# The Entrepreneurial Method:
# Unleashing the Potential of Human Nature



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# A Tale of Two Methods

- The scientific method harnesses the potential of Nature



- It works through a logic of experimentation

- The entrepreneurial method unleashes the potential of human nature



- It works through a logic of effectuation

# Two Tales of A Shoe: Tale 1

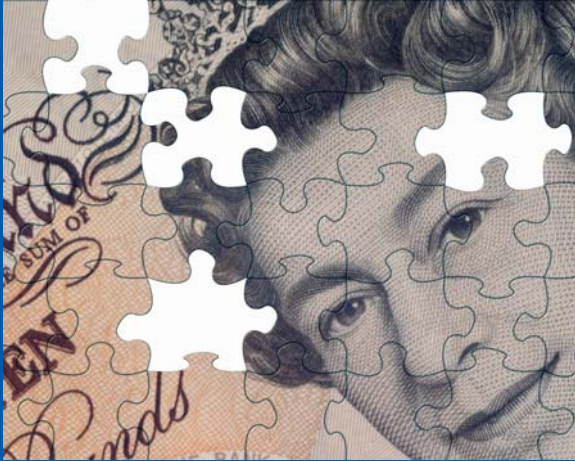## The opportunity for Nota Bene Shoes

- Beautiful dress shoes
- Women can walk all day in them
- Healthy and high quality

## Current theoretical explanations for Nota Bene Shoes:

- Based on opportunity recognition
  - Given, societal and institutional incentives
  - And, resource availability

# Opportunities:   Made or Found?

- Where do opportunities come from?
  - Policy changes?
  - Technological innovations?
  - Individual variations?
  - Social/demographic changes?

Real Networks

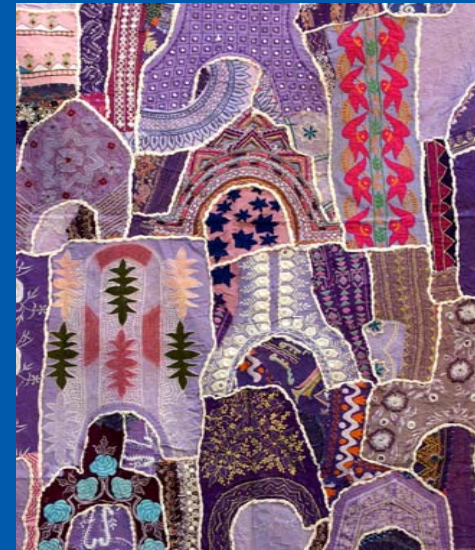Sears

Starbucks

eBay

Staples

Even Microsoft . . .

# Entrepreneurial Method:   An Alternate View





Conventional Wisdom:

- Entrepreneurs *seek and find* opportunities

- So *seek and find* entrepreneurs through incentives and infrastructure

Alternate View:

- Entrepreneurs *make* opportunities through the entrepreneurial method

- So *make* entrepreneurs by teaching people the entrepreneurial method

# Two Tales of A Shoe:  Tale II

Jennifer Lovitt Riggs got a blister in her foot . . .

- She could have put up with the pain
- She could have quit her job
- She could have made comfortable shoes for herself
- She could have organized a change in the dress code

Instead, she made Nota Bene Shoes

# Logic of the Entrepreneurial Method

Question:

How do expert entrepreneurs make new opportunities?

Subjects: 27 expert entrepreneurs
(Founders of companies from $200M to $6.5B)

Method: Protocol analysis
(80 hours of tape; 1500 pages of data)

Theory: Sarasvathy, 2005
(Effectuation: Elements of Entrepreneurial Expertise)

Results:

Over 63% of the subjects used an EFFECTUAL logic more than 75% of the time

# Examples of Causal and Effectual Logics



From cooking a meal . . .



