to be feasible and desirable.
Entrepreneurial intentions can be explained in the same way.
3. *Entrepreneurial self-efficacy* is the belief that one can be successful at generating and exploiting opportunities.
 - a. People who believe they have the capacity to perform tend to do the task well (high self-efficacy).
 - b. Self-efficacy affects the person's choice of action and the amount of effort exerted.
4. *Perceived desirability* refers to an individual's attitude toward entrepreneurial action—they need to perceive the potential opportunity as

For example, entrepreneurs cite an educational need in the areas of finance, strategic planning, marketing (particularly distribution), and management. The ability to communicate clearly is also important.

Discussion point: Ask students to rank themselves on the characteristics mentioned in this section. Discuss in small groups, the areas where they are weaker, and their action plan to improve?

Entrepreneurial experience is one of the best predictors of success, particularly when the new venture is in the same field as previous experience.



Entrepreneurial intentions

The motivational factors that influence individuals to pursue entrepreneurial outcomes.



Entrepreneurial self-efficacy

The conviction that one can successfully execute the entrepreneurial process.



Perceived desirability

The degree to which an individual has a favorable or unfavorable evaluation of the potential entrepreneurial outcomes.

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feasible and desirable in order to act.

IV. ENTREPRENEUR BACKGROUND AND CHARACTERISTICS

A. Education

1. Education is important in the upbringing of the entrepreneur—reflected not only in the *level* of education obtained but education also plays a major role in helping entrepreneurs cope with problems they face.
2. Even general education is valuable because it facilitates the integration and accumulation of new knowledge.
 - a. A broad base of knowledge allows for the discovery or generation of potential opportunities and assists adaptability.
 - b. It provides knowledge, skills, and problem-solving abilities that are transferable across different situations.

Some entrepreneurs find it difficult to switch from an entrepreneurial mindset to a managerial mindset as the organization grows. These entrepreneurs may willingly step aside, or they may be pushed out by investors who want someone who can scale the business and run it more efficiently.

Discussion point: Poll the class to see how many have parents or other relatives who are role models. Are there other role models they use as well?

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B. Age

1. Entrepreneurial age refers to the age of the entrepreneur reflected in their experience.
2. In terms of chronological age, most entrepreneurs initiate their entrepreneurial careers between the age of 22 and 45.

C. Work History

1. **Work history** can influence the decision to launch a new entrepreneurial venture, but it also plays a role in the growth and eventual success of the new venture.
2. Experiences in the areas of financing, product and service development, manufacturing, development of distribution channels, and preparation of a marketing plan, are particularly important.
3. As the venture becomes established and starts growing, managerial experience and skills become

Density is the extensiveness of ties between two individuals.

Centrality is the total distance of the entrepreneur to all other individuals and the total number of individuals in the network.



Work history

The past work experience of an

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- increasingly important.
- 4. Most entrepreneurs indicate that their most significant venture was not their first one.
 - 5. Previous start-up experience can provide entrepreneurs with expertise in running an independent business as well as benchmarks for judging the relevance of information.

individual.



Role models
Individuals whose example an entrepreneur can aspire to and copy.

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V. ROLE MODELS AND SUPPORT SYSTEMS

1. One of the most important factors influencing entrepreneurs in their career path is their choice of a *role model*.
 - a. Role models can be parents, relatives, or successful entrepreneurs in the community.
2. Role models can also serve in a supportive capacity as mentors during and after the new venture is launched.
 - a. This support system is most crucial during the start-up phase.
 - b. It is important that an entrepreneur establish connections and networks early in the venture formation process.
3. As contacts expand, they form a network with density and centrality.
 - a. The strength of ties between the entrepreneur and any individual is dependent on the frequency, level, and reciprocity of the relationship.
 - b. An informal network for moral and professional support benefits the entrepreneur.

Discussion point: Have any students begun their support networks? Who do they now know that could be included in a support network?



