

**Knowledge Capsule**

# **The World-Making Scope Of The Entrepreneurial Method**

The Middle Class of Business: Endurance as a Dependent Variable  
in Entrepreneurship

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## Key Idea

This paper presents the Entrepreneurial Method and shows how it fosters the development of businesses that grow and endure over time, supporting stable communities and strong families. The proposal is to teach the Entrepreneurial Method at all educational levels.

## The Middle Class of Business and the Entrepreneurial Method

The objective of the author is to foster the number of new ventures of modest size (5 to 300 employees) and to strengthen their endurance, making them stable in time (e.g., 16 years or longer) – a middle class of business that will deliver the equivalent benefit to the economy that the middle social class delivers to society. An example of such a class of firms is the *Mittelstand* in Germany. While businesses of this size may miss out on some economies of scale and may be at a disadvantage in terms of capacity for large scale R&D investments, on the other hand, they are likely to boost innovation given their organizational elasticity, and provide local employment stability.

Encouraging this kind of entrepreneurship does not mean, as Schumpeter suggests, the transformation of the whole society into a *homo economicus*, but rather to provide intergenerational stability for families:

[...] we cannot fail to discover that the results it [entrepreneurship] was supposed to produce are really not at all what one would expect from the rational self-interest of the detached individual or the childless couple who no longer look at the world through the windows of a family home. Consciously or unconsciously they [the economists] analyzed the behavior of the man whose views and motives are shaped by such a home and who means to work and to save primarily for wife and children.

*Schumpeter, J. A. (2003[1943]). Capitalism, socialism and democracy. London and New York: Taylor & Francis e-Library.*

In support of encouraging entrepreneurship, there is an “entrepreneurial method” that can be broadly taught through education and broadly applied in business and beyond. The objective of such an education system would not be focused on outcomes (such as more entrepreneurs or more “unicorns”) but on teaching both business skills and personal initiative (which could be more useful) and providing a widespread range of toolkits that can be disposed, ordered and studied on the framework that follows.

## The value of endurance in business

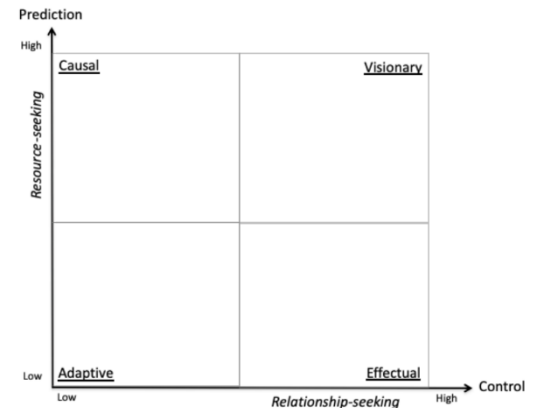
Economists have focused on the size and speed of growth of companies when studying the distribution of firms in the economy. There is a case to be made that endurance over time should be the key variable of interest. Enduring firms (aged 16 years or more) can provide large numbers of jobs and stability in employment. This “middle class” of business, focused on endurance, would avoid many of the disruptive dynamics of the kind of innovation that involves a large number of losers and only a few winners. In this mode of innovation, growth in size is associated with churn, which is a mixed blessing at best and often associated with reduced or even negative earnings. Endurance is associated with a more deliberate and conscious kind of innovation – the pursuit of new ends as opposed to only pursuing new and disruptive re-combinations of existing means.

### The role of education

Science is a method to understand the world outside our control that we are born into. Entrepreneurship is a method for shaping and co-creating that world through things that *are* within our control. As Francis Bacon said. “every man should be the maker of his own fortune”. Education can help develop entrepreneurs capable of thinking and acting in entrepreneurial ways. Students should be taught to relate to entrepreneurship in a variety of perspectives – in their careers, in their role as citizens, and in their own daily living. The dissemination of a general method would target everyone, with the aim of building a populace capable of entrepreneurial action and interaction, both proactive and supportive, as and when required for the well-being of individual lives, stable communities and thriving economies. The content of the education will be more relevant and effective when it derives from a rigorous theoretical framework.

### Prediction Control (PC) framework

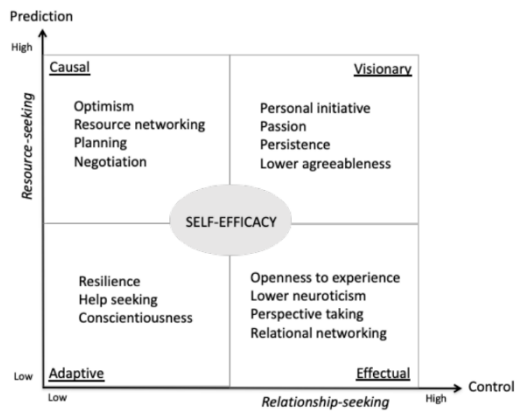
The PC Framework is at the heart of the entrepreneurial method. The dimensions of prediction and control relate to the key variables of size and age of firms and accrual of expertise in entrepreneurs. “Prediction” is depicted on the vertical axis and “Control” on the horizontal one. Action, traits and interactions of entrepreneurs are depicted in four quadrants of the resultant structure.