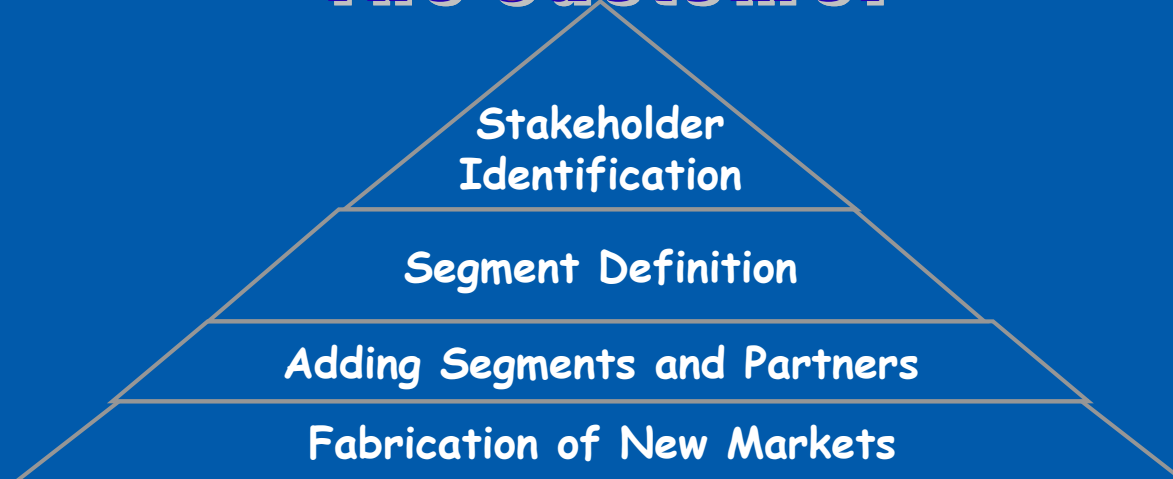. . . To building a restaurant

Or something else . . .

# Effectual Logic Inverts Causal Logic

**Classic Causation Model from Marketing Textbooks**

Market Definition

Segmentation

Targeting

Positioning

## The Customer

Stakeholder
Identification

Segment Definition

Adding Segments and Partners

Fabrication of New Markets

**Process of Effectuation Used by Expert Entrepreneurs**

# Conventional Wisdom: Causal Logic

## Causal Logic is predictive

To the extent you can predict the future, you can control it

Control of outcomes achieved through accurate predictions, clear goals, and avoiding or protecting oneself against the unexpected

# Elements of an Effectual Logic

- Bird-in-hand principle:
  Start with Who you are, What you know, & Whom you know   (Not with the opportunity)


- Affordable loss principle:
  Invest what you can afford to lose – extreme case $0   (Not expected return)


- Crazy Quilt principle:
  Build a network of self-selected stakeholders   (Not competitive analysis)


- Lemonade principle:
  Leverage contingencies and even failures   (Not avoid them)


- Pilot-in-the-plane principle or NON PREDICTIVE CONTROL:
  The future comes from what people do   (Not inevitable trends)

