Lessons from Expert Entrepreneurs for Policy Makers

Saras Sarasvathy
sarases@virginia.edu
How Entrepreneurs Build Ventures: Conventional Wisdom (Causal Logic)

• Come up with a brilliant idea
• Show there is a large market for it
• Write a winning business plan
• Raise money
• Build and grow the venture
• Go public or sell
• Go off to the Bahamas
So How Do Expert Entrepreneurs Do It?

- At least 15 years experience founding and running companies
- Multiple ventures including successes and failures
- At least one IPO

They Use Effectuation
The Key Finding

To the extent we can predict the future, we can control it.

To the extent we can control the future, we don’t need to predict it.

Causal Logic

Effectual Logic
Effectual (Non-predictive)

Causal (Predictive)

Expert Entrepreneurs
Angels
Experienced VCs
Novice Entrepreneurs
Novice VCs
Corporate Managers

Research Findings

+ 200 Case Histories
What is Effectuation?

Work with what’s already within your control to co-create the future
Summary of Policy Prescriptions

• Teach entrepreneurship to everyone, not only to potential entrepreneurs
• Focus on growing the middle class of businesses, not only startups or gazelles
• Collect data on exit
• Create an experienced entrepreneur corps of mentors
• Learn to think differently about employment
Teach entrepreneurship to everyone, not only to potential entrepreneurs

- Consider the development of science, especially science education
- Why do we teach science to everyone?
- Over 400 educators worldwide have not only used teaching materials based on effectual entrepreneurship, but have developed their own materials as well
- Not only at the university level, or in business schools, but K-12, humanities, engineering, even music and peace
Focus on growing the middle class of businesses, not only startups and gazelles
Co-creating the Future

Through the Entrepreneurial Method

What the scientific method enabled...

- Number of ventures in the economy
- Venture size

17th Century

21st Century

New Frontier

Relentless rise
Middle-class population as % of world

Source: Surjit Bhalla, “The Middle Class XIX of India and China” (forthcoming)
Co-creating the Future

Through the Entrepreneurial Method

Number of ventures in the economy

Current Frontier

Building out the middle class of businesses

Venture size

Bird-in-hand

Affordable Loss

Crazy Quilt

5 Principles of Effectuation

Lemonade

Pilot-in-the-plane
Bird-in-hand

Crazy Quilt

Affordable Loss

Lemonade

Pilot-in-the-plane
You decide what you want to do based on the opportunity you envision

You decide what resources you require to achieve that vision

Then you target those who can best provide the resource

You craft a pitch that will induce them to give you what you want

- You decide what you can do based on your means and affordable loss
- You ASK anyone who may be interested in helping you co-create the future
- You craft a variety of ASKs that allow people to opt in in their own way at their own levels of affordable loss
- You are OPEN to reshaping your vision through stakeholder commitments
Co-creating the Future

Number of ventures in the economy

Venture size

Most Money Spent

Most Jobs Created

Learning to ASK

Learning to ASK Effectively

Current Frontier

Through the Entrepreneurial Method
Co-creating the Future

Size Distribution of Employer Firms in the US in 2012

<table>
<thead>
<tr>
<th>Employes</th>
<th>1 to 4 employees</th>
<th>5 to 9 employees</th>
<th>10 to 19 employees</th>
<th>20 to 49 employees</th>
<th>50 to 99 employees</th>
<th>100 to 249 employees</th>
<th>250 to 499 employees</th>
<th>500 to 999 employees</th>
<th>1000 or more</th>
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<tbody>
<tr>
<td>Actual Frontier</td>
<td>2692</td>
<td>956</td>
<td>583</td>
<td>378</td>
<td>126</td>
<td>74</td>
<td>22</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Possible through OPEN ASK</td>
<td>2423</td>
<td>1103</td>
<td>635</td>
<td>404</td>
<td>154</td>
<td>74</td>
<td>22</td>
<td>11</td>
<td>10</td>
</tr>
</tbody>
</table>

Scientific method...