Moral support network

Individuals who give psychological support to an entrepreneur



Professional-support network

Individuals who help the entrepreneur in business

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A. Moral-Support Network

1. It is important for the entrepreneur to establish a *moral-support network* of family and friends—a cheering squad.
2. Most entrepreneurs indicate that their spouses are their biggest supporters.
3. Friends can provide advice that is more honest than that received from others; they also provide encouragement, understanding, and assistance.
4. Relatives can also be sources of moral support, particularly if they are also entrepreneurs.

B. Professional Support Network

1. The entrepreneur also needs advice and counsel which can be obtained from members of a *professional support network*.
2. Most entrepreneurs indicate that they have mentors.
 - a. The mentor is a coach, sounding board, and advocate.
 - b. The individual selected needs to be an expert in the field.
 - c. An entrepreneur can initiate the

activities.

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- “mentor-finding process” by identifying and contacting a number of experts.
- d. The mentor should be periodically apprised of the progress of the business so a relationship can gradually develop.
3. Another source of advice is a network of business associates.
- a. Self-employed individuals who have experience in starting a business are good sources.
- b. Clients and buyers are also important as they provide word-of-mouth advertising.
4. Suppliers are good components of the professional-support network—they provide good information on trends in the industry.
5. Trade associations can help keep the new venture competitive, as they keep up with new developments and can provide overall industry data.
6. Affiliations with individuals developed in hobbies, sporting events, civic involvements, and

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| <p>school alumni groups are excellent sources of referrals, advice, and information.</p> <p>7. Entrepreneurial activity is embedded in networks of interpersonal relationships.</p> <p>8. These networks offer:</p> <ul style="list-style-type: none">a. Access to resourcesb. Assistance in discovering and exploiting new opportunitiesc. Opportunities to exchange goods and servicesd. Perceived feasibility that strengthens entrepreneurial intentions | | |
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VI. SUSTAINABLE ENTREPRENEURSHIP

1. Entrepreneurial action can help us both sustain and develop.
2. ***Sustainable entrepreneurship*** is focused on preserving nature, life, and community in the pursuit of perceived opportunities to bring future products and services into existence for gain.
3. Based on the McMullen–Shepherd model, we know that entrepreneurial action is driven by knowledge and motivation.
4. For entrepreneurial actions to be considered sustainable, they must develop gains for the entrepreneur, others, and/or society.
 - a. It has long been accepted that entrepreneurs can generate economic wealth for themselves, but their impact on development can be far greater.
 - b. Entrepreneurs can generate gains for others that are economic, environmental, and social, including employment opportunities, and revenues for the government.
 - c. The environmental gain generated



ETHICS
An Organization's
Code of Ethics

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for others could be reduced air pollution, improved drinking water quality, and other enhanced living conditions.

- d. The social gains include improved child survival rates, longer life expectancy, superior education, equal opportunity, and so on.
- e. It is not just the natural environment that can be sustained, but communities preserved.

VII. IN REVIEW: SUMMARY

See “**Learning Objectives Revisited**” below.

LEARNING OBJECTIVES REVISITED

Learning Objective 01: To introduce the concept of entrepreneurship and explain the process of entrepreneurial action.

- Entrepreneurial actions begin at the nexus of a potential opportunity and an enterprising individual.
- An entrepreneurial opportunity could stem from introducing an existing product in a new market or by creating a new product for an existing market.
- Since opportunities exist in high uncertainty, entrepreneurs must use their judgment to decide whether to act or not.
- The McMullen–Shepherd model explains how knowledge and motivation influence two stages of entrepreneurial action.
- To be an entrepreneur is to act on the possibility that one has identified an opportunity worth pursuing and it involves entrepreneurial thinking.

Learning Objective 02: To describe how structural similarities enable entrepreneurs to make creative mental leaps.

- Forming opportunity beliefs often requires creative mental leaps, which are launched from one's existing knowledge.
- The creative mental leap could be from knowledge about a new technology to a new market that could benefit from its introduction.
- The entrepreneurial challenge lies in making mental leaps based on structural similarities.

