

# 4

## Circumstances for Venture

Entrepreneurship is a universal process, pervading all sectors and industries of the economy. Despite the variety of contexts in which entrepreneurship occurs, the nature of this process is remarkably similar from one area of experience to another. This chapter describes the generic tasks that entrepreneurial activity entails, the few basic scenarios that ventures tend to follow, and the general conditions of sector development that these scenarios appear to reflect. To use an analogy from chemistry, these latter conditions represent the ambience—the temperature, pressure, and so on—in which entrepreneurial catalysts can be expected to create enterprise from the resources available to them in a given industry and sector.

### **The Entrepreneurship Process**

The similar experiences with organizational and program initiatives and innovation across sectors of the economy reflect a generic process of entrepreneurship. In this process there is generally at least one central figure (the entrepreneur) who catalyzes the venture and ensures its implementation. In Frank Knight's view, the entrepreneur is one who acts on a clear vision in murky circumstances. According to Marris and Mueller, Knight's concept of the entrepreneurial role "is to make decisions under uncertainty and assume responsibility for the consequences of these decisions. To make good decisions in the face of uncertainty requires good information, and so the entrepreneurial role becomes one of gathering, evaluating, and utilizing information."<sup>1</sup> Moreover, the process involves a number of crucial stages or tasks that must be accomplished for venture implementation.

A perusal of the author's case studies reveals these tasks to be quite general, if not uniform in sequence or emphasis from case to case.

*Idea Generation.* The concept of a particular change or innovation must be articulated. An entrepreneur need not be the originator of the idea—it may even come in the form of a solicitation from an outside agency, for example, a charity or foundation wishing to stimulate a certain type of program—but the entrepreneur must see its relevance to his own situation and he must see to it that the idea is translated from abstraction to application.

*Proposal Development.* An idea must be clarified and elaborated, a design for implementation must be developed, and resource needs and other implications for the host organization and other participants must be spelled out. A need, or market, for the proposed activity must also be demonstrated. The proposal may be formally written for presentation to outside sources of funds or it may consist of internal communications if the venture is to be supported wholly from within. The entrepreneur may not necessarily be the author of the proposal, for example, he may commission it to be written by a staff member or a consultant, but he will usually initiate this exercise and control its content.

*Resource Development.* Once a proposal is in circulation it must be sold to those whose resources are needed to support the venture. In the case of a profit-making business, investors or lenders must be found. For nonprofit agencies applications may be made to foundations or to grant-giving government agencies. In government, efforts must be made to secure budget lines or to pass relevant legislation. Some ventures may not require extra resources, or such resources may be available from a budget directly accessible to the entrepreneur. In most cases, however, others have to be convinced of the sensibility of using existing or additional resources to support the venture. Resource development is a key function of the entrepreneur. In some cases, the entrepreneur will rely on influential colleagues to develop resources (for example, an agency director may depend on members of his board of directors for fund raising), but he must always remain abreast of resource possibilities.

*Path Clearing.* In addition to garnering resources, other institutional barriers often must be overcome to implement a venture. For example, corporate charters, licenses, or other official approvals may have to be secured to operate a particular type of service, manufacture a certain good, or become eligible for a particular source of government funds. Again, much of this work can be delegated, but the overall orchestration, worrying, and crisis handling must be done by the entrepreneur.

*Organizing Venture Leadership.* Once economic and institutional impediments have been overcome, it is necessary to ensure that the venture be self-sustaining. It must have adequate leadership or management, especially in its early life. Often the entrepreneur will assume this management role for some period of time. Sometimes the entrepreneur will explicitly shun the management role. Nonetheless, he must ensure that capable leadership is put in place in order to successfully carry out operations.

*Program Development.* Even with plans laid, leadership in place, resources available,

and necessary permissions obtained, ventures must be organized from within. Staff must be hired, facilities secured and occupied, and equipment purchased. There may be some period of time during which the venture officially exists but is not yet open for business. During this period, which may overlap with the path-clearing and resource-development stages, venture leadership often operates as a small, core staff attempting to put the final pieces in place. In doing so, this group may find that the initial plans (proposal) are vague or require modifications. This is a crucial phase for the venture and requires the entrepreneur's nursing, even if that entrepreneur does not assume management responsibilities.

Overall, there are a number of salient points to be noted about the entrepreneurial process and the specific role of the entrepreneur.

