



New Business

ENTREPRENEURIAL PURSUITS AT HARVARD BUSINESS SCHOOL

Entrepreneurship: It Can Be Taught

A discussion on teaching entrepreneurship at Harvard Business School

In 2000, The Entrepreneurial Manager was introduced into the required first-year MBA curriculum. The course—and its presence in the first year—marked an important milestone in the evolution of teaching entrepreneurship at Harvard Business School.

New Business recently gathered Howard H. Stevenson, the Sarofim-Rock Professor of Business Administration; Paul W. Marshall, the MBA Class of 1960 Professor of Management Practice and course head for The Entrepreneurial Manager; and Richard G. Hamermesh, senior lecturer and instructor for the course, to discuss the general evolution of entrepreneurial instruction (and inspiration) at HBS and the philosophy that underpins The Entrepreneurial Manager. Highlights from the discussion, moderated by Mike Roberts, executive director of Entrepreneurial Studies, follow.

We've been teaching entrepreneurship at HBS for over 50 years. What are some of the basic tenets of the approach we've used to teach entrepreneurship?

Howard Stevenson: First, entrepreneurship has been taught as a process, not as a person. There has been a tremendous emphasis on the nature of the network that people form. But I think throughout this whole history, there has been an emphasis that you're part of an ongoing process: It's not about the "I," it's about the "We."

The second aspect is creating the belief within students that they can become entrepreneurs. It's important in an entrepreneurial culture to have good role models. One of the critical things we do in developing courses is to introduce people who aren't larger than life, with whom students can identify. Very early, we built cases around women and entrepreneurs of all types and all ages. The opportunity to provide a course where the students could identify with the protagonists in a case was an important part of the pedagogy.

The third element is the belief that entrepreneurial management is not simply inspiration: There's a lot of perspiration—you actually have to run the numbers. You learn to tell a bad deal from a good deal. You can't tell necessarily which one is going to work, but you can certainly look at a lot of deals and say, "Even if everything went right, it still wouldn't be worth doing." What was the rationale for introducing The Entrepreneurial Manager into the required MBA curriculum?

HS: When you look at the career data of our graduates, you'll find that very few actually wind up in the industrial sector, which had been the focus of the long-standing Business Policy course. When Kim Clark became Dean, he stressed that entrepreneurship—the pursuit of opportunity beyond the resources that you currently control—is endemic to every organization, no matter what its age or size.

Richard Hamermesh: The theory and concepts about entrepreneurship—the research and the knowledge—have been around HBS for a long time. I would give particular credit to Howard and Bill Sahlman for conceptualizing the field in a compelling and comprehensive way. In a more general context,

these concepts became "people, opportunity, context, and deal." That turns out to be a powerful way of thinking about things. With this body of knowledge, we're able to say to first-year students, "If you're going to get a professional degree, you need to know about entrepreneurship."

Can you describe the course as it is currently taught?

Paul Marshall: The course has evolved into two major blocks. The first part is called "Fundamentals of Entrepreneurship," and the second part is "Beginning a New Venture," either as a start-up or within an existing organization. So the first part focuses on concepts, while the second spotlights practice and application. We've identified four fundamentals of entrepreneurial management.

The first fundamental is recognizing opportunity and driving decisions off the pursuit of that opportunity as opposed to starting with resources and trying to figure out what to do with them. That clearly comes out of Howard's work, and we use his note, "A Perspective on Entrepreneurship," as the starting point.

The second is forecasting cash flows, which is obviously not unique to entrepreneurs. We try to get students to recognize that different opportunities have different cash-flow profiles.

The third fundamental is treating every venture as an experiment: Don't put all your money on the table at once. First, try to get some information, see what you can learn, and then decide whether to go on. We try to get students to think about running everything as an experiment. This is why you so often see staged financing in new venture situations.

The fourth is sources of financing. While traditional finance courses have focused on classic corporate financing options, we introduce venture capital, angel investors, strategic investors, and other means of support.

RH: It's critical that we help students to conceptualize; for instance, how would they approach implementing a great idea or pursue a great opportunity? There are always enormous risks, so rather than take on the whole thing, we encourage them to approach it in stages. What little bit can I do initially that will give me enough good information to continue?

HS: The running of the experiments is actually part of the resource acquisition strategy. Starting with a belief and an idea, how does the entrepreneur prove a project's viability to potential backers? Conducting experiments gives the entrepreneur credible data that enable him or her to solicit support, hire employees, seek partners—to build a business.

PM: The second half of the course focuses on practices and applications. We do very mundane things, such as look at leases, employment contracts, interviewing techniques, term sheets—the kinds of things that people who start companies have to do. Many of our students are confronted for the first time with some very realistic problems.

We then move on to managing relationships. Since an entrepreneur really doesn't own everything but tries to coordinate and control the necessary resources, we have a series on how to manage vendors, equipment suppliers, and customers; how to conduct research; and so on.

The final section surveys how to take the organization to a different level and sustain it: How do you make the transition? We discuss several cases on IPOs and strategic acquisitions, as well as the actual sale of a business.

Let me ask you the question people frequently ask me. Can you really teach entrepreneurship?

HS: For many years, the message from the School and from the faculty was, "Why would you waste your time and talents doing something as foolish as starting a business?" Almost all our students are capable of being entrepreneurs.

Still, even if people have innate musical talent, you can't necessarily teach them to become Beethoven. But if they have that innate talent, then they probably would still benefit from piano lessons. There are some things that in fact you can help people learn. They can learn either at the school of hard knocks or by coming to class and building an understanding.

If you presume that the vast majority of our students are opportunity-driven and achievement-oriented, smart and hardworking (traits they've demonstrated to get here in the first place), then what we do is to give them some tools and techniques to improve their odds of success.

RH: We can't guarantee that every HBS graduate is going to be a great entrepreneur, but we can teach a body of knowledge that focuses on the practical problems they'll face. Unfortunately, many people retain a false image of entrepreneurs as very heroic types. But most entrepreneurs are just regular men and women who happen to start their own businesses and go about their lives happily and independently.

PM: Basically, we're saying to the students that being an entrepreneur is not a personality characteristic, it is a learned skill. Entrepreneurs try to deal with uncertainty explicitly by running experiments, by not taking risks. An entrepreneur doesn't seek risk; he or she tries to minimize risk. By stressing experimentation and risk management, students, some of whom may not function well under uncertainty, come to realize that they too can be "entrepreneurial." It's not necessarily about putting all your chips on the table for every hand, it's actually about managing uncertainty. What is teachable is how, given your character, you can live in an entrepreneurial way—as opposed to changing your character.

One case that students consistently rate highly centers on a Harvard MBA who spent the first ten years of his career working at General Electric and other large companies and then eventually buying his own company. Students appreciate seeing the different ways they can be entrepreneurial. These kinds of models help make entrepreneurship very teachable. Many more students emerge thinking they have this capability than started out.

HS: The case method inherently teaches people about entrepreneurship. Every case starts with a problem. The first point a case stresses is moving from where the problem is to where the opportunity is. The second thing we emphasize is that no matter what your position or lack of resources, you should be able to contribute to the success of an enterprise or to solving a problem. Given your position, resources, and lack of knowledge about a whole bunch of things, what are you going to do? How can you progress?

The third point we teach very explicitly is that the experts may not necessarily be right. Don't worry if they tell you you're wrong because you criticized the president of the company. That approach, that daring builds a belief that you can accomplish things.

Almost every well-done case has those three elements. We're instilling certain attitudes to help create great entrepreneurs. Anytime you study something you ought to be determining ways to improve it, and if you don't make an improvement, you've failed as an entrepreneur.

We don't urge our students to "just do it." We spend a lot of time telling them to get to know an industry, get to be known in an industry, develop your skills, develop your contact base. There's an appropriate time, and you'll know it.

As you look at the current crop of students and try to anticipate what their entrepreneurial experience is likely to be, will it be different than it has been in the past?

PM: I think we'll see the late 1990s as a unique time, for the simple reason that many of the entrepreneurial ventures had a significant liquidity event far earlier in their life cycles than ever before. It was so easy to

reach liquidity in such a short time that a lot of people believed that was the norm. We're now going back to the viewpoint that it's going to take five or ten years when you start something to really see it bloom into the full measure of a payoff. That's much more consistent with what we know to be the case historically.

HS: We now have a stronger international focus. A lot of students are now thinking about opportunities in the United States as well as around the world.

Another difference is that more women will eventually wind up as entrepreneurs. Although historically there have been few, women are now seeing opportunities, and financing is becoming much more available. They previously saw that their path up the corporate ladder was not a particularly attractive route.

How does the course fit with the overall MBA curriculum?

PM: Because of the spotlight thrown on entrepreneurship in recent years, people often ask if we still teach general management at Harvard Business School. Yes, especially in the context of The Entrepreneurial Manager. It's a general management course because it looks at all the parts of the business and concentrates on how to pull them together in a meaningful way. We look at early stage companies, but we're developing more material on being entrepreneurial within more established companies.