Learning Objective 03: To highlight bricolage as a source of entrepreneurs' resourcefulness.

- Entrepreneurs lacking resources seek them from others to provide the slack necessary to experiment and generate entrepreneurial opportunities and engage in bricolage.

Learning Objective 04: To introduce effectuation as a way expert entrepreneurs sometimes think.

- Two major ways to think about tasks: causally and effectually.

- Causal thinking is starting with the desired outcome in mind and then focusing on the means to achieving that outcome.
- More often, entrepreneurs think effectually, that is, by looking at what they have—their means—and selecting among possible outcomes.

Learning Objective 05: To develop the notion that entrepreneurs cognitively adapt.

- Cognitive flexibility helps the entrepreneur when dealing with uncertainty and can be measured and learned.
- By asking questions related to comprehension, connection, strategy, and reflection, entrepreneurs can maintain awareness of their thought process and in doing so develop greater cognitive adaptability.

Learning Objective 06: To introduce sustainable entrepreneurship as a means of sustaining the natural environment and communities and developing gains for others.

- Entrepreneurial action can help us both sustain and develop.
- Sustainable entrepreneurship is focused on preserving nature, life support, and community.
- Those with greater knowledge of the natural environment are more likely to notice changes in the environment than form opportunity beliefs.

KEY TERMS

Bricolage: Entrepreneurs making do by applying combinations of the resources at hand to new problems and opportunities

Causal process: A process that starts with a desired outcome and focuses on the means to generate that outcome

Cognitive adaptability: Describes the extent to which entrepreneurs are dynamic, flexible, self-regulating, and engaged in the process of generating multiple decision frameworks focused on sensing and processing changes in their environments and then acting on them

Comprehension questions: Questions designed to increase entrepreneurs' understanding of the nature of the environment

Connection tasks: Tasks designed to stimulate entrepreneurs to think about the current situation in terms of similarities to and differences from situations previously faced and solved

Effectuation process: A process that starts with what one has (who they are, what they know, and whom they know) and selects among possible outcomes

Entrepreneurial action: Action through the creation of new products/processes and/or the entry into new markets, which may occur through a newly created organization or within an established organization

Entrepreneurial intentions: The motivational factors that influence individuals to pursue entrepreneurial outcomes

Entrepreneurial mindset: Involves the ability to rapidly sense, act, and mobilize, even under uncertain conditions

Entrepreneurial opportunities: Those situations in which new goods, services, raw materials, and organizing methods can be introduced for financial or non-financial gain of the entrepreneur and/or other stakeholders

Entrepreneurial self-efficacy: The conviction that one can successfully execute the entrepreneurial process

Entrepreneurial thinking: Individuals' mental processes of overcoming ignorance to decide whether a signal represents an opportunity for someone and/or reducing doubt as to whether an opportunity for someone is also an opportunity for them specifically, and/or processing feedback from action steps taken

Moral support network: Individuals who give psychological support to an entrepreneur

Perceived desirability: The degree to which an individual has a favorable or unfavorable evaluation of the potential entrepreneurial outcomes

Professional support network: Individuals who help the entrepreneur in business activities

Reflection tasks: Tasks designed to stimulate entrepreneurs to think about their understanding and feelings as they progress through the entrepreneurial process

Role models: Individuals whose example an entrepreneur can aspire to and copy

Strategic tasks: Tasks designed to stimulate entrepreneurs to think about which strategies are appropriate for solving the problem (and why) or pursuing the opportunity (and how)

Structural similarities: Exist when the underlying mechanisms of the technology resemble (or match) the underlying mechanisms of the market

Superficial similarities: Exist when the basic (relatively easy to observe) elements of the technology resemble (match) the basic (relatively easy to observe) elements of the market

Sustainable entrepreneurship: Entrepreneurship focused on preserving nature, life support, and community (sustainability) in the pursuit of perceived opportunities to bring future products, processes, and services into existence for gain (entrepreneurial action) where gain is broadly construed to include economic and noneconomic benefits to individuals, the economy, and society (development)

Work history: The past work experience of an individual

RESEARCH TASKS AND CLASS DISCUSSIONS

The text includes several topics for student research and class discussions. These questions are open-ended, and the answers will be different for each student. There are no “correct” answers.

