

Name:

Chapter 2

Entrepreneurs think differently than non-entrepreneurs. Their decisions are made in highly uncertain environments. Entrepreneurs must be effective, cognitively adaptable and learn from failure. **What is cognitive adaptability?**

Cognitive adaptability describes the extent to which entrepreneurs are dynamic, flexible, self regulating, and engaged in the process of generating multiple decision frameworks focused on sensing and processing changes in their environments and then acting on them.

There are two major ways to think about tasks: causally and effectually. A **causal process** involves thinking of a desired outcome and then coming up with a plan to achieve that outcome. Causal thinking is starting with the desired outcome in mind and then focusing on the means to achieving that outcome. The **effectuation process** looks at what a person has (who they are, what they know, and whom they know) and then selects from several possible outcomes. Entrepreneurs use the effectuation process. The implications of effectuation involve five basic principles. **List and define briefly each of the 5 principles.**

The implications of effectuation involve five basic principles:

- i. The **patchwork quilt principle**: Emphasizes creating something new with existing means rather than discovering new ways to achieve given goals.
- ii. The **affordable loss principle**: The entrepreneur decides, based on his current financial condition and psychological willingness, how much he would be willing to lose.
- iii. The **bird-in-hand principle**: Negotiating with any and all stakeholders without worrying about opportunity costs. Those who come on board determine the goals of the venture and not vice versa.
- iv. The **lemonade principle**: Using unexpected events as new opportunities for profit and value.
- v. The **pilot-in-the-plane principle**: Urges relying on and working with people rather than uncontrollable external events. Entrepreneurs control what they can by their actions and don't need to predict the future.

The difference between the entrepreneurial style and the managerial style involves eight business dimensions. Page 41© **List and briefly define each of the 8 dimensions.**

The difference between the entrepreneurial style and the managerial style involves eight business dimensions.

1. Strategic Orientation.

- a. Strategic orientation can be thought of as the philosophy of the firm.
- b. Resource do not constrain strategic thinking in an entrepreneurial firm
- c. Traditionally managed firms' strategy is to use resources efficiently.

2. Commitment to Opportunity.

- a. Strategic orientation of an entrepreneurial firm is driven by the presence or generation of new opportunities and the commitment to taking these opportunities rapidly.
- b. The traditionally managed firm is not only slow to act on an opportunity, but the commitment is usually for a longer time span.

3. Commitment of Resources.

- a. An entrepreneur uses resources to take advantage of opportunities.
- b. In acquiring these resources the entrepreneur is forced to maximize resource use. To do so, he may offer limited resources to "test the waters."
- c. In the traditionally managed firm, the commitment of resources is for the total amount needed.
- d. Personal rewards are received by effectively administering the resources under their control in the traditional firm.

4. Control of Resources.

- a. The manager of a traditionally managed firm has a drive to own or accumulate as many resources as possible.
- b. The entrepreneur, under pressure of limited resources, strives to rent resources on an as-needed basis.

5. Managerial Structure.

- a. In the traditionally managed firm, the organizational structure is formalized and hierarchical in nature.
- b. The entrepreneur employs a flat organizational structure with informal networks.

6. Reward Philosophy

- a. Entrepreneurial firms often reward employees based on their contribution to discovery or generation of new opportunities.
- b. The manager of a traditionally managed firm is rewarded by effective resource administration

7. Growth Orientation

- a. The entrepreneurial firm wishes grow rapidly.
- b. The traditional firm wants to grow but at a more managed pace.

8. Entrepreneurial Culture

- a. Entrepreneurial culture encourages idea generation, experimentation, and other creative tasks.
- b. Traditional firms will start with resource assessment and will limit opportunities based on this.
- c. It is unlikely that any firm is purely entrepreneurially or traditionally managed, but that firms fall somewhere along between the extremes.