John Van Slyke Jr.

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Entrepreneurship

Teaching the Right Stuff

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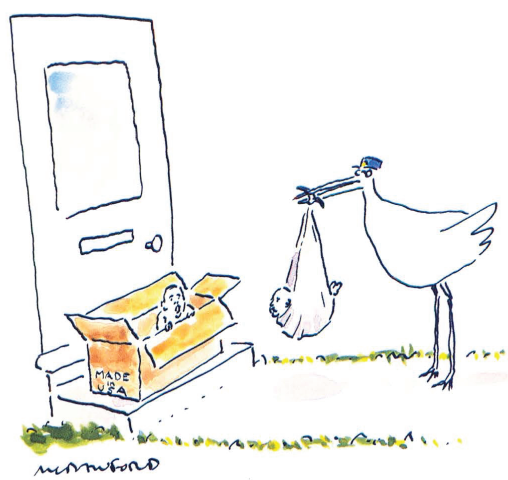

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Teaching the Right Stuff

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by John March

Asked once to define jazz, the great trumpeter Louis Armstrong is said to have replied, "If you don't know, I can't tell you."

For many years a similar gulf has separated entrepreneurs and entrepreneurship from the rest of the world. Like jazz, entrepreneurship has frustrated efforts to pin down its meaning or even its distinctive characteristics. The result has been a widespread feeling that, at best, 'you know it when you see it.'

Adding to this reputation for elusiveness has been the related belief that, to paraphrase Armstrong, "If you don't already have it" — that is, the entrepreneurial right stuff — "no amount of study or instruction will help you gain it." Again the parallel with jazz is instructive, for many people have long felt that entrepreneurship is in some fundamental way improvisational or instinctual — more an art, in other words, than a science, and hence more properly the possession of a gifted few than the common heritage of all business practitioners. Entrepreneurs, by this reasoning, are born and not made; and entrepreneurship, by extension, is singularly unapproachable by scholar and student alike.

Recently, however, this view has been challenged at the Harvard Business School. Leading the challenge is the School's recently appointed Sarofim-Rock Professor of Business Administration, Howard Stevenson [Ed. note: see the Feb. 1982 *Bulletin*], who heads the new second-year course in Entrepreneurial Management. It is Stevenson's contention that entrepreneurs are born *and* made, that what he terms entrepreneurial management is a distinct and definable form of management, and — most important — that it can be taught and encouraged in a systematic way.

The students seem to agree. Enrollment in Entrepreneurial Management will top five hundred this year (the one-semester course has been divided into five sections, with three sections taught in the fall and two in the spring), a large number for an untried course. In fact, though, as Stevenson points out, student demand for courses in entrepreneurship has always been high, as enrollment records for Management of New Enterprises and Starting New Ventures — two courses from earlier decades — clearly indicate.

Entrepreneurial Management is the formal successor to Starting New Ventures, although in many respects it bears little resemblance to its predecessor. Most of the case material is new, and, more importantly, Stevenson has brought to the organization of the course a newly developed conceptual framework of entrepreneurship — in effect, a new way of thinking about the entrepreneurial phenomenon. This framework guides the course from an examination of the start-up phase through the growth of an enterprise to the eventual "harvest" of the value created.

"The overriding theme is that problems are simply opportunities in work clothes."

As such, this new paradigm serves as the key organizing principle of the course, and its step-by-step presentation through the case material is a primary aim of Entrepreneurial Management. Beyond this, says Stevenson, there are several other lessons he also tries to convey. Of these, one takes precedence in the emerging canon of entrepreneurship.

"The overriding theme," says Stevenson, "is that problems are simply opportunities in work clothes. Rather than the supposition many students start with — that their job ends when they have identified the problem — we're trying to show them the benefit of identifying an opportunity, and then seeing any problems simply as barriers to be overcome. It's an attitudinal shift we're trying to bring about."

At the same time, he adds, it is important to show that the entrepreneurial impulse is found in all types of people — that there is, in other words, no useful stereotype of the entrepreneur. "In both the cases and our classroom visitors we've tried to get a broad representation of age, experience, and background," he notes. "Eventually the students come to understand that entrepreneurship is not confined to 32-year-old males with engineering degrees from MIT."