# Dynamics of the Effectual Logic
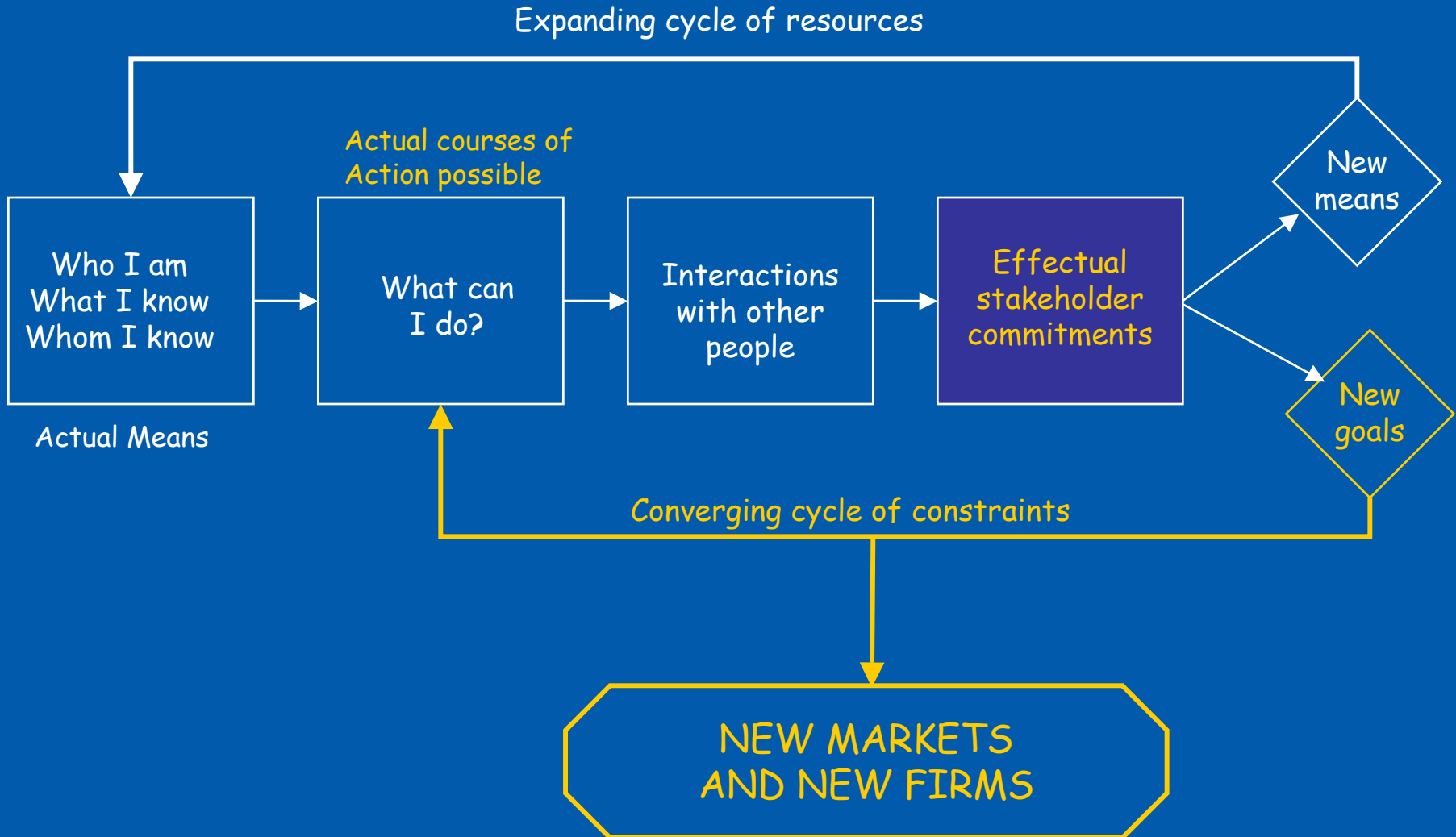
# Effectual Logic and Entrepreneurial Performance