1. The work of implementing a new venture will entail some division of labor among collaborators, staff, consultants, and other colleagues of the entrepreneur. The exact division of labor will vary from case to case, with the entrepreneur assuming direct responsibility for some tasks and sharing or delegating other tasks.

2. Certain core groups may be involved in the process. At the initial stages of proposal and resource development there may be a committee of colleagues or a coalition of interested parties who share in the work. In the later stages, a formal core staff may carry the ball.

3. The entrepreneur may work in a number of different ways—in some cases taking on most of the direct work, in other cases operating behind the scenes to ensure that the work gets done. What distinguishes the entrepreneur from others involved in an entrepreneurial venture is his assumption of the responsibility to make things happen. As Schumpeter indicates, the entrepreneur behaves as a "driving power" and "promoter," doing what is necessary to move a venture from idea to operation.<sup>2</sup>

It would be improper to conclude that the simple presence of an entrepreneur is sufficient to precipitate an entrepreneurial venture. As Shapero states "The (entrepreneurial) event becomes the dependent variable while the individual or group that generates the event become the independent variables, as do the social, economic, political, cultural, and other situational variables."<sup>3</sup> One way to begin to understand this equation is to consider the kinds of events and circumstances that appear to precipitate venture activity.

### **Stylized Scenarios**

Ventures tend to follow a few fairly universal patterns, regardless of the contexts in which they occur. In particular, almost any venture can be described by one of a small set of generic scenarios. These scenarios are shaped by both the

personal circumstances of the entrepreneur and the particular social, professional, and organizational context in which he is imbedded. These scenarios also tend to mirror the general economic and social conditions of the sectors and industries in which they take place.

The three basic categories of entrepreneurship scenarios are the initiative, evolutionary, and problem-response modes. The initiative venture mode is the closest in character to the conventional (folklore) image of how entrepreneurs work and follows in linear fashion the steps outlined above for venture implementation. In this mode, an entrepreneur who can bring his own ideas to bear or an entrepreneur who can opportunistically discern and develop a concept that has emerged at the forefront of technology or current professional or political debate may shape and develop that idea into an operating project or program or organizational unit. In cases observed by the author, for example, such ideas include the application of computers to the management of social agencies, the comprehensive diagnosis of children prior to foster-care placement, the control of social agencies by their constituent communities, and the caring for unwed mothers and their babies in a common shelter. In these cases, the entrepreneurs became convinced of the value and feasibility of the new concepts, carefully worked out operational plans, proceeded systematically to convince the relevant authorities, and eventually developed the required resources for implementation.

In a second variation of the initiative mode, the entrepreneur may exploit a unique opportunity to implement an idea that may have been gestating in the back of his mind for some time. When the proper circumstances fall into place, he is thus ready to spring into action. In one observed case, for example, the proposal to merge and integrate two agencies, long talked about and considered, was implemented by seizing on the opportunity created by the retirement of one of the chief executives. More generally, unique grant opportunities often serve as special chances to pursue pending ideas.

The evolutionary mode is an entrepreneurial scenario in which the venture represents more culmination, continuation, or incremental extension of ongoing developments than striking out in a new direction. This mode requires an entrepreneur who operates over the long term by creating a receptive environment and nurturing developments within his purview. Such an entrepreneur may develop his agency like a workshop, greenhouse, or laboratory for ongoing projects. In one variation of the evolutionary mode, the venture arises as the formalization of ongoing internal program developments. In one observed case, for example, the venture consisted of the formal organizing of an already operating volunteer effort to house runaway youths. In another case, it was the structuring and solidifying of existing efforts to provide consultation to a set of child-care agencies by a university group.

In a second type of evolutionary scenario, the venture represents a more discontinuous, yet still incremental, extension of current programmatic developments in response to some unusual opportunity. An illustrative case is that of a children's hospital that took a quantum jump toward emphasis on outpatient care—a direction in which it was already developing—in response to a special grant opportunity. This type of evolutionary scenario bears a strong resemblance to the second initiative mode variation, except that the latter builds on a new idea rather than on a program already in place.

The problem-response mode of entrepreneurship is perhaps the most common type of entrepreneurial scenario, although it probably fits the popular conception of entrepreneurship least well. There are two distinct problem-response mode variations—the personal type and the organizational type.

The personal type of problem-response venture is built on an individual's crisis or frustration and represents striking out in a new direction. In this mode the entrepreneur may find his present situation (for example, employment) intolerable, although he may be unsure of what action to take, or he may feel thwarted and frustrated by his superiors and resolve to set out on his own, free from the direct authority of others. In these cases, the personal problem-response mode of venture is inspired by a long-simmering uneasiness that can be triggered by a single event or incident. The individual may be laid off or fired, thereby moving latent entrepreneurial energies to a state of conscious resolve. In other cases, the transition is more gradual, but at some point it gathers a momentum that precludes turning back. Shapero provides a number of private-sector and international examples of the personal problem-response scenario, which he refers to as negative displacement.<sup>4</sup>

The second variation of problem-response mode, the organizational type, involves a venture designed to resolve an organizational crisis. As described in the last chapter, this is the classic turnaround situation. Most commonly, the crisis is financial in nature but is likely to encompass managerial problems, program uncertainties, social pressures, and personnel difficulties as well.

The organizational crisis spells opportunity for entrepreneurs both within the failing agency and outside. From the inside, the crisis may attract those who fear for their organization and are prompted to take action that will save it. The organizational crisis may also be a hunting ground for those internal members who view it as a chance to move up, gain control, seek promotion, or increase their incomes.

Organizational crises are also likely to attract entrepreneurial interest from the outside, especially if the crisis has reached major proportions unresolvable by internal talent. Again, outsiders may view these circumstances as opportunities for gain. One variant here is the merger, whereby a failing organization is absorbed by

another agency headed by an entrepreneuring executive. In such cases, the crisis of the failing agency may be resolved, while the resultant expansion of the entrepreneuring agency provides its executive with rewards concomitant with his enlarged responsibilities.

Another possibility is the recruitment of fresh talent to the suffering organization. This situation is most likely to occur when the organization has good prospects for recovery. For example, the agency may have a large but eroding endowment, substantial latent capital resources, or other hidden potential, which, if properly used or converted, might turn the agency around. In such circumstances, an entrepreneur from outside might agree to join the failing agency if provided with assurances that he will be able to make the changes he thinks are required, will be adequately rewarded for succeeding, and will have a free hand in reshaping the agency and running it thereafter.

### **Sector Conditions**

The three modes of venture scenario reflect, in an approximate way, different underlying conditions in the industrial environment as a whole. The initiative mode, for example, presupposes a degree of ferment in the economic, professional, or social context, perhaps stimulated by demographic, technological, and economic shifts and trends, generating ideas and opportunities for change. Thus at any one time some industries are more likely than others to experience the initiative mode of entrepreneurship. Those industries would be characterized by a high level of questioning of conventional methods and practices. For example, treatment methods such as institutional care in the social- and health-service areas may be challenged by research and professional debate that casts doubt on the effectiveness of that care and indicates that preventive or community-based strategies might be more viable, thus creating ideas for entrepreneurs to develop and pursue.

The evolutionary mode of entrepreneurship nominally requires relatively stable and prosperous environmental conditions in which ideas and projects are gradually encouraged and nurtured. These ideas and projects arise from adaptive solutions to long-term problems (such as treatment of diseases) or from the maturing of professional ideas, not from social, economic, or intellectual tumult. Evolutionary ventures grow in a tolerant and protective environment, within relatively mature and stable progressive organizations led by innovative (entrepreneurial) managers or managers who delegate considerable discretion to innovative senior staff. Thus evolutionary ventures will be found most commonly in fields of endeavor that feature a professional ethic of cautious progress and in sectors within those industries populated by mature, professionally

oriented organizations with the resources and managerial patience to nurture projects over time.

The problem-response mode of entrepreneurship occurs in sectors and industries that exhibit high levels of obsolescence, perhaps because of their age or because they have been outpaced by external events. For example, ventures based on response to personal problems are often rooted in the failure of some organizations to respond to the yearnings of young, latent entrepreneurs. If such stultifying circumstances are peculiar to a particular organization, the prospective entrepreneur may find satisfaction by moving to another agency in the same sector and industry. If most agencies in that category are similarly problematic, the prospective entrepreneur may try to form a new agency, or he may switch sectors or industries, for example from government to the nonprofit sector or from education to camping for handicapped children. Thus ventures of the personal problem-response variety may begin in sectors and industries that are relatively stagnant and move into sectors with more flexible and forward-looking conditions.