Stevenson has also made a point of drawing cases from a broad range of industries. Again, the object is to break down any lingering stereotypes. "It's important for the students to see that opportunity can come not only in rip-roaring, fast-growth industries," he says, "but also in industries that one might otherwise say weren't very interesting." In other words, the new course is devoted, in part, to unlearning old ideas and attitudes — in effect, to challenging conventional wisdom.

One aspect of conventional wisdom that Stevenson would like to preserve, however, is a respect for detail. "In looking for specific cases," he explains, "we've tried to find situations where success or failure isn't based simply on an intuitive analysis, but rather where one's decisions *change* based on an understanding of the details. This reflects my own belief that the entrepreneur, in order to be successful, has to have a clear understanding of business details, whether it be of tax or accounting matters or of particular kinds of financial mechanisms." Being an entrepreneur, he adds, "doesn't mean you have the luxury of riding through these things on B.S."

Finally, says Stevenson, there is an important ethics component in the Entrepreneurial Management course. The necessity is obvious: "One of the key things that a person in any entrepreneurial venture has to do is confront his or her own set of values and decide what he or she will or won't do in order to succeed."

Joining Stevenson this year in the teaching of Entrepreneurial Management are two Business School alumni, each an entrepreneur in his own right. Neither, significantly, fits the commonly accepted entrepreneurial stereotype. Deliberate, soft-spoken, and conservatively dressed, neither Irving Grousbeck (MBA '60) nor John Van Slyke (MBA '70) looks like a man in a hurry.

Grousbeck, 49, cofounder and currently chairman of Boston-based Continental Cablevision (currently the ninth largest group owner of cable television systems in the U.S., with revenues this year of $150 million), returned to HBS in early 1981 to teach a section of Starting New Ventures and has stayed with the course in its new configuration as Entrepreneurial Management. He had been a casewriter for the earlier course in the years 1962–64, and Continental Cablevision had later been the subject of a Starting New Ventures case. As a result, Grousbeck had been returning to HBS as a class visitor nearly every semester since the late 1960s when, several years ago, he was asked to accept a teaching position. Currently he spends two to three days a week at the School, with the remainder of his time devoted to his business interests.