The left-hand side (“Adaptive” and “Causal”) assumes the environment to be exogenous to human action. It is the so-called “found view”, guided by a causal/predictive logic: it considers markets as fixed and therefore the most un-served existing market is chosen in order to enjoy a part of its global margin; this approach is the one typically taught in MBA programs.

The opposite can be said for the right-hand side (“Effectual” and “Visionary”), that assumes the market as endogenous. It is the “effectuation view”, a create-and-transform logic that allows entrepreneurs to choose between different goals achievable through given tools; beginning from the observation of needs and taking note of the available means (who you are, what and who you know, and what you can afford to invest). This type of entrepreneur tries to change the existing market or create a new one.

An example of the first approach could be opening an hotel in an area in which hotel investments still have a good return. An example of the second approach is the story from [Sole 24 Ore](#) about “Janas Escursioni”: in a Mediterranean Island where tourism is one of the last businesses left after centuries of mineral extraction and environmental exploitation, two women fond of speleology and climbing have created an excursion firm that guides tourists through the abandoned pits of the territory.



Starting from this basis, some entrepreneurial features connected to each quadrant have been allocated in the second figure. Self-efficacy is put at the heart of the structure since it is considered central in entrepreneurship.

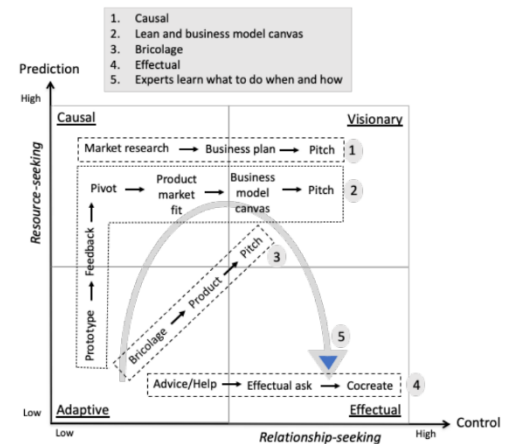
A visionary approach is related to passion and persistence (top right-hand quadrant). Adaptation and change in response to external forces (so called resilience) is the adaptive spectrum of the bottom left-hand quadrant. Business plans, budgets and forecasts about exogenous factors (e.g., regulations, macro trends...), are connected with the top-left quadrant, the causal one. Lastly,

networking skills are linked with the bottom right-hand quadrant.

### Existing entrepreneurship educational content and the PC framework

In the third figure, today's existing mainstream entrepreneurial and business tools are overlaid on the Prediction-Control framework, demonstrating how educational and training content can be allocated and can find their proper place in such a structure.

Since the horizontal axis refers to the “Control” dimension, it is connected to the central question of “uncertainty” in entrepreneurial action. When using the control skill, the entrepreneur creates a situation that provides an advantage to the firm, creating a new demand and changing the logic of the market in an unpredictable way.



In contrast, “Prediction”, on the vertical axis, represents the aim and the touchstone of the traditional science: it takes the rules as given, breaks down the solution into a finite set of possibilities and steers the company to a distinctive position of advantage within the existing set of possibilities.

The combination of the two dimensions drives to a realism where a scientific approach meets an effectual and action rooted method. Control and opportunities relate to each other in a circular way and need to be represented together. Positioning on the “prediction” side is typical of mature markets where historical data are reliable enough in order to forecast the future; obviously it can be dangerous since rules can suddenly change through the “control” dimension or someone could even arrive at “analysis paralysis”.

S. Sarasvathy, in the book “*Effectual Entrepreneurship*”, written with S. Read, N. Dew and R. Wiltbank (page 85 of the Routledge 2nd edition of September 29, 2016), quotes two examples to this purpose:

- An example of control is Red Bull when created a new category of caffeinated soft drink, with strictly sports-oriented marketing. The entrepreneurial founders created a brand new market in Western countries.
- An example of prediction that failed was Coca-Cola with the “New Coke” line, a sweeter variant of the classic formula introduced based on many blind taste tests and market research studies that revealed that competitor Pepsi’s sweeter taste was preferred and predicted that the “New

Coke” formulation would increase the Coca-Cola brand’s sales. The American public reacted negatively to the change in Coca-Cola’s taste, and within 3 months The Coca-Cola Company was forced by market pressure to re-introduce the original formulation as “Coca-Cola Classic”. “New Coke” was later abandoned, representing a costly and degrading failure for this historical brand – a prediction that failed.

## Summary and Key Takeaway

The Prediction-Control schema can unravel the typical hodgepodge of business concepts that are offered in standard management schools and organize them in a consistent framework.

In general, such a scheme may turn out to be important for entrepreneurs in order to analyze:

- where they currently are,
- where they have strengths,
- where their (actual or potential) firm should focus in that moment.

New enterprises, or those needing refreshing, may reinvent themselves through changing the rules of the game (right side), while mature enterprises may usually need only to optimize their work through customer knowledge and good planning (left side).

The principle of “affordable loss” (fixing an amount of money that the potential entrepreneur can afford to lose when daring to initiate a new venture) could be a strategic and psychological help in order to switch to a more creative “control” strategy where market rules can be re-invented by the entrepreneur.