17th Century 21st Century New Frontier

Through the Entrepreneurial Method
Collect Data on Exit

- Conventional wisdom: Most ventures fail
- What does ‘most’ mean? What does ‘fail’ mean
- From VC data: 9 out of 10 fail
  - But VC’s fund less than 1% of ventures
  - Over 70% of IPOs don’t get VC funding
- About 45% of ventures are around 8 years later
- About 33% of exits are profitable at the time of exit
- Most (to ¾) ‘fail’ due to partners disagreements
Create an experienced entrepreneur corps of mentors

Recent studies:

- On restart – Type I Type II errors in restarts
  - (with Kristian Nielsen)

- Conjoint study found an experienced entrepreneur mentor is worth $300,000 in funding
  - With Anusha Ramesh, Stuart Read and Nicolas Dew

- On equity relationships – need to revisit regulations
  - With Anusha Ramesh and Stuart Read
Learn to think differently about employment

• We live in the age of outsourcing and Upwork
• Yet education is geared toward an ideal of steady lifelong employment
• And healthcare and other aspects of social welfare are tied to long-term employment
• Entrepreneurship is almost ‘worshipped’
• Yet a third of entrepreneurs are hybrid, and many more are ‘necessity’
• Most importantly, demographics are changing dramatically
We REALLY need to think differently about employment

- 12-16 years of education, THEN employment is unworkable
- Combine, work, learning, entrepreneurship and education
- PARTICPATE in entrepreneurship, early and often
- New model of employment:
  - Learn to find a job
  - Then find a nonexistent job
  - Create your own job
  - Co-create jobs for others
  - Co-create baskets of multiple careers
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Principles of Effectuation

• **Bird-in-hand principle:**
  Start with Who you are, What you know, & Whom you know (Not pre-set goals/opps)
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- **Pilot-in-the-plane principle:**
  Co-create the future  (Not find inevitable trends)
Cocreating the Future

Who I am
What I know
Whom I know
Bird in hand

What can I do?
Affordable Loss

Interact with other people

Effectual stakeholder commitments
Non-predictive control

How do you control a future you cannot predict?
You co-create it through stakeholder commitments
Co-creating the Future

Expanding cycle of co-created resources

Who WE are
What WE know
Whom WE know

Bird in hand

What can WE do?
Affordable Loss

Interact with other people

Effectual stakeholder commitments

New Means

New Goals

Converging cycle of co-created constraints

Surprise! Lemonade

NEW MARKETS
Claus Meyer,
Meyer Group – at CBS, Denmark
Almost every industry analyst and business reporter I talk to observes that eBay's strength is that its system is self-sustaining -- able to adapt to user needs, without any heavy intervention from a central authority of some sort. So people often say to me - "when you built the system, you must have known that making it self-sustainable was the only way eBay could grow to serve 40 million users a day."

Well… nope. I made the system self-sustaining for one reason: Back when I launched eBay on Labor Day 1995, eBay wasn't my business - it was my hobby. I had to build a system that was self-sustaining… …Because I had a real job to go to every morning. I was working as a software engineer from 10 to 7, and I wanted to have a life on the weekends. So I built a system that could keep working - catching complaints and capturing feedback -- even when Pam and I were out mountain-biking, and the only one home was our cat.
• If I had had a blank check from a big VC, and a big staff running around - things might have gone much worse. I would have probably put together a very complex, elaborate system - something that justified all the investment. But because I had to operate on a tight budget - tight in terms of money and tight in terms of time - necessity focused me on simplicity: So I built a system simple enough to sustain itself.

• By building a simple system, with just a few guiding principles, eBay was open to organic growth - it could achieve a certain degree of self-organization. So I guess what I'm trying to tell you is: Whatever future you're building… Don't try to program everything. 5 Year Plans never worked for the Soviet Union - in fact, if anything, central planning contributed to its fall. Chances are, central planning won't work any better for any of us.

• Build a platform - prepare for the unexpected… …And you'll know you're successful when the platform you've built serves you in unexpected ways. That's certainly true of the lessons I've learned in the process of building eBay. Because in the deepest sense, eBay wasn't a hobby. And it wasn't a business. It was - and is - a community: An organic, evolving, self-organizing web of individual relationships, formed around shared interests. (Omidyar, 2002)
Markets and Opportunities:
Co-created, not only Discovered

Not like a jigsaw puzzle

More like a crazy quilt
To learn more, visit

www.effectuation.org

saras@virginia.edu