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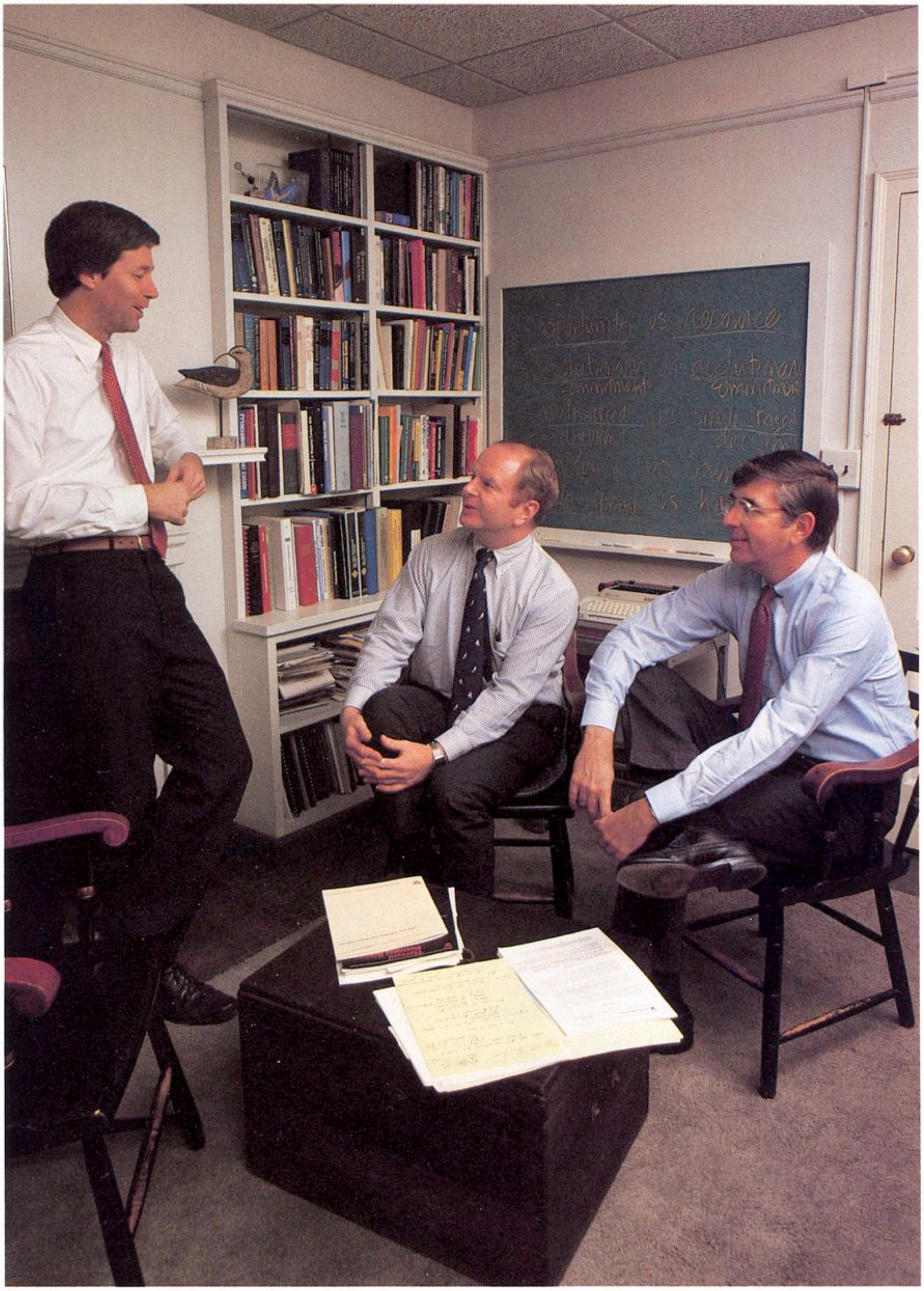
Van Slyke, 41, is founder and president of his own consulting and financial software firm, the American Management Company, of Harvard, Massachusetts. An All-American swimmer in college who now skis competitively, Van Slyke has worked with numerous emerging businesses, both as a consultant and as an investor. His activities as a consultant have spanned more than twenty industries, and his clients have ranged from recent start-ups to such well known firms as American Express, Amtrol, and New Court Securities. Van Slyke attributes his decision to become an entrepreneur in part to the influence and example of former HBS instructor Patrick Liles, whose Starting New Ventures course he took while a student at HBS. Like Grousbeck, Van Slyke spends only part of the week at HBS, teaching and advising students. This spring he will not teach in the classroom, but will instead have responsibility for the Field Studies section of the Entrepreneurial Management course.

Both men agree that Entrepreneurial Management represents a significant departure from earlier entrepreneurship instruction at HBS.

"We've tried to move the course beyond simply showing different vignettes of people starting new businesses," explains Grousbeck. "We want to bring it to the point where students have a clear understanding of entrepreneurship, and are then able to compare it to other forms of business management. It's our belief that entrepreneurial management is a way of approaching the management of businesses of all sizes and ages, not just businesses one might start and not just small businesses." One of the cases used in the course, he notes, concerns Hewlett-Packard, a large and well established company by any measure, yet one which, in the eyes of some observers, has been consistently "entrepreneurial" in outlook.

Grousbeck agrees with Stevenson on the importance of dismantling traditional conceptions



Plotting a course: John Van Slyke (left), Howard Stevenson (center), and Irv Grousbeck meet regularly to discuss the progress of the Entrepreneurial Management course. Here they are shown in Stevenson's Morgan Hall office.