Investment Levels / Failure Costs
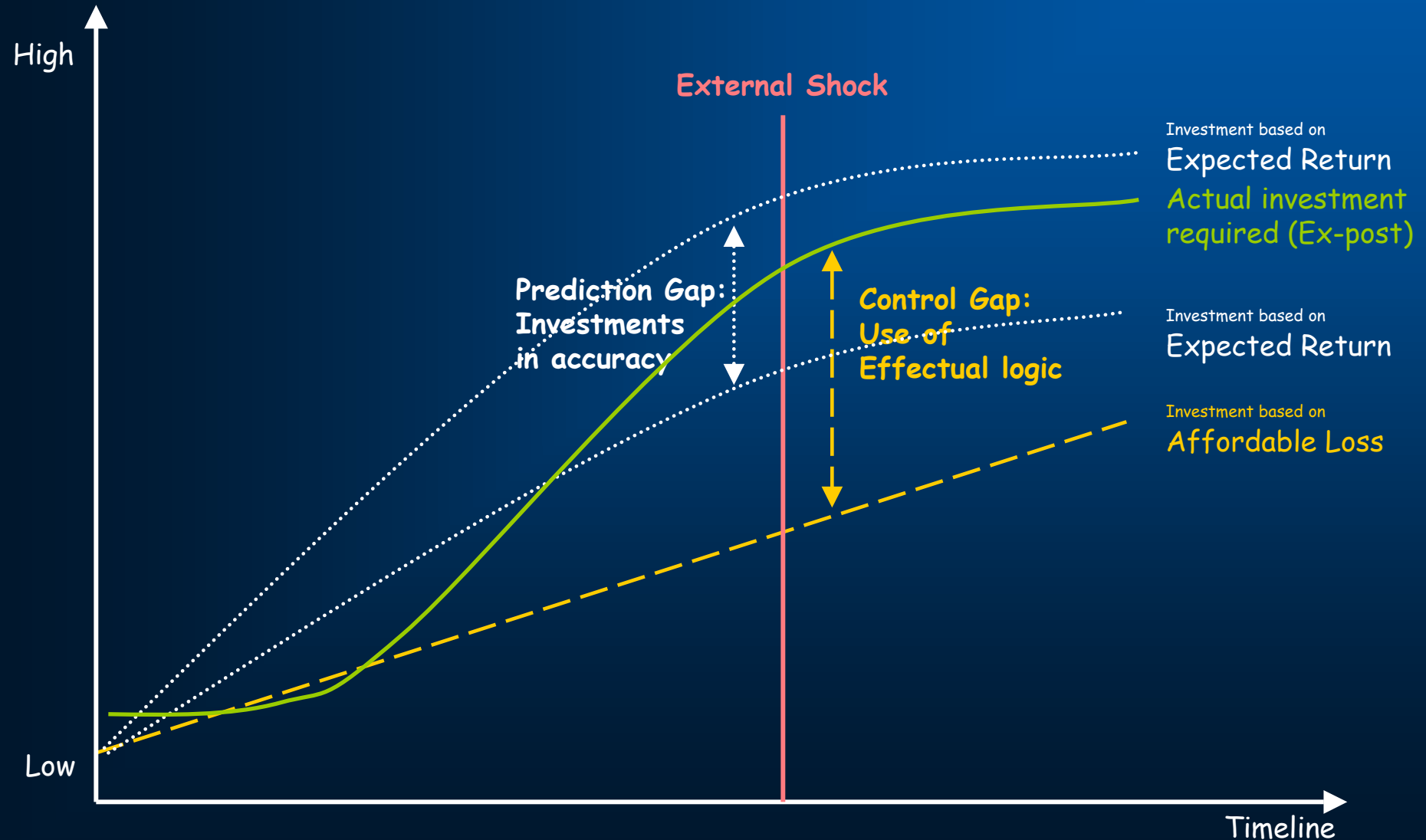
# Not a logic of discovery, but a logic of design

Not a jigsaw puzzle



More like a crazy quilt

# Implications for Policy

- The content of entrepreneurship education
  - Not only entrepreneurial toolboxes, but also
  - Effectual logic

- Leverage locality and contingency
  - Not only bio-tech and software, but also
  - Sports bras and ice hotels



- Attitudes toward failure
  - Data on *entrepreneurs*, not only ventures
  - Affordable loss approaches

- Foster and facilitate the entrepreneurial method
  - Not market *versus* government; but market-*augmenting* government
  - Unleash the potential of human nature; not harness it to ride inevitable trends

"We have come to think of the actual as one among many possible worlds. We need to repaint that picture. All possible worlds lie within the actual one."

Nelson Goodman,
in *Fact, Fiction, and Forecast*: