Preface

What do entrepreneurs create? This book attempts to address this question and establish why it is so critical for our understanding of entrepreneurship. Entrepreneurs create a wide variety of businesses. However, most of the research and teaching in entrepreneurship fails to distinguish the different types of ventures created by entrepreneurs, resulting in significant confusion and misdirection by both entrepreneurs and those attempting to foster entrepreneurship (economic development professionals, public policy experts, community organizations, universities). Further, the entrepreneur may or may not have a clear idea of what kind of business they want to create, as the entrepreneurial journey is an emergent one – what entrepreneurs actually create often differs markedly from what they originally intended.

An overwhelming emphasis has been placed by many observers on explosive growth ventures such as Facebook, Google, Amazon, Uber and Airbnb. Yet, while important, these businesses represent less than 1 percent of start-ups. This book distinguishes four types of new ventures: survival, lifestyle, managed growth and aggressive growth.[1] Each type is discussed in some detail in terms of its underlying nature and characteristics. Further, the resources, skills and capabilities necessary for success with each type are explored, with implications drawn. A wide range of examples of each are provided.

We investigate a number of issues that arise based on this typology of ventures. Examples include an exploration of reasons for why ventures of one type rarely change to become a different type, and how entrepreneurs can determine the appropriate type of venture they should pursue. Further, for communities to realize the real potential of entrepreneurship, we introduce what we call the "portfolio" concept. Here, emphasis is placed on encouraging development of a balanced mix or portfolio of survival, lifestyle, managed growth and aggressive growth ventures. The portfolio perspective recognizes the value and interdependencies among the four types, and the importance of balancing risks, investments and different kinds of outcomes. We also investigate sub-categories that exist within each venture type, and how the characteristics of these subcategories impact venture emergence. For public policy makers, economic development professionals, educators and others trying to foster entrepreneurship at a local, regional or national level, the implications of the four types of ventures for policy and ecosystem development are highlighted.

ORGANIZATION

The chapter sequence in *What do Entrepreneurs Create? Understanding Four Types of Ventures* is systematically organized around understanding the unique nature of the entrepreneurial journey and the particular aspects of this journey when pursuing four different types of new ventures: survival, lifestyle, managed growth and aggressive growth. What follows is a brief synopsis of what each chapter entails.

In Chapter 1, the nature of the entrepreneurial journey is explored to illustrate how ventures organically emerge. Each venture has a purpose and mission, develops a culture and values that guide its operations, plans for the future, reacts to threats and opportunities, and attempts to ensure long-term viability. It takes risks and makes mistakes. It can be creative, developing new products and services, and looking for ways to improve its internal ways of doing things. It nurtures an image in the marketplace and within the communities where it operates. Accomplishing all of this is the work of the entrepreneur. Usually with insufficient resources, he or she must overcome obstacles, demonstrate tenacity, and constantly solve new problems. In the end, most ventures are created in the face of adversity, and it is the entrepreneur who has a vision, addresses the critical implementation risks, makes the necessary adjustments, and keeps a venture going through the inevitable ups and downs that occur.

The types of ventures that emerge from the entrepreneurial journey are examined in Chapter 2. A typology is introduced that distinguishes four categories of early stage ventures: survival, lifestyle, managed growth and aggressive growth. The typology builds upon past attempts at classifying entrepreneurial firms, while also addressing some of the shortcomings in these earlier efforts. The commonalities among the ventures in each of the four categories are considered as well as some of the major differences between the types. The chapter illustrates the path-dependent nature of the decisions and resource commitments surrounding each type of venture that make it difficult, though not impossible, for ventures to progress from one category to another.

The single largest category of start-up ventures is survival businesses, and they are the focus of Chapter 3. The term survival is used to describe a venture that struggles to stay in business on a continuous basis. It can also be referred to as a "hand-to-mouth" venture in the sense that, at best, just enough revenue is generated to pay bills and cover expenses, including paying the entrepreneur (but often less than he or she might earn working for someone else). However, little to nothing is left over to reinvest in the business. It is quite difficult to ever get ahead with these types of businesses. Instead, there is an ongoing struggle just to keep up. Hence, both the venture and the entrepreneur do little more than survive or get by.

Lifestyle ventures represent the second most common form of start-up, and are the focus of Chapter 4. They include the locally owned and operated bar, hardware store, day care center, hair salon, machining shop or copy business. More than a survival business, which exists on a hand-to-mouth basis, the lifestyle venture can be relatively profitable. It affords the entrepreneur a decent living, and so supports a lifestyle for them and their families. Sometimes referred to as "mom and pop operations," they are small in size, independent, usually full-time operations with employees, often family-owned, with limited capacity. The lifestyle entrepreneur seeks incremental increases in sales and profits, but without meaningful expansion of the scope of operations or significant increases in the employee base. Thus, any growth occurs within a fairly fixed set of parameters. Entrepreneurs frequently establish these types of businesses around their specific skills, interests or knowledge base.

Chapter 5 focuses on managed growth ventures. Here, the entrepreneur seeks sustained growth and ongoing expansion of the business, but they also strive to achieve this growth in a deliberate and controlled manner. Importantly, with this type of venture, the entrepreneur is not trying simply to increase sales revenue from current operations, or improve profits by reducing costs, which is common in many lifestyle ventures. Rather, the objective is to expand the nature and scope of the business. Managed growth can be accomplished in a number of ways. It could involve steadily adding new locations, expanding one's current territory or market reach, entering new markets, creating new products or revenue drivers, developing entirely new lines of business, or acquiring another firm. Frequently, it involves some combination of these approaches.