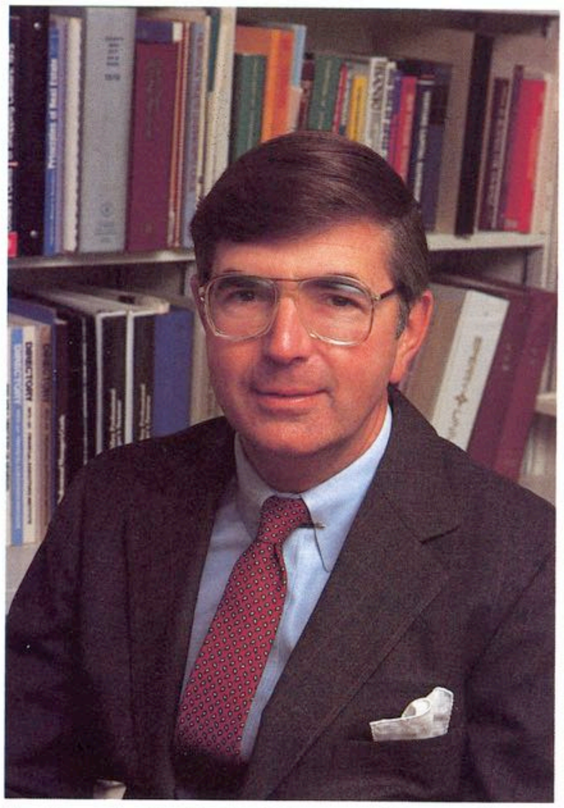
"We know that not all graduates of the School will be entrepreneurs, but the statistics show that a substantial percentage will be."

of the entrepreneur — conceptions that may have discouraged many who did not "conform" from undertaking new ventures in the past.

"I've found that most students have a stereotyped notion of the entrepreneur," he says, "and that stereotype seems to include such characteristics as 'ill-suited to working in groups,' 'impetuous,' 'loves to take risks,' 'flamboyant' — almost a circus-barker mentality, if you will. And one of the real functions of the course is to disabuse the student of the notion that he or she needs to fit this profile in order to be a successful entrepreneur. If we can get them to the point where they'll contemplate an entrepreneurial career, where they're willing to consider it as they consider others, we will have satisfied one of our objectives."

Van Slyke agrees. "We know that not all graduates of the School will be entrepreneurs, but the statistics show that a substantial percentage *will* be," he says. "I think that at some point virtually all these students will consider, individually, whether to split off and become an entrepreneur or to stay with a larger company. The value of the Entrepreneurial Management course is that the students will have a better understanding of what this is all about. We don't try to argue one way or the other, for entrepreneurship or against. The opportunities to establish independence and make money speak for themselves. What Howard, Irv, and I are aiming to do is help people understand this area so they can make intelligent, informed decisions."

Some students, of course, are closer to the entrepreneurial jumping-off point than others, he adds, and for these students the course has special relevance. The combination of course work and a field study can provide them with a way of resolving early in their careers a major "start-decision" concerning which path to follow — whether to work first for a larger company and gain experience, or to go ahead and pursue the idea they have. "Ideally," says Van Slyke, "the course should help them test the value of that idea and help them make a better decision on the front end."



Irv Grousbeck, 49, is chairman of Boston-based Continental Cablevision, a company he helped found in 1963. Today Continental Cablevision ranks as the ninth largest group owner of cable television systems in the United States, with annual revenues of $150 million. Grousbeck relinquished operational duties at the company in 1981, when he came to HBS to help teach Starting New Ventures, the predecessor to Entrepreneurial Management.

All three teachers devote considerable time to meeting with students before and after class to discuss career plans and, not surprisingly, new business ideas. On the topic of career management, says Van Slyke, there are a number of issues that go beyond questions of "positioning" and "timing" that he and the other instructors are careful to explore.