Ventures of the organizational problem-response type are even more germane to industries that have large numbers of troubled agencies. In contrast to the personal problem-response mode, the organizational variety of problem-response venture is inspired and usually resolved within that same sector. (An interesting but relatively small set of exceptions includes organizations that change sectors, such as profit-making firms that become nonprofit in order to resolve their financial difficulties. See Hutchins.)<sup>5</sup> Furthermore, the organizational problems that lead to venture activity are likely to be much more severe and immediate in the organizational problem-response case. Not only may the organizations at issue experience stagnation, but they may be well on their way to bankruptcy and dismemberment. Industries where economic or social events have outstripped organizations' abilities to adapt or keep pace are good places to look for ventures of an organizational problem-response type. Older sectors with stagnant personnel structures or tenure systems within such industries are likely possibilities. Sectors that feature organizations with financial cushions, such as historic endowments in the nonprofit case, access to entrenched tax levies in government, or capital reserves of large corporations, constitute another target area. In the former case, the lack of new blood allows organizations to fall behind and eventually lose vigor and control. In the latter case, the financial cushion allows organizations to postpone facing the facts of changing economic environments (inflation, changes in demand and cost structures) until it is too late. These are classic cases of organizations that have built up inordinate margins of slack, which, in Albert Hirschman's analysis, causes them to become unresponsive to their environments until they are in serious trouble.<sup>6</sup> Many universities, social agencies, and other nonprofits have been caught in this bind. The cases of Lockheed, Chrysler, New York City, and Cleveland attest to the fact that

the condition is not unique to the nonprofit sector, however.

### **Sector Maturity**

In a rough sense, the initiative, evolutionary, and problematic scenarios of venture reflect different states of development or evolution of an economic sector. The initiative mode is easily associated with a vibrant, expanding new industry or with the renewal of an older but still vigorous industry facing new conditions. The evolutionary mode correlates with a more mature and stable, but prosperous, sector in which an equilibrium or steady growth pattern has been achieved. The problematic mode is more easily associated with a troubled, decaying or contracting sector, where the demand for traditional services has declined or cost pressures or quality problems have made services difficult to deliver.

The correlation between enterprise scenarios and sector conditions is highly imperfect. Organizational failures do take place in dynamic and prospering sectors, and organizational successes are maintained in the worst of conditions. Nevertheless, ambient sector conditions may serve as a crude indicator of the relative occurrences of the three types of enterprise scenarios, and the growth and decline of sectors may be signaled by the natural history of its member organizations. As noted by various scholars, including Hirschman,<sup>7</sup> Downs,<sup>8</sup> and Mueller,<sup>9</sup> individual organizations tend to pass through similar sequences of development, albeit with different cyclical periods and different ultimate outcomes. Organizations are born, and they struggle to survive. If they surmount the problems of birth, they often enter a dynamic growth phase, which at some point tends to level off and settle into a relatively stable equilibrium. Ultimately, an internal loss of vigor or a failure to adapt to new environmental circumstances may occur, resulting in deterioration. This process, according to Hirschman, is the result of a natural buildup of entropy, or slack. If circumstances are right, the organization may recover from its decline and enter a new period of stability or growth. If decline is not suitably addressed, the organization will wither and may eventually become defunct.

Nielsen gives an example of such evolution for social-action movements, which sometimes develop into formal corporate entrepreneurial ventures.

Some [movements] are born out of circumstances of mass excitement or unrest, carry on their efforts for a period, and subsequently disappear, having achieved their mission or having lost their motivation and following. Some begin as ardent reformers, evolve into more formal structures, and eventually become sedate operating entities, fulfilling their cause in the performance of a conventional function.<sup>10</sup>

Given the generic tendencies of organizations to follow such historical patterns of maturation, the age of a given sector, obviously correlated with the age of its member agencies, will be suggestive of the types of opportunities for venture that it contains. (See Mueller.)<sup>11</sup> Newer sectors, featuring organizations struggling to survive and establish themselves on the basis of new concepts or services, will more likely reflect opportunities in the initiative mode. Established sectors, featuring prospering organizations, will feature the evolutionary mode. Aging sectors will more likely reflect the problematic scenarios.