Aggressive growth ventures are explored in Chapter 6. These are often disruptive businesses that change markets, industries, societies, and, sometimes, the world. Although fewer in number, they create a disproportionate number of patents, jobs and wealth in society, and can enhance the global competitiveness of a nation. Aggressive growth ventures can generate huge returns to founders and investors, but also represent significant risk. They are often trying to create a market that does not exist, or significantly change how people address a particular need. They require extraordinary amounts of resources to fuel growth, which leads them to rely heavily on large equity investments from outside parties. As a result, the founder(s) must generally be willing to give up a substantial amount of ownership. These are especially volatile ventures, with high stress levels, and intense demands placed on the founding team and early stage employees.

A resource-based perspective on the venture types is introduced in Chapter 7. It focuses on the kinds of resources each category of venture tends to have, and the manner in which these resources are deployed. It is argued that resources determine what the entrepreneur is able to create, and what the venture is able to become. They provide the means for experimentation, risk-taking and development of proactive approaches that enable growth. As such, one of the most significant challenges confronting entrepreneurial ventures is the determination of how resources can best be used to achieve sustainability. For each venture type the configuration of the resource portfolio, the properties of these resource configurations, and the bundling and leveraging processes involved when managing resources are investigated.

Chapter 8 is concerned with identity. People tend to develop identities that reflect how they see themselves at a fundamental or core level. Identities also emerge at the organizational level. Based on their interactions over time, the people that make up an organization come to develop a set of beliefs regarding what is central, distinctive and enduring about a business. The role played by identity in the four venture types is explored in this chapter. Attention is first devoted to the entrepreneurial identity of the founder, and how this might influence the tendency to develop a survival, lifestyle, managed growth or aggressive growth venture. Considered also is the likelihood that this is a two-way relationship, with outcomes from each venture type serving to affect the founder's identity. The chapter then looks at the concept of organizational identity, illustrating how a number of the underlying characteristics that define the venture types are key determinants of the kind of organizational identity that emerges. Finally, the importance of identity in establishing and maintaining the legitimacy of each type of venture is examined.

The question, "how do entrepreneurs decide what type of venture they should create?" is addressed in Chapter 9. Consideration is given to the issue of fit between the type of venture being created and the nature of the individual who starts and runs the business. The personality, ambitions, experiences, risk tolerance, values, time horizons, skills and other characteristics of the individual can influence how he or she builds the business and what it becomes. The chapter also examines how some of the unique attributes of entrepreneurs and the considerations they confront impact the entrepreneur's decision process for a specific type of venture.

In Chapter 10, sub-categories of each venture type are identified. The four venture categories do not represent a continuum where ventures simply vary by degree. Each venture type is a unique category of enterprise with a unique identity. The differences between any two types tend to be much greater than the differences among the businesses of a given type. However, the ventures that make up each category are not homogeneous. Within each of the four venture types one encounters considerable variance. As a result, types within types can be identified. The challenge becomes one of placing these businesses into subcategories that enable us to better understand how they function. This chapter explores the underlying differences among ventures of a given type, and draws implications from these sub-categories.

The relative contributions of each of the four venture types are assessed in Chapter 11. Relationships and interdependencies among the four types are investigated and the disproportionate benefits produced by aggressive growth ventures are tied to these interdependencies. A series of arguments are presented regarding the need to encourage all four types of ventures. Based on these arguments, the adoption of a portfolio perspective is advocated. As with a financial portfolio, risks and returns to society will be maximized when there is a balance across the portfolio of ventures. Implications are drawn for venture portfolios that are unbalanced, or over-emphasize a particular type of venture.

In our final chapter, attention is devoted to identifying ways that public policies and support initiatives at the community (or local ecosystem) level can be developed in tandem to foster a balanced portfolio of venture types. Ongoing gaps in policies and programs to foster venture creation are identified. Key policy levers and community support elements that could be used to facilitate entrepreneurship are then identified. The elements of a more holistic policy and community action framework are described – one that reflects the needs and challenges of the different venture types over their stages of development.

CONTRIBUTIONS OF THE BOOK

This book was created to explore the significance of differences in the kinds of businesses created by entrepreneurs. It addresses a critical shortcoming in much of the research, teaching and economic development work that deals with entrepreneurship. This shortcoming concerns the tendency to treat entrepreneurial start-ups generically, or alternatively to place an overwhelming emphasis on extremely high growth ventures, or gazelles, to the exception of other kinds of start-ups.

Our hope, in the chapters to come, is to facilitate a fundamental rethinking of entrepreneurial activity and how it is manifested. Instead of the general theories of entrepreneurship, we lay a foundation for developing theories of different kinds of entrepreneurial ventures. Instead of insights into entrepreneurs and entrepreneurial ventures as a group, we produce insights into the underlying nature, functioning and requirements for success of each of our four types of ventures. We seek to highlight the interdependencies among these four venture types, and advocate adoption of a portfolio approach when developing entrepreneurial ecosystems and designing policies and programs to foster entrepreneurship. As the reader navigates these pages, we hope he or she comes to appreciate the distinctiveness of survival, lifestyle, managed growth and aggressive growth businesses, the reasons why each represents a critical component of the entrepreneurial landscape, and how collectively they drive the global entrepreneurial revolution.

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NOTE

1. We recognize that entrepreneurs also start non-profits and social ventures, as well as corporate ventures, but our focus is on new for-profit entities.