

## University Entrepreneurship May Be Failing Its Market Test

One of the abiding ironies of business education is the now decades-old teaching of industry “best practices” to improve the performance of any organization, including how to improve the innovative capacity of a profit-seeking firm. For the uninitiated, this concept is as simple as its name suggests. To improve your company’s performance, you look for the organization that does something better than everyone else and then copy it. If Procter & Gamble runs its packing line better than you do, by all means, copy its practice.

Such thinking may be a reason we are concerned about the slowing rate of innovation in America. If today’s best practice is the standard for emulating, do any firms feel comfortable out on some “better than best” frontier? The very notion of “best practices” suggests the acceptance of a grand average. Except, of course, for those firms that are deemed the best practitioners of “innovation.” In a recent book, *Inside Real Innovation*, Gene Fitzgerald and Andreas Wankerl and I argue that most older and larger firms forget how to innovate,<sup>1</sup> a finding suggested long ago by Max Weber.<sup>2</sup>

Perhaps this is why we have, over the last three decades, intuitively embraced entrepreneurship as a way to bring more innovation to our economy. Indeed, as I have detailed elsewhere, it was the resurgence of entrepreneurial capitalism in the 1980s that got us out of the prolonged recession that characterized the Carter years.<sup>3</sup>

But the word “entrepreneurship” is beginning to sound a little like the concept of best practices—a phrase that is valued for its inchoate sense of being logical and a self-evidently valuable pursuit. What we mean when we speak of entrepreneurship appears to evade definition. Of course, entrepreneurship is connected to creating new profit-seeking firms. That’s what might be called the conventional or

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*Carl Schramm is a University Professor at Syracuse University. His newest book, with Robert Litan, Better Capitalism, is just out from Yale University Press. His current course is “Building Real Businesses—An Empirical Examination of What We Know about Entrepreneurship.” A founder or cofounder of five businesses, he served for ten years as CEO of the Kauffman Foundation. He is a visiting scientist at MIT and a fellow at the Darden Graduate School of Business, University of Virginia. Schramm & Co. is an investor in numerous start-ups.*

“economic” meaning. But common usage permits non-profits to claim that they are entrepreneurial (indeed, many college students want to be “social entrepreneurs”); faculty members doing research self-proclaim that they are “intellectual entrepreneurs,” and, my favorite, “bureaucratic entrepreneurs,” is a classification for innovative public employees thinking up new programs that cost taxpayers more money.

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The risk in all this is that when everything is entrepreneurial perhaps nothing is. Is it time to speak with a new term? Maybe those who undertake the risks of starting a new for-profit company are really in the business of “firm formation.” After all, as Daniel Spulber suggests, real entrepreneurs know the special skill of objectifying an idea into the productive realm of commerce.<sup>4</sup> They can bring forth a new concept in a manner so concrete that it can be

tested in a market context — people will pay for it in a pecuniary exchange? The business of firm formation is not for scaredy cats. There is no gloss of higher motive that many social entrepreneurs implicitly seek as they go about seeking donative funding—a market test of an entirely different nature.

The promiscuous use of the terms “entrepreneur” and “entrepreneurship” in the face of unsettled questions relating to the critical experience of creating new firms seems hardly to bother experts who are absolutely certain that they know just how to teach people to start them. Among this population are government policymakers, venture and angel investors, a plethora of mentor/investors who run new business “incubators” all over the country, and many academics who profess with certainty how the process unfolds as if starting a businesses yields to a prescribed and predictable path.

The typical university course introducing students to entrepreneurship is taught as if it were a settled, path-specific process, one that might parallel a surgeon’s knowledge of how best to resect an appendix. In fact, there really is no settled knowledge of how firms are formed and become successful and achieve what Robert Litan and I call “scale growth.”<sup>5</sup> Notwithstanding the fact that at least six thousand professors teach and do research in the field, there is no fully developed canon of actionable insight.

A process that is essentially creative should be considered in, say, the model of how we teach musical composition. It cannot be done apart from writing music. Entrepreneurship just does not yield to being a static body of knowledge. To know

it and to teach it requires engaging in practice. Entrepreneurship must be taught much as medicine is taught, in a clinical setting. The academic places where the creation of new businesses appears to happen with ease and great frequency are engineering schools, where the invention of companies to exploit ideas emerging from basic research strongly suggests the logic of a practice-based approach. Engineering professors involved in new businesses have often done it before. While many professors of entrepreneurship have never attempted to start a firm!

Discontent with the prevailing academic approach to understanding firm formation and seeking to build more effective ways to recruit and support talented entrepreneurs, a large amount of *practical* innovation is emerging all over the country focused on increasing the number of new firms being formed. (It is a good thing too as business starts have fallen precipitously in the last three years.<sup>6</sup>) Perhaps the most interesting university-based programs attempting to birth an alternative model to the prevailing classroom-incubator model is the University of Miami's Launch Pad. A non-academic effort, it is a child of the realities of the current labor market that many graduates confront. Located in the placement office (not the business school), this program supports students as they invent companies against a standard not of business plan competitions but of whether they will provide a living for the about-to-be graduate. Happily, with support from the Blackstone Foundation, the program is spreading to other campuses.

Stanford and Berkeley are exploring some fundamental theories of how new businesses might be conceptualized. A shared adjunct, Steve Blank has extensive personal experience as a successful entrepreneur that drove him to search for a better conceptual frame of what a new firm is and does. His articulation of the firm as a social/economic entity formed to search for scale opportunity has helped crystallize a new way to help students along. His insight has largely knocked out the core of introductory entrepreneurship courses, the writing of a formal business plan. In its stead, as is emerging at the University of Virginia, are competitions that test actual ideas in market situations, not essays about would-be businesses.

Outside the collegiate world, interesting new approaches to helping students get familiar with business formation are emerging. None has experienced the market ratification of Start Up Weekend, a 54-hour program in which participants actually make new businesses. Entirely experiential and often sponsored by universities in off-campus venues, this year's weekend events will be held in nearly 500 American locations and in over 50 countries. Of course, Peter Thiel's well-known prize for dropping out of college to start a business under his tutelage has gathered both attention and predictable condemnation. Either way, it is an attempt at an alternative model of teaching and, in some way, a means of forming a considered life. Similarly, Jeff Sandefer's invention of Acton Business School, an intentionally non accredited but course-based program that makes the creation of a successful business the focus of graduating, is premised on entrepreneurship as a vocation decidedly infused with moral content and meaning. No student starts in this program without knowing that, to come out, a new business must be in hand.

A different approach to evolving practical training is well underway in several formal experiments in recruiting and supporting entrepreneurs as they develop businesses in what might be thought of as hothouse environments. Perhaps the one with the widest reach is TechStars, founded by a serial entrepreneur, Brad Feld, who, like Sandefer, became interested in improving the chances of new firms by

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developing better ways of providing practical support and advice. TechStars selects groups of potential entrepreneurs from a highly competitive pool. To increase what might be thought of as the traction of the experience, successful entrants to the program are promised \$118,000 in seed funding to support a new business, if they can develop an idea judged to have the potential to grow. Participants have ready access to seasoned founders as well as venture capital and angel funders who are

part of what might be legitimately called a credentialed mentor system.

Of course, there are other efforts to recruit and to help entrepreneurs along. One celebrated example is Y-Combinator. This organization, which has helped over 700 new firms, tends to look more like older and somewhat smaller models created by venture capital firms 20 years ago. The older generation was birthed to provide venture capital firms unique investment opportunities, usually one or two at a time. These organizations consciously seek to be places in which new insights can be gathered as to how newly formed firms might be brought along. In fact, it is in the later examples, TechStars and venture-backed accelerators, with their particular focus on achieving scale, where some of the most important evidence might be accumulating.

In some ways, what is emerging is a Janus-faced system of building insight into the way in which entrepreneurs form successful firms. The preponderance of the formalized literature, the basis for curriculum in university course work, reflects qualitative studies of individual companies. It is not clear that this approach to assembling knowledge can actually lead to systemic insight critical to increasing the number of firms that become successful and achieve scale growth. If this approach had produced a body of such actionable insight, it might be argued that it is unlikely there would be such an apparent need for new institutional experiments in practical ways to start companies. At the very least, the new organization-

al structures such as Start Up Weekend and TechStars cannot be said to have descended from a need first identified in academic research.

Happily, many of the newly emerging institutional structures aimed at helping firm formation proceed profess a strong interest in establishing empirical bases for improving their efficiency and effectiveness as organizations. Their intellectual curiosity is linked, of course, to having more new companies in which to invest. (Before there is too much tut-tutting, it should be understood that many universities have captive venture funds in place to pursue just such ends.) From the perspective of a national entrepreneurial ecosystem, all this activity is mostly very good. While there are confused motives in many instances, if in the end, by respectful watching of each other's experience and results, the academic and the institutional experimenters will be able to tell us more that will help new companies succeed in higher numbers from the day of their formation onwards, we will all be better off.

The reality of which we must all be mindful is that we are at the very beginning of understanding in any systematized way just who entrepreneurs are, how they create successful new start-ups, and how they grow them to scale. This is a critical intellectual pursuit. Starting a new firm is the beginning of the never-ending process of renewing or refreshing economic activity. New firms hurry innovation, create all the net new jobs in our economy, and generate all the new marginal wealth so necessary for the expansion of human welfare. We are many years from having an actionable thesis leading to policy that will produce more of them. In fact, the tension between the incumbent knowledge producers (universities) and the new institutional firms that exist to help bring new companies into being and develop a new corpus of knowledge might be seen as part of the larger economic dynamic. Mao Zedong, hardly an epigrapher to be admired by those committed to entrepreneurial capitalism, did offer one admonition of use, namely, "Let a thousand flowers bloom." Entrepreneurship can be made better if all appreciate the importance of building a core of actionable insights that will help real people to pursue lives of real value in newly formed businesses.

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1. Gene Fitzgerald, Andreas Wankerl, and Carl Schramm, *Inside Real Innovation: How the Right Approach Can Move Ideas From R&D to Market—And Get the Economy Moving*, Singapore: World Scientific Press, 2011.
  2. Max Weber, *The Theory of Social and Economic Organization* (translated by A M Henderson and Talcott Parsons), New York: Free Press, 1947.
  3. Carl Schramm, *The Entrepreneurial Imperative*, 2006
  4. Daniel F. Spulber, *The Theory of the Firm: Microeconomics with Endogenous Entrepreneurs, Firms, Markets, and Organizations*. Princeton, NJ: Princeton University Press, 2009.
  5. Robert Litan and Carl Schramm, *Better Capitalism*. New Haven, CT: Yale University Press, 2012.
  6. E.J. Reedy and Robert E. Litan, "Starting Smaller, Staying Smaller, the Slow Leak in Jobs Creation." Kauffman Foundation, 2011.