Research tasks:

1. Speak to people from five different countries and ask them what entrepreneurship means to them and how their national culture helps and/or hinders entrepreneurship.
2. Ask an entrepreneur about their business today and ask them to describe the decisions and series of events that led the business from start-up to its current form. Would you classify this process as causal, effectual, or both?
3. Ask two entrepreneurs and five students (not in this class) to fill out Mike Haynie’s “Measure of Adaptive Cognition” (see Table 1.1). How do you rate relative to the entrepreneurs? Relative to your fellow students?
4. When conducting a homework exercise for another class (especially a case analysis), ask yourself compression questions, connection questions, strategy questions, and reflection questions. What impact did this have on the outcome of the task?
5. What impact does entrepreneurship have on your local, state (or province), and national economies? Use data to back up your arguments.

Class Discussions

1. List the content that you believe is necessary for an entrepreneurship course. Be prepared to justify your answer.

Suggested answer:

The discussion should concentrate on the important entrepreneurial behavior like initiative taking, the organizing and reorganizing of social and economic mechanisms to bundle resources in innovative ways, and the acceptance of risk, uncertainty and/or the potential for failure.

2. Do you really think that entrepreneurs think effectually? What about yourself—do you sometimes think effectually? In what ways is it good? Then, why are we taught in business classes to always think causally? Are there particular problems or tasks in which thinking causally is likely to be superior to effectuation? When might effectuation be superior to causal thinking?

Suggested answer:

Effectuation is a process that starts with what one has and selects among possible outcomes. Causal process is a process that starts with a desired outcome and focuses on the means to generate that outcome.

3. To be cognitively flexible seems to require that the entrepreneur continually question themselves. Doesn't that create a doubt that can be seen by employees and financiers such that success actually becomes more difficult to achieve? Besides, although flexibility is a good thing, if the firm keeps changing based on minor changes in the environment, the buyers are going to become confused about the nature of the firm. Is adaptation always a good thing?

Suggested answer:

The discussion should concentrate on the advantages of being cognitively flexible by asking oneself a series of questions that relate to (1) comprehension, (2) connection, (3) strategy, and (4) reflection. The discussion should also focus on its advantages in stable and uncertain business environments as well as the fact that entrepreneurs with cognitive flexibility have the capability to learn from their mistakes even if the venture fails.

4. Do you believe that sustainable development should be part of an entrepreneurship course or did the textbook authors just include a section on it to be “politically correct”?

Suggested answer:

The discussion should focus on the concept of sustainable entrepreneurship. It should also concentrate on the topics of sustainability, entrepreneurial action, development, and the role of entrepreneurial knowledge in turning opportunities for sustainable development into reality.

5. Provide some examples of mental leaps that entrepreneurs have taken.

Suggested answer:

Forming opportunity beliefs often requires creative mental leaps. These creative mental leaps are launched from a source—one's existing knowledge. In the case of entrepreneurial opportunities, an example of creative mental leap is from knowledge about existing markets to a new technology that could lead to products or services that satisfy that market. Alternatively, a creative mental leap could be from knowledge about a technology to a new market that could benefit from its introduction.

6. What excites you about being an entrepreneur? What are your major concerns?

Suggested answer:

The discussion should focus on the different kinds of entrepreneurial behavior which includes initiative taking, the organizing and reorganizing of social and economic mechanisms to bundle resources in innovative ways, and the acceptance of risk, uncertainty and/or the potential for failure. Entrepreneurs must often make decisions in highly uncertain environments where the stakes are high, time pressures are immense, and there is considerable emotional investment. Given the nature of an entrepreneur's decision-making environment, the discussion should also focus on the characteristics of entrepreneurs like being effectuate, cognitively adaptable, and the ability to learn from failure. Lack of these characteristics can be a major concern for entrepreneurs.