

# Why entrepreneurship needs constant innovation?

R.S.Veeravalli

• letters@hindustanimes.com

Does the title catch you and make you say, "What?! Isn't it an obvious thing..?!"

It is.

To be an entrepreneur is to innovate. But let me add that innovation is also marketing. Does that sound new/different, as a combination? It is not.

And it's not a new insight. It is at least thirty to forty years old! Surprised? It is all from the timeless wisdom of the grand old man of Management, Peter Drucker.

I paraphrase it all as below:

Entrepreneurship is exploiting change as an opportunity, innovating by finding new ways for human and material resources, functions and processes to get new and greater wealth producing capacity, done so well that those products or services are seen and bought by the customer as the best fit for her needs, which is Marketing, without any selling needed from entrepreneur.

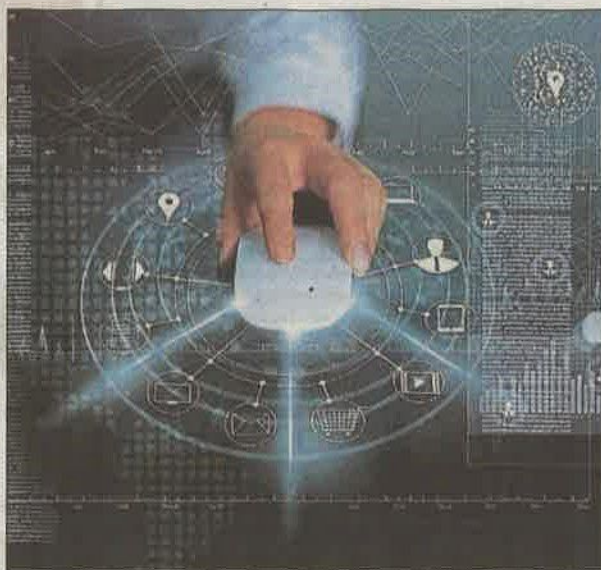
To see this better, let's hear them in his own immortal words below.

He sets the overarching context, saying, "...Because its purpose is to create a customer, the business enterprise has... only these two basic functions: marketing and innovation..".

Further, "...This defines entrepreneur and entrepreneurship - the entrepreneur always searches for change, responds to it, and exploits it as an opportunity." This illuminates that Entrepreneurship not be seen only as new persons creating new ventures, but also existing enterprises creating new business(es) too.

Innovation, "... is a different product or service creating a new potential of satisfaction, rather than an improvement...", "finding new uses for old products, ..extends across all parts of the business, all functions, all activities..", "is not an invention..", "It is a term of economics rather than that of technology...", (and is) "the task of endowing human and material resources with new and greater wealth-producing capacity".

Finally, "...the aim of marketing is to know... understand the customer so well that the product or service fits him and sells itself... (and hence) innovation can no more be considered a separate function than marketing."



■ Innovation is about finding new ways and functions to create greater efficiency

ISTOCKPHOTO

Combining all the three above, we derive that "Entrepreneurship is exploiting change as an opportunity, by finding new ways for human and material resources, functions and processes to get new and greater wealth producing capacity, done so well that those products or services are seen and bought by the customer as the best fit for her needs, without any selling needed from entrepreneur".

The above-narrated convergence of entrepreneurship-innovation-marketing is a crucial composite insight, for the conceptual and semantic clarity, and as a foundation to what follows.

Now, let me surprise you again.

We are not going to discuss how to do innovation and marketing in entrepreneurial ventures here. Instead, we want to see how entrepreneurship-the entrepreneuring process-itself has undergone, undergoing, innovation.

Traditional success rates among new ventures are poor to abysmal.

Thus the persistent quest among the entrepreneurship academics and thinkers has been on how to make the entrepreneurial process more successful. It is here the Innovation (aka marketing!) comes in.

For past many years, entrepreneurship was 'taught' in business schools and elsewhere by borrowing from the classical management theories that have been around for more than a

century, which have been assiduously developed through research and synthesis for running businesses successfully.

Result? Surprise again! The 'real' serious wannabe entrepreneurial guys in the class would invariably turn off soon, and would more likely to absent than be present in the rest of the long course.

To the rest, it didn't matter. Surely something's amiss?! Every academic who had 'taught' entrepreneurship in the past decade(s) knew/knows what I am speaking about, which includes me.

Where was the catch? What was going wrong and why?

The first clue and part of the answer came from the insight called 'Effectuation'-as opposed to 'Causation', which is what almost the entire classical management theories and derivations had/have been built on, and this was causing the 'turn-offs' in the class rooms hitherto!

Effectuation was articulated as a term by Newell and Simon (1972), Larkin et al. (1980), and Anderson (1991), but conceptualized firmly for entrepreneuring by professor dr Saras Saraswathy, Darden School of Business, University of Virginia, from her doctoral thesis studies (1998), which she then expanded fully into an entrepreneurial method, working with Dew, Venkataraman et al., and presented as a text book "Effectual Entrepreneurship".

Dr Saraswathy found that the real, and serially successful,

entrepreneurs start new ventures by effectual thinking and approach mainly, and not with causal thinking, as had hitherto been intuited, assumed.

Causal thinkers believe that "If I can predict the future, I can control it", and are fixated on the Goals, while the Effectual thinkers say, "If I can control the future, I do not need to predict it", and were flexible on Goals. She articulated Effectuation not as a theory but as 'effectual logic' for entrepreneurial action.

She then went on to articulate five principles therein and one framework - "Bird in Hand" (Start with your means), "Affordable Loss" (Set affordable loss), "Lemonade" (Leverage contingencies), "Crazy-Quilt" (Form partnerships), "Pilot in the Plane" (Control the controllable) principles, and "Effectual Cycle" framework-figure 1 - all of which leading to an "Entrepreneurial method" to use for creating new ventures more effectively.

The second, and the concluding missing piece came from Eric Ries, when he came up with the path-breaking "Lean Start-up, How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Business" - using five principles here again - namely, Entrepreneurs are everywhere, Entrepreneurship is management, (Customer) Validated learning, Innovation accounting, and Build-Measure-Learn.

As entrepreneurship academic faculties endeavoring to 'teach' entrepreneurship to real aspirants, and not just to 'management students', we found that the fusing together of Effectuation (all 4 principles plus 1 framework) and Lean Startup (especially the last 3 principles & methods), and iterating them, is the way to do it credibly, for useful outcomes - Effectuation for the first 50 to 60% of the new venture creation, and the Lean Startup for the balance, moving from Effectual to Causal reasoning since by then the venture has formed prima-facie, with the Goals set. The above narrated conceptual synthesis is perhaps the most important innovation that has happened, is happening to Entrepreneurship itself!

The author is Director - PGXPM, Head - Centre for Innovation & Entrepreneurship (CIE), & Associate professor, Great Lakes Institute of Management, Chennai.