Entrepreneurship

Entrepreneurship: A Working Definition

by Tom Eisenmann

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What *is* entrepreneurship? You probably think that the answer is obvious, and that only an academic would bother to ask this question. As a professor, I suppose I am guilty of mincing words. But like the terms "strategy" and "business model," the word "entrepreneurship" is elastic. For some, it refers to venture capital-backed startups and their kin; for others, to any small business. For some, "corporate entrepreneurship" is a rallying cry; for others, an oxymoron.

The history of the word "entrepreneurship" is fascinating and scholars have indeed parsed its meaning. I'll spare you the results, and focus instead on the definition we use at Harvard Business School. It was formulated by Professor Howard Stevenson, the godfather of entrepreneurship studies at HBS. According to Stevenson, *entrepreneurship is the pursuit of opportunity beyond resources controlled.*

"Pursuit" implies a singular, relentless focus. Entrepreneurs often perceive a short window of opportunity. They need to show tangible progress to attract resources, and the mere passage of time consumes limited cash balances. Consequently, entrepreneurs have a sense of urgency that is seldom seen in established companies, where any opportunity is part of a portfolio and resources are more readily available.

"Opportunity" implies an offering that is novel in one or more of four ways. The opportunity may entail: 1) pioneering a truly innovative product; 2) devising a new business model; 3) creating a better or cheaper version of an existing product; or 4) targeting an existing product to new sets of customers. These opportunity types are not mutually exclusive. For example, a new venture might employ a new business model for an innovative product. Likewise, the list above is not the collectively exhaustive set of opportunities available to organizations. Many profit improvement opportunities are not novel–and thus are not entrepreneurial–for example, raising a product's price or, once a firm has a scalable sales strategy, hiring more reps.

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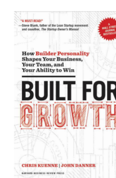

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"Beyond resources controlled" implies resource constraints. At a new venture's outset, its founders control only their own human, social, and

financial capital. Many entrepreneurs bootstrap: they keep expenditures to a bare minimum while investing only their own time and, as necessary, their personal funds. In some cases, this is adequate to bring a new venture to the point where it becomes self-sustaining from internally generated cash flow. With most high-potential ventures, however, founders must mobilize more resources than they control personally: the venture eventually will require production facilities, distribution channels, working capital, and so forth.

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Because they are pursuing a novel opportunity while lacking access to required resources, entrepreneurs face considerable risk, which comes in four main types. *Demand risk* relates to prospective customers' willingness to adopt the solution envisioned by the entrepreneur. *Technology risk* is high when engineering or scientific breakthroughs are required to bring a solution to fruition. *Execution risk* relates to the entrepreneur's ability to attract employees and partners who can implement the venture's plans. *Financing risk* relates to whether external capital will be available on reasonable terms. The entrepreneur's task is to manage this uncertainty, while recognizing that certain risks cannot be influenced by their actions.

Entrepreneurs face a Catch-22. On the one hand, it can be difficult to reduce risk without resources. For example, outside capital may be required to develop and market a product and thereby demonstrate that technical and market risks are limited. On the other hand, it can be difficult to persuade resource owners to commit to a venture when risk is still high. Entrepreneurs employ four tactics in coping with this Catch-22:

Lean experimentation allows them to resolve risks quickly and with limited resource expenditure, by relying on a "minimum viable product," that is, the smallest possible set of activities required to rigorously test a business model hypothesis.

Staged investing allows entrepreneurs to address risks sequentially, expending only the resources required to meet a given milestone–before committing the resources needed to achieve the next milestone.

Partnering allows entrepreneurs to leverage another organization's resources and thereby shifts risks to parties better able/more willing to bear them. In a variation of this tactic, entrepreneurs rent resources to keep costs variable and to avoid the big fixed outlays associated with resource ownership.

"Storytelling" by entrepreneurs–conjuring a vision of a better world that could be brought about by their venture–can encourage resource owners to downplay risks and in the process commit more resources than they would if they had not been inspired. Steve Jobs, for example, was famous for his mesmerizing "reality distortion field," through which he impelled employees, partners, and investors to go to extraordinary lengths to help fulfill his dreams.

So, does Stevenson's definition of entrepreneurship matter, in practical terms? I'd argue that it does, for two reasons. First, it sees entrepreneurship as a distinctive approach to managing rather than a specific stage in an organization's life cycle (i.e., startup), a specific role for an individual (i.e., founder), or a constellation of personality attributes (e.g., predisposition for risk taking; preference for independence). In this view, entrepreneurs can be found in many different types of organizations, including large corporations. That should be encouraging if you believe that entrepreneurship is an engine of global economic development and a force for positive change in society.

Second, the definition provides a guidepost for entrepreneurial action; it points to tactics entrepreneurs can take to manage risk and mobilize

resources. One of my former students put it well when asked to give advice to aspiring entrepreneurs: “For me, ‘pursuing opportunity beyond resources controlled’ sums up perfectly what I do day-to-day. You need to be inventive, creative, opportunistic, and persuasive, because you rarely have enough resources. Embracing this definition helps me in my role.”

Tom Eisenmann is the Howard H. Stevenson Professor of Business Administration at Harvard Business School, the Peter O. Crisp Faculty Chair of the Harvard Innovation Labs, and the author of *Why Startups Fail: A New Roadmap for Entrepreneurial Success* (Currency, 2021).

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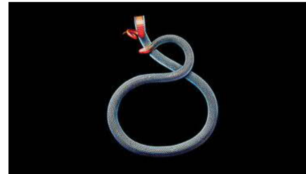

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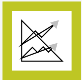

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