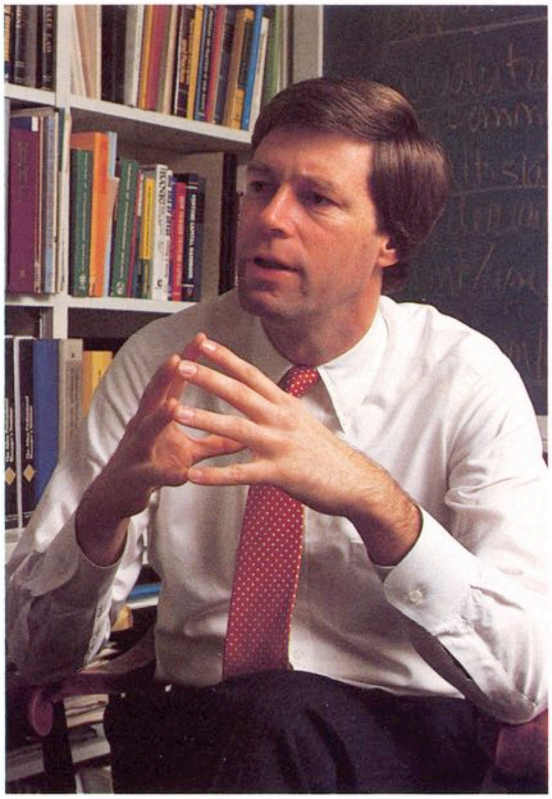
"We want to make sure the students understand the personal-cost issues associated with pursuing an independent business career," he says. "The mortality rate on marriages, and the personal problems that can result from the pressures of intense, small-business ventures are fairly well known. I'm not convinced that everybody has to suffer those kinds of costs."

"We've tried to show the 'dark side,' " agrees Grousbeck, "the risks, the shortcomings, the give-ups and the trades one makes when one considers an entrepreneurial career. We've talked in class about risk management and about our belief that it's dysfunctional to think in terms of risk avoidance, and rather more useful to think in terms of the necessity to assume some risk — and therefore to be sure you *know* what risks you're assuming, and to try to assume those risks you feel are manageable and consistent with the potential rewards."

When Howard Stevenson first returned to HBS two years ago (he had left the Faculty in 1978 to become chief financial officer and vice president of Preco Corp., a manufacturer of specialty and commodity papers), he joined the general management area and helped teach Business Policy for a year. During this time, he was also deeply involved in research on the nature of entrepreneurship. Eventually, this research bore fruit in the form of a new paradigm of entrepreneurship — which in turn suggested a structure for the course he planned to teach in the fall of 1983.

For this new course — the successor to Starting New Ventures — a new name was needed, one that reflected the revised approach Stevenson had in mind. Starting New Ventures had been concerned primarily with the *founding* of new business enterprises, and thus had focussed largely on the early phases of entrepreneurial activity. The course Stevenson envisioned would look not just at starting new ventures but also at sustaining them and, ultimately, at reaping the value one had created. Entrepreneurship, as Stevenson had begun to understand it, was really a *form* of management, not a prelude to management, and the cases he was writing reflected not only the different issues faced by entrepreneurs but also the life cycles of their companies as this form of management was enacted — hence the title Entrepreneurial Management.

In a course note given to all students at the beginning of the semester, Stevenson outlines his own understanding of entrepreneurship and entrepreneurial management. The originality of his findings is not at issue; indeed, many of his points seem almost self-evident. The interest lies, rather, in the way he has combined them in a portrait not only of the entrepreneur, but also of the forces that encourage or inhibit entrepreneurial behavior. Taken together, they reinforce his belief that entrepreneurship is primarily a *situational* phenomenon. If one accepts this premise, he adds, then it follows that companies "are capable of creating or destroying entrepreneurship by the nature of the culture and climate they establish." For this reason, Stevenson's paradigm should merit serious consideration not only by persons interested in starting new ventures but also by concerned leaders of existing companies.



John Van Slyke, 41, is president of American Management Co., of Harvard, Massachusetts, a consulting and financial software firm. The company — founded by Van Slyke in 1967 — is currently completing work on an asset management system for large financial institutions. The system, developed in cooperation with American Express, will be introduced for worldwide testing among a number of multinational corporations later this month.

In his note, Stevenson compares two distinct business "types," though he is careful to point out that they represent only the extreme ends of a *range* of business behavior. This range, he says, runs from the "promoter" — the person who's quick to say, "I can make it happen" — to the "trustee," whose instinct instead is to murmur, "I must guard what I have." Stevenson uses these two extreme types to define the end points of the behavioral spectrum.