An interesting and important question is why different sectors within the same industry tend to develop at different times and why, at any given point in time, alternate sectors present different opportunities for entrepreneurial ventures. James Douglas reviews this phenomenon in a recent paper.<sup>12</sup> He argues (in contrast to the government and market-failure theories of Weisbrod and Hansmann, respectively) that "Historically, most activities . . . have originally been in what we are calling the Third (nonprofit) Sector, and the activities still remaining there are those in which neither the market sector nor the government sector have enjoyed a sufficient advantage to draw them out of the Third Sector."

In the broad scan of development in certain fields such as charity and social service or education, this account seems accurate. Voluntary nonprofit institutions developed early as self-contained, cooperative efforts of communities to accommodate their own needs. Where profit opportunities arose in that context and were permitted to develop, that sector later grew. Where the larger public viewed private activity (both voluntary and profit) as insufficient, government initiatives were taken. The sequence is not fixed, however. Hospitals have shown a zigzag pattern of public, profit, and nonprofit initiatives; for medical schools, nonprofits have replaced earlier proprietary forms.<sup>13</sup> In nursing homes, a surge of profit making has followed on a mixed proprietary and nonprofit base.<sup>14</sup> Public programs were built after earlier nonprofit efforts in foster care,<sup>15</sup> similar to the pattern for universities.<sup>16</sup> More recently, in fields such as mental-health care and criminal corrections, there has been a resurgence of interest in private, nonprofit alternatives, following a long period of governmental dominance.<sup>17</sup> Thus there is no single sequence of sector development across fields, but it does seem apparent that sectors in any industry tend not to develop simultaneously. The result is a differential pattern of venture opportunity across sectors, in any field at any point in time. Furthermore, the zigzag pattern tends to suggest a closure between differential sector development and the natural history of organizations. In particular, in an aging industry dominated by one relatively ossified sector, a new development, such as an innovative technology, change in service demand, or social problem, may stimulate (initiative mode) entrepreneurship outside the dominant sector as much as it may inspire (problem-solving mode) entrepreneurship inside that sector.

## Summary

The ambient, historically derived conditions of an economic sector roughly mirror the patterns of enterprise that transpire within it.

New industries, or still-vibrant sectors inspired by fundamental changes in social conditions or technology, will tend to feature initiative-mode scenarios, with entrepreneurs who can quickly capitalize on emergent ideas and convert them into operating ventures.

Established and prospering sectors will tend to feature evolutionary-mode scenarios, with entrepreneurs who can cultivate organizational environments in which programmatic developments may be continually nurtured over time.

Aging, rigidifying sectors that have become seriously out of tune with social and economic conditions may give rise to both problematic and initiative modes of venture scenario. In particular, aging sectors in changing environments may inspire initiative-mode developments in adjacent sectors by failing to internally accommodate entrepreneurial energies and by ultimately encouraging entrepreneurs to exploit opportunities elsewhere. Just as commonly, however, declining sectors will feature struggling organizations that become the focal point both of inside entrepreneurs, who attempt to rescue their agencies, and of outsiders, who see opportunities for resurrection and gain amid the decay.

The discussion in this chapter strongly implies that the various venture scenarios tend to engage entrepreneurs with a number of different reasons and motives for undertaking enterprising activity. The next chapter describes the essential nature of these entrepreneurial drives.

The discussion also suggests that current economic and social conditions in a sector affect the kinds of entrepreneurial motivations attracted to those opportunities as well as the frequency with which venture opportunities manifest themselves. Theory must necessarily deal with these phenomena in simplified and indirect ways. Potential entrepreneurs of different persuasions will be seen to distribute themselves among sectors of the economy at early points in their careers according to what they perceive to be the current and likely future attributes of those sectors. Assessment of some of these attributes will obviously be influenced by ambient sector conditions and states of development. For example, career decisions will be seen to hinge on the public importance attached to alternative industries and to the relative employment opportunities available in particular sectors of an industry, characteristics clearly tied to the current status and history of development of these parts of the economy. Furthermore, the theory will recognize that activation of the energies of entrepreneurs previously channeled into a particular sector will depend on current conditions in that sector. In particular, entrepreneurs will be seen to operate within a set of opportunities

and constraints that implicitly depend on the sector's state of development. Beyond these general parameters, the theory must ignore the complexities of chronological development and changes in the ambient conditions of sectors and industries, in the hope that the resulting simplification will pay off in terms of clarity, without sacrificing too much realism.

## Notes

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