The entrepreneur, he continues, is not synonymous with the promoter, but rather "occupies a range near the promoter end of the spectrum." In the same fashion, the administrator (the en-

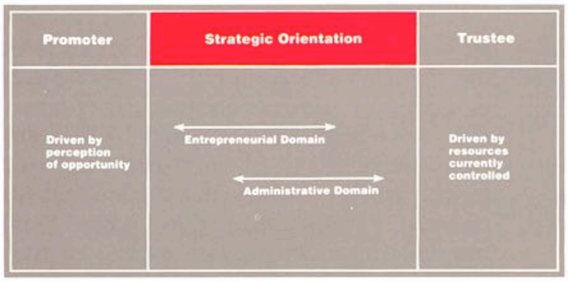
The course Stevenson envisioned would look not just at starting new ventures but also at sustaining them and, ultimately, at reaping the value one had created.

trepreneur's counterpart) occupies a range on the trustee end. The domains of the entrepreneur and the administrator overlap to some extent near the middle of the behavioral range, but the orientation of each is to its own extreme. In addition, of course, as Stevenson notes, there are times when an individual or a corporation will take an entrepreneurial approach to some issues and an administrative approach to others.

Entrepreneurial management, he says, can be observed in five different "dimensions" of business that are traditionally elements of general management. Each, he notes, represents a stage in the decision-making process. As outlined in his paper, these dimensions are as follows:

(1)*Strategic orientation: the identification of opportunity.* A promoter is, above all, opportunity-driven. "His or her orientation is to say, 'As I choose my strategy, I am going to be driven only by my perception of the opportunities that exist in my environment, and I am not constrained by the resources at hand.' A trustee, on the other hand, is resource-driven and tends to say, 'What do I do with my resources? My responsibility is to manage effectively the re-

Entrepreneur in academe: Howard Stevenson, the School's Sarofim-Rock Professor of Business Administration and head of the Entrepreneurial Management course. At HBS Stevenson has worked to introduce his thinking about entrepreneurship into many areas of the School's curriculum. To this end, he has worked with younger faculty, served as an adviser to doctoral students, and involved faculty from areas as diverse as Finance and Organizational Behavior in the teaching of Entrepreneurial Management.



Stevenson's paradigm should merit serious consideration not only by persons interested in starting new ventures but also by concerned leaders of existing companies.

sources that I control within my organization.' "

Somewhat modified, the administrator's approach "recognizes the need to examine the environment for opportunities, but is still constrained by a trustee-like focus on resources: 'I will not try to leap very far beyond my current situation.'"

An entrepreneurial orientation, on the other hand, "places the emphasis on opportunity: 'I will search for opportunity, and my fundamental administrative task is to acquire the resources to pursue that opportunity.'"

(2) *Commitment to opportunity: the decision to act.* The promoter, says Stevenson, is characteristically ready to act within a very short amount of time; he is willing, that is, "to chase an opportunity quickly." Promoters may be more or less effective, he adds, but "they are able to engage in commitment in a rather revolutionary fashion. The duration of their commitment, not their ability to act, is all that is in doubt."

Commitment for the trustee, alternatively, "is time-consuming and, once made, of long duration. Trustees move so slowly that it sometimes appears they are stationary; once there, they seem frozen."

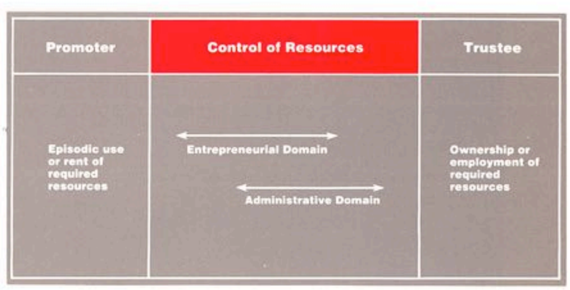
It's this willingness of the entrepreneur to get in and out quickly, observes Stevenson, that has given him the reputation of a gambler. "However, the simple act of taking a risk," he cautions, "does not lead to success. More critical to the success of entrepreneurs is knowledge of the territory they operate in. Because of familiarity with their chosen field, they have the ability to recognize patterns as they develop, and the confidence to assume that the missing elements of the pattern will take shape as they foresee. This early recognition enables them to get a jump on others in commitment to action."

(3) *Commitment of resources.* A third characteristic of good entrepreneurs, says Stevenson, is a preference for a staggered, or multi-staged, commitment of resources, with a minimum commitment at each stage — in other words, "a lack of resource intensity."

Adds Stevenson: "The promoters, those wonderful people with blue shoes and diamond pinky rings, say, 'I don't need any resources to commence the pursuit of a given opportunity. I will bootstrap it.' The trustee says, 'Since my object is to use my resources, once I finally commit, I will go in very heavily at the front end.'"

The key question, as Stevenson sees it, is this: What resources do you need to pursue a given opportunity? "There is a constant tension between the adequacy of commitment and the potential for return. Managing this tension is part of the challenge and excitement of entrepreneurship. Good entrepreneurial management requires you to learn to do a little more with a little less."

He also observes that the entrepreneur's pref-



erence for minimum resource commitment has given rise to the traditional stereotype of the entrepreneur as tentative, uncommitted, and only temporarily dedicated — in short, unreliable.

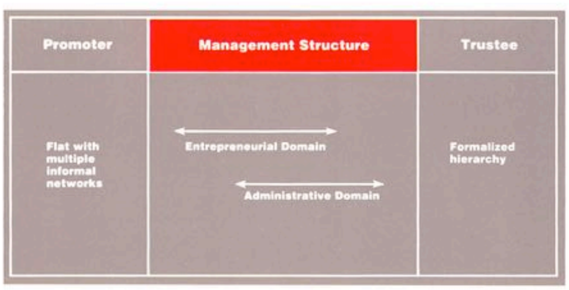
"In times of rapid change, however, this characteristic of stepped, multi-staged commitment of resources is a definite advantage in responding to changes in competition, the market, and technology." By always endeavoring to leave something in reserve, says Stevenson, the entrepreneur is "able to see the game as one in which multiple plays are possible."

(4) *Control of contractual resources: the decision to rent/use or own/employ.* When it comes to the control of resources, according to Stevenson, the promoter is likely to say, "All I need from a resource is the ability to use it."

"These are the people who describe the ideal business as the post office box to which people send money," he adds. "For them, all additional overhead is a compromise of a basic value. On the other hand, we all know companies that believe they do not adequately control a resource unless they own it or have it on their payroll."

Entrepreneurs, he says, learn to use other people's resources well. "They learn to decide, over time, what resources they need to bring in-house. They view this as a time-phased sequence of decisions. Good managers also learn that there are certain resources you should never own or employ." Lawyers, he says, are a good example. "They are useful to have when you need them, but most firms cannot possibly afford to have the necessary depth of specialization of legal professionals constantly at their beck and call."

The stereotype of the entrepreneur as exploitive or parasitic derives from this dimension —



"The decision to rent resources will require the development of an informal information network. Only in systems where the relationship with resources is based on ownership or employment can resources be organized in a hierarchy."

the entrepreneur, that is, is adept at using the skills, talents, and ideas of others. But viewed positively, says Stevenson, "this ability has become increasingly valuable in the changed business environment. It need not be parasitic in the context of a mutually satisfying relationship."

(5) *Management structure.* In the choice of management structure, the differences between the promoter and the trustee are perhaps most easily seen. The promoter, notes Stevenson, "wants to feel the way events are unfolding through direct contact with all the principal actors." This leads to a "flat" management structure, with multiple informal networks.

The trustee, on the other hand, "views relationships more formally, with specific rights, responsibilities, and delegation of authority." The result is a formalized management hierarchy. Often these differences are traceable to the decision whether to own or rent resources. As Stevenson points out, "The decison to rent resources will require the development of an informal information network. Only in systems where the relationship with resources is based on ownership or employment can resources be organized in a hierarchy."

Many observers, he says, have tried to distinguish between the entrepreneur and the administrator by suggesting that being a good entrepreneur precludes being a good manager. "The entrepreneur," he states, "is stereotyped as egocentric and idiosyncratic and thus unable to manage. However, though the managerial task is substantially different for the entrepreneur, management skill is nonetheless essential." The difference between the entrepreneur and the administrator, he claims, lies in the choice of appropriate tools.

While some of the tendencies described above are doubtless innate, Stevenson feels they are largely due to the pressures exerted on the players in each case; and for each "dimension" he adduces an interlocking set of environmental pressures to explain the behavior under examination.

For example, when looking at a business's strategic orientation, Stevenson sees the entrepreneur's behavior as the result of several external forces, including rapidly changing technology, economics, and consumer demand. The administrator, on the other hand, whose behavior is driven more by currently controlled resources than the perception of opportunity, is the object of different pressures. Performance measures and planning systems are largely concerned with return on investment and short-term strategic plans, forcing the administrator to look inward at resources rather than toward market opportunities.

Thus entrepreneurship is, for Stevenson, largely the result of environmental pressures — including, of course, resource scarcity. Scholars trying to isolate a single entrepreneurial "type," he believes, are chasing a shifting chimera. Look instead to the situation, he says. There is the climate and soil of entrepreneurship.

As a student of entrepreneurship, Stevenson is also a realist, and he recognizes the need for both types of management. "There is no right way, no good or bad," he writes. "The crying need is for management to know there are choices." Too often, he says, managers fall into trustee-like behavior simply through the acquisition of resources. The result can be an administrative hardening of the arteries. "The best administrative practices," he observes, "lead to immobility and to the lack of ability to respond to new opportunity." In short, companies that wish to encourage entrepreneurship must learn to resist the pressures toward trustee behavior.

A comparable kind of learning can also take place at the individual level. Stevenson's own response to the charge that entrepreneurs are born and not made is emphatic: "My answer is that clearly there are people who are born athletes, but who benefit from training, and at the same time there are many klutzes — who also benefit from training. There are skills, attitudes, and a fundamental base of knowledge that education and experience can provide. You won't turn me into a world-class athlete by sending me out to practice with a coach, but I will certainly play a better game. Entrepreneurship is no different."

The syllabus for the Entrepreneurial Management course reflects this pragmatic, training-oriented approach. The topics covered include the following:

Evaluating the opportunity. Understanding the forces creating opportunity; the time limits of the "window of opportunity"; risk; reward; and value.

Assessing required resources. Determining what resources are critical for the venture's success and how they can best be controlled.

Acquiring necessary resources. Obtaining the crucial financial and non-financial resources, based on one's understanding of venture capital financing, S.E.C. law, principles of intellectual property, and negotiation procedures.

Managing the venture. Dealing with operating and legal problems, rapid growth, and bankruptcy.

Harvesting value. Getting out via sale or public offering.

In designing the course, Stevenson was guided by his emerging paradigm of entrepreneurship and the role of the entrepreneurial phenomenon in the lives of individuals. In arguing for its place in the HBS curriculum, he is sensible of a larger issue: the role of entrepreneurship in the life of the economy. Looked at from this perspective, he says, the reasons to encourage entrepreneurial activity are again compelling.

"Job creation, for one, has clearly been shown to be an important function of the entrepreneurial economy," he observes. "Social mobility, too, is certainly improved by the existence of a strong and vital entrepreneurial economy. And, finally, many of today's creative innovations have been fostered by smaller companies led by entrepreneurs."

Within the HBS context, Stevenson himself has functioned as a kind of academic entrepreneur, opening the way for a renewed consideration of the teaching of entrepreneurship. In the last two years, he has endeavored to introduce his thinking into many areas of the school's curriculum. His efforts in this regard have included working with younger faculty, advising doctoral candidates, and involving faculty from areas as diverse as Finance and Organizational Behavior in the teaching of Entrepreneurial Management. The need for such renewed attention to entrepreneurship, he says, is clear.

"I don't think it's strictly black and white, but for too many years business teachers thought of business education as simply training for administration. In doing so, they failed to acknowledge and foster important entrepreneurial characteristics. I happen to think both approaches are important, and perhaps what we're seeing now is some modest attempt to redress